



ABN 71 058 436 794

## **ANNUAL FINANCIAL REPORT**

**For the year ended 30 June 2010**

# FIRESTONE ENERGY LIMITED

Annual Report 30 June 2010

## CORPORATE DIRECTORY

### DIRECTORS

John Dreyer  
*Non Executive Director Chairman*  
Tim Tebeila  
*Non Executive Director Deputy Chairman*

#### *Non Executive Directors*

Amanda Matthee  
Colin McIntyre  
John Wallington

### MANAGEMENT

Jerry Monzu  
*Company Secretary*

### SHARE REGISTRY

Computershare Investor Services  
Level 2, Reserve Bank Building  
45 St Georges Terrace  
PERTH WA, 6000  
Ph 08 9323 2000  
Fax 08 9323 2033

### AUDITORS

BDO Audit (WA) Pty Ltd  
38 Station Street  
SUBIACO WA 6008

### REGISTERED OFFICE

Level 1, 63 Hay Street  
SUBIACO WA 6008  
Telephone: (08) 9381 2755  
Facsimile: (08) 9381 4799  
Email: [enquiries@firestoneenergy.net](mailto:enquiries@firestoneenergy.net)

### STOCK EXCHANGE LISTING

Securities of Firestone Energy Limited are dual listed on ASX Limited and the Johannesburg Stock Exchange

ASX and JSE Code: FSE - ordinary shares

# FIRESTONE ENERGY LIMITED

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## MANAGEMENT DISCLOSURE REPORT

### Overview

The financial year 2010 has been very productive and progressive for Firestone Energy in its South African based Waterberg project.

The highlights of the year are:

- four further contiguous properties were acquired through a transaction with its Joint Venture partner, Sekoko Coal (Pty) Ltd;
- the funding of A\$25million was secured in the form of convertible notes;
- a pre-feasibility study was concluded and the definitive feasibility study was completed after the end of the financial year;
- a significant increase in reportable coal resources;
- an application for a mining right permit was submitted;
- a process to secure a Cornerstone Investor was started; and
- focussed off-take negotiations are positive and advanced.

### Corporate Developments

The second Joint Venture agreement with Sekoko Coal was announced on 3 July 2009. The agreement covers four farms - Smitspan 306LQ, Hooikraal 315LQ, Minnasvlakte 258LQ, and Massenbergrug 305LQ. Under the terms of the Joint Venture Agreement, approved by Shareholders, Firestone's wholly owned subsidiary Lexshell (Pty) Ltd will earn an initial 30% interest in the Properties in consideration for:

- the issue to Sekoko of new shares in Firestone in the amount of ZAR293 million (approximately A\$43.4 million) at an issue price of A\$0.05 per share, which amounts to approximately 868,176,563 Firestone shares;
- a reimbursement of expenses to Sekoko of up to ZAR32.99 million (approx A\$5.1 million) which has been utilised by Sekoko in the exploration and development of the Properties; and following the approval of the Bankable Feasibility Study (BFS) and decision to mine by the Management Board of the joint venture, a management fee of ZAR50 million (approximately A\$7.41 million) is to be paid to Sekoko (or its nominee) over a 7 year period from the date of commercial production;

Firestone has the opportunity to earn a further 30% interest (for a total of 60%) upon expenditure of ZAR50 million (approximately A\$7.41 million) to complete a Bankable Feasibility Study (BFS) enabling the establishment of a future commercial mining operation.

### Joint Venture Agreement 3

A term sheet and a deposit of A\$200,000 has been paid to Sekoko Coal in order to purchase a further two properties Swanepoelpan and Duikerfontein. This will result in all eight properties being owned in joint venture with Sekoko Coal (Pty) Ltd. A further A\$1.8 million is payable on the earlier of transfer of concessions to the joint venture company by 30 June 2011.

### Surface Rights

During the year the company purchased Smitspan, the priority property where the company is going to start mining. The company also entered into an agreement to purchase Hooikraal, the South Eastern property intersected by the provincial road and property at which the company is hoping to locate the loading infrastructure.

### Board of Directors

The company has a strong and experienced board of directors. During the year Mr Timothy Tebeila, the founder of Sekoko Resources (Pty) Limited, was appointed as Non-Executive Deputy Chairman.

Following the resignation of Mr Garth Higgo, the Company was fortunate to secure the services of Mr John Wallington as Managing Director from 1 November 2009. Mr Wallington, based in Johannesburg, brought a wealth of coal experience to this new executive position. Mr John Wallington stepped down as the Managing Director on 14 June 2010, but has remained as a valuable non-executive director of the company. The search for a permanent Managing Director is progressing. The company also appointed Mr Jerry Monzu as the Company Secretary.

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## Financial

The Company initially raised A\$2.68 million of funding through convertible loans from sophisticated and professional investors. Interest of 9% per annum was payable on the loans. The lenders agreed to apply the proceeds of repayment of the loans to subscribe for fully paid ordinary shares in Firestone at a price of A\$0.04 per share and as a result 67 million ordinary shares were issued. The funds were applied for progressing the Company's Waterberg Coal joint venture with Sekoko Coal (Pty) Ltd and for other short term working capital requirements.

In addition, during the year the Company announced that it had executed binding documentation for a fully underwritten \$25m capital raising involving the issue of convertible notes. BBY Limited is the Underwriter to the entire Issue.

Firestone allocated the net proceeds of the raising towards:

- the "BFS" for a large scale mining operation at the Company's Waterberg coal project in South Africa;
- meeting all financial commitments due to its Joint Venture partner, Sekoko Coal (Pty) Limited;
- purchase of key surface rights; and
- working capital requirements.

## Cornerstone Investor

The Company decided to raise further funding for purposes of constructing and commissioning the mine. The mode of raising such finance was decided to be through securing an appropriate long term Cornerstone Investor(s). A data room was therefore created as source of information to invited companies. The cornerstone investor process is ongoing and various companies have been given access to the data room.

## REVIEW OF OPERATIONS

### Exploration Undertaken

During the year Firestone Energy completed an in-fill drilling programme on Smitspan, which consisted of a total of 12 holes drilled, all logged and sampled and sent to laboratories for analysis.

The holes consisted of six PQ diameter holes, four XF holes and two T146 holes. All the results were received by the end of the reporting period. This round of drilling was critical for the following reasons:

- completion of "BFS" coal processing design;
- update of the Resource Statement to include measured resources, and;
- compilation of a bulk sample for laboratory condition combustion tests.

Drilling of PQ diameter holes was also completed on Vetleegte (6 holes) and Massenberg (2 holes). One Vetleegte hole had a "no coal" intersection but on the remainder, zones 1, 2 or 3 were intersected at expected thicknesses with generally less than 30 metres of overburden cover. These coal zones have been sampled and results have been received from the laboratory. A composite sample of the number 2 zone will be prepared for possible use by potential customers.

The Company identified, through exploration activities, that the Vetleegte area was a potential low volume producer of high grade, low phosphorous coal suitable for use as blend metallurgical product.

### Updated Coal Resource Statement

Venmyn Rand (Pty) Ltd was commissioned by the Company to undertake Mineral Resource estimates for eight farms constituting the Waterberg Coal Project.

The resource has been estimated in accordance with the SAMREC and JORC codes and the SANS 10320:2004 (South African National Standard) method of classification of thick interbedded coal deposits, the following highlights were taken from the Venmyn report:

- significant increase of total Coal Zone Resource to **5.173** billion tonnes (**+36%**) and Coal Gross Tonnes In-situ (GTIS) of **1.881** billion tonnes (**+41%**) compared to the October 2009 coal resource summary;
- main Smitspan farm has now a Measured Resource of **238.67** million tonnes Coal GTIS (**+145%**) where the 21 year mine life open cast was located and highlighted within the DFS release on 29 June 2010 which included total coal sales of **120.8** million tonnes;
- total measured and indicated resource at Smitspan has increased to **714.51** million tonnes (**+39%**) where the last 12 recent in fill holes all intersected coal; and

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- relatively undrilled Swanepoelpan farm (4 holes) is located directly west and adjacent to the Smitspan large open cast and creates the potential to dramatically extend the DFS open cast design to the west and northwest.

The total coal resource estimate based on the data available at 1 August 2010 (Venmyn) is tabled below whilst coal quality by resource category and farm is tabled at the end of this announcement.

FARM	ZONE TONNAGE	MEASURED COAL	INDICATED	INFERRED COAL	TOTAL COAL
	MT	GTIS MT	GTIS MT	GTIS MT	GTIS MT
SMITSPAN	1,881.758	238.667	475.844	0	714.511
HOOIKRAAL	358.444	0	7.282	155.491	162.773
MINNASVLAKTE	755.805	0	26.507	230.687	257.194
MASSENBERG	337.034	0	20.797	109.539	130.336
VETLEEGTE	570.265	1.224	204.499	17.893	223.816
SWANEPOELPAN	615.553	0	1.072	378.227	379.299
DUIKERFONTEIN	30.200	0	0	13.949	13.949
TOTAL	5,173.480	239.891	736.001	905.786	1,882.463

*Waterberg coal typically occurs interlaminated with shale which for the most part cannot be mined separately from the coal and thus the zone gross in-situ tonnage is the tonnage of coal and shale.*

*In the interest of balanced reporting it is the Company's intention to also report the gross in-situ tonnage of coal rather than the tonnage of coal and shale. In order to estimate the gross in-situ tonnage of coal in each zone, rather than the zone tonnage including the rock, each zone tonnage was discounted by the percent yield at a relative density of 1.9gm/cc (in effect removing the influence of the shale) to derive an estimate of the coal tonnage.*

*Information in this report that relates to exploration results, coal resources or reserves on the properties Smitspan 306 LQ, Hooikraal 315 LQ, Minnasvlakte 258 LQ and Massenberg 305 LQ and Vetleegte 304 LQ is based on information compiled by Ms Catherine Telfer who is employed by Venmyn Rand (Pty) Ltd and is a member of The Australasian Institute of Mining and Metallurgy and the South African Institute of Mining and Metallurgy. Ms Telfer has sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity which she is undertaking to qualify as a Competent Person as defined in the 2004 Edition of the "Australasian Code for the Reporting of Exploration Results, Mineral Resources and Ore Reserves". Ms Telfer consents to the inclusion in the report of the matters based on her information in the form and context in which it appears.*

The significant changes from the previous Resource statement of October 2009 are as follows:

Farm	Reporting Period	Measured Coal	Indicated Coal	Inferred Coal
		GTIS MT	GTIS MT	GTIS MT
Smitspan	October 2009	97.152	416.109	106.836
	August 2010	238.667	475.844	0
Gain/ Loss		+141.515	+ 59.735	-106.836
Vetleegte	October 2009	0	28.873	131.303
	August 2010	1.224	204.499	17.893
Gain/ Loss		+1.224	+175.626	-113.41
Gain/ Loss		0	28.873	131.303

In addition, the inclusion of the Swanepoelpan resources have significantly added to the potential life of mine for the preferred mining shell on Smitspan, by providing a natural extension across the farm boundary.

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## FEASIBILITY STUDY REVIEW

### Definitive Feasibility Study

The DFS for the establishment of the first phase open cast mine which can be expanded to meet market demand was completed and indicated that such mine would be economically viable.

### Coal Markets and Logistics

During the year the company

- held positive discussions with power generators which is hoped to be finalised before the end of December 2010. This will culminate into first delivery of coal toward the end of first quarter of 2012;
- held discussions with metallurgical industries and various overseas coal;
- Transnet Freight Rail (TFR) who has completed a draft pre-feasibility study of the rail connection from Waterberg to Witbank that is likely to further improve the supply of both power station to Witbank stations and premium coal to export market.

### Mining Rights Application

The application for Mining Rights for the Waterberg Colliery was submitted to the Department of Mineral Regulation (DMR) in July 2010. The consultation process continues to ensure that all parties are involved, including local communities, farmers and authorities. Final approval of the Mining Right is contingent on acceptance of a Mine Works Programme, Environmental Impact Assessment (EIA) / Environment Management Plan (EMP), Social and Labour Plan.

### Outlook

The evaluation of the Waterberg Coal Project will continue with a view to receiving necessary regulatory approvals. Negotiations with potential developers, financiers and off-take parties will be progressed as the final "BFS" is advanced. The amount of activity within the power sector and coal export sectors reveals a consistent and growing interest in South African coal.

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## Directors' Report

Your directors submit the annual financial report of the consolidated entity for the financial year ended 30 June 2010. In order to comply with the provisions of the Corporations Act, the directors report as follows:

### 1 DIRECTORS

The names of directors who held office during or since the end of the year and until the date of this report are as follows. Directors were in office for this entire period unless otherwise stated.

#### **MR JOHN DREYER**

##### ***Non-Executive Chairman***

John Dreyer, a lawyer by profession, has held a number of senior executive positions through his career including the position of Executive Director of Anglo Platinum, Business Development. In 2004 Mr. Dreyer retired from Anglo American Platinum and joined Pangea Diamond Fields as a director and shareholder. He was instrumental in the listing of that company on AIM (LSE). Prior to joining Anglo, Mr. Dreyer was Chief Executive Officer of Tavistock Coal and Managing Director of Shell South Africa. He is also a former Director of the Richards Bay Coal Terminal Company. John Dreyer currently holds no other directorships.

#### **MS AMANDA MATTHEE**

##### ***Non-Executive Director***

Amanda Matthee is a Chartered Accountant (CA) and holds an Advance Executive Program Diploma from Unisa. She has over 20 years of corporate and business management experience; and serves as Financial Director of Sekoko Resources.

With more than 20 years of financial management experience in the defence technology and mining sectors, Ms Matthee has worked with many of the industry's leading companies. Before joining Sekoko in January 2007, she served as Executive and chief financial officer of Khusela Women Investments and prior to that she served on the Executive Committee of Harmony Gold Limited. Ms Matthee does not currently hold any other Directorships.

#### **MR COLIN MCINTYRE (appointed 17 July 2009)**

##### ***Non-Executive Director***

Colin McIntyre is an experienced and credentialed mining engineer, mining manager and company director, with 35 years experience in the mining industry, including fourteen years with Western Mining Corporation.

Mr McIntyre previously held executive management positions with Western Mining Corporation, National Mine Management Pty Ltd and Macmahon Contractors (WA). He was previously non executive chairman of Tectonic Resources Ltd and Perilya Ltd for 12 years and 2 years respectively.

He has had extensive operational experience in open pit and underground mining spread amongst several commodities, in addition to listed company board experience. Mr McIntyre does not currently hold any other Directorships.

#### **MR TIM TEBEILA**

##### ***Non-Executive Director – Deputy Chairman***

Tim Tebeila is the founder and currently the Executive Chairman of Sekoko Resources. He is a mining entrepreneur with more than eight years of successful active involvement in exploring and developing mining projects. He is a former President of Limpopo's National Federated Chamber of Commerce (NAFCOC).

#### **MR JOHN WALLINGTON**

##### ***Non-Executive Director***

John Wallington, a mining engineer by profession, is an experienced Mining Executive with a proven track record in delivering results and transforming global organizations. Mr. Wallington was previously the Global Chief Executive Officer (CEO) of Anglo Coal for 6 years; and in a career spanning 28 years, he has held a number of other senior positions at Anglo. While CEO of Anglo Coal, Mr. Wallington developed and implemented the Coal Division strategy, which integrated the vision and direction of the business unit with profit, safety, operational performance and strategic growth targets. He was a major player in bringing together the Black Empowerment transaction in 2007 that enabled Anglo Coal to meet its Transformation Targets. He is currently the CEO and Executive Director of Coal of Africa Limited.

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## **Directors' Report**

### **COMPANY SECRETARY**

#### **MR JERRY MONZU (appointed 30 April 2010)**

Mr Monzu has over 20 years experience in publicly listed multinational corporations predominantly in the resources and mining sectors. He has previously held senior management positions in companies such as Woodside Energy and Normandy Mining.

Mr Monzu graduated with a Bachelor of Business (Accounting and Finance) from Curtin University and is a member of CPA Australia and Chartered Secretaries Australia.



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## Directors' Report

### 2 DIRECTORS' MEETINGS

The number of directors meetings held and the number of meetings attended by each of the directors of the Company during the year to 30 June 2010 are:

	Meetings attended	Meetings held during time as Director
<b>John Dreyer</b>	12	12
<b>John Wallington</b>	9	12
<b>Amanda Matthee</b>	12	12
<b>Tim Tebeila</b>	9	12
<b>Colin McIntyre</b>	10	12

There are no Board committees therefore no committee meetings were held during the period.

### 3 PRINCIPAL ACTIVITIES

The principal activities of the entities within the consolidated entity during the year were to continue to identify, evaluate and develop potential mineral exploration and mining projects principally located in Africa.

### 4 OPERATING AND FINANCIAL REVIEW

An operating review of the consolidated entity for the financial year ended 30 June 2010 is set out in the Management Discussion Analysis.

<b>Shareholder returns</b>	<b>2010</b>	<b>2009</b>
Net loss attributable to equity holders of the parent	(3,436,308)	(1,316,064)
Basic EPS (loss) – cents	(0.16)cps	(0.12)cps
Share price as at 30 June	1.3cps	3.0cps

During the year, a total of 976,349,169 shares were issued, majorly for the entering of the T2 Joint Venture agreement with Sekoko Coal (Pty) Ltd, which has derived a 60% interest in the following properties located in the Waterberg locality of South Africa; Hooikraal, Massenberg and Minnasvlakte.

### 5 DIVIDENDS

There have been no dividends declared or paid during the period.

### 6 REMUNERATION REPORT (AUDITED)

This report outlines the remuneration arrangements in place for directors and executives of Firestone Energy Limited. The information provided in this remuneration report has been audited as required by section 308(3C) of the Corporations Act 2001.

The Company's broad remuneration policy is to ensure the remuneration package properly reflects the person's duties and responsibilities and that remuneration is competitive in attracting, retaining and motivating people of the highest quality.

#### **Policy for determining remuneration**

The board is responsible for determining the remuneration policy for all directors and company executives based upon the company's nature, scale and scope of operating requirements and any other factors which the board determines to be appropriate in determining said remuneration policy.

#### **Short Term Cash Incentives**

Key Management personnel are paid a fixed, cash amount plus any additional statutory superannuation requirements. The board has determined the current key management personnel remuneration as detailed in the below table. No short term cash incentives were provided to Key Management Personnel during the year.

## **Directors' Report**

### Other Payments

No other payments are due to key management personnel.

### Long Term Benefits

Key management personnel currently have no right to long term leave payments.

### Service contracts

The contract duration, period of notice and termination conditions for key management personnel are as follows:

Mr Jerry Monzu the Company Secretary is engaged through a Consultancy Agreement with Monzu Corporate Consulting, with no fixed date of expiry. Termination by the Company is with 3 months notice or payment in lieu thereof. Termination by the consultant is with 3 months notice. Consulting fees are on an hourly rate of \$150 (GST exclusive).

There were no formal service agreements with Directors. On appointment to the Board, all Non-Executive Directors enter into a service agreement with the Company, in the form of a letter of appointment. The letter summarises the Board policies and terms which mirror those set out within the Corporations Act 2001, including compensation, relevant to the office of Director.

### Post Employment Benefits

Key management personnel or other personnel do not receive retirement benefits in any form upon termination of their employment or service.

### Performance Related Benefits

The company provides incentive and performance based payments/benefits, typically in the way of equity options.

There were no performance related benefits during the year.

### Financial Performance of the Company

There is no relationship between the company's current remuneration policy for key management personnel and the company's performance or shareholder wealth.

### Directors' and key management personnel remuneration, Company and consolidated

Details of the nature and amount of each element of remuneration of each Key Management Personnel of Firestone Energy Limited are set out in the following tables; each Key Management Personnel was in office for the full year unless otherwise specified:

The fair value of options is calculated at the date of grant using the Black-Scholes Option Pricing Model. There were no options issued in the current period.

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## Directors' Report

		Short term employee benefits	Post employment benefits	Share based payments	Termination payments	
<b>Directors</b>		<b>Salary/Fees</b>	<b>Super</b>			<b>Total</b>
<b>Specified Directors</b>						
<b>Non-Executive</b>						
J Dreyer	2010	55,000	-	-	-	55,000
	2009	12,500	-	-	-	12,500
A Matthee	2010	248,978*	-	-	-	248,978
	2009	8,333	-	-	-	8,333
C McIntyre <sup>1</sup>	2010	47,910	-	-	-	47,910
	2009	-	-	-	-	-
T Tebeila	2010	50,000	-	-	-	50,000
	2009	8,333	-	-	-	8,333
J Wallington	2010	182,215**	-	-	-	182,215
	2009	12,500	-	-	-	12,500
L Boyd <sup>6</sup>	2010	-	-	-	-	-
	2009	138,220	-	-	-	138,220
D Henthorn	2010	-	-	-	-	-
	2009	62,604	-	-	-	62,604
M Smartt <sup>7</sup>	2010	-	-	-	-	-
	2009	133,161	15,134	-	-	148,295
<b>Total Specified Directors</b>	2010	<b>584,103</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>584,103</b>
	2009	375,651	15,134	-	-	390,785
<b>Executives</b>						
G Higgs <sup>2</sup>	2010	133,481	12,013	-	60,000	205,494
	2009	221,124	19,901	-	-	241,025
S Storm <sup>3</sup>	2010	59,550	-	-	-	59,550
	2009	28,575	-	-	-	28,575
R Dorrington <sup>4</sup>	2010	28,132	-	-	-	28,132
	2009	-	-	-	-	-
J Monzu <sup>5</sup>	2010	23,102	-	-	-	23,102
	2009	-	-	-	-	-
<b>Total Executives</b>	2010	<b>244,265</b>	<b>12,013</b>	<b>-</b>	<b>60,000</b>	<b>316,278</b>
	2009	249,699	19,901	-	-	269,600
<b>Total Key Management Personnel</b>	2010	<b>828,368</b>	<b>12,013</b>	<b>-</b>	<b>60,000</b>	<b>900,381</b>
	2009	625,350	35,035	-	-	660,385

\* Includes an amount 198,977 that was paid via Sekoko Resources, and reimbursed by Firestone Energy Ltd.

\*\* Includes an amount 132,215 that was paid via Sekoko Resources, and reimbursed by Firestone Energy Ltd.

### Notes

1. Appointed - 17 July 2009
2. Resigned - 16 October 2009
3. Resigned - 1 December 2009
4. Appointed / Resigned - 1 December 2009 / 30 March 2010
5. Appointed - 30 March 2010
6. Resigned - 12 June 2009
7. Resigned - 14 April 2009

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## Directors' Report

### Share Based Remuneration

Under current Accounting Standards any share based remuneration must be valued and the most common method of valuation is Black Scholes model. Options carry no voting rights and each option is convertible into one ordinary share in the company. No options have been granted to Directors in the current year or last financial year.

### Equity Based Benefits

There were no options over ordinary shares issued in the current period, for Key Management Personnel equity holding at year end refer to Note 18.

*This is the end of the audited Remuneration Report.*

## 7 LIKELY DEVELOPMENTS

Disclosure of any further information in relation to further developments has not been included in this Directors' Report because, in the opinion of the Directors, to do so would be speculative and is therefore not in the best interests of the Group.

## 8 ENVIRONMENTAL REGULATION

The group has done everything to the best of its knowledge to comply with all applicable legislation and has no reason to believe that they did not comply with any of the legislative requirements during the year and subsequent to year end.

## 9 DIRECTORS' INTERESTS

The following relevant interests in shares and options of the company were held by the directors as at the date of this report.

Director	Number of fully paid ordinary shares	Unlisted options
J Dreyer	-	-
A Matthee	1,018,237,832*	110,000,000*
C McIntyre	27,075,000	3,125,000
T Tebeila	997,937,832*	110,000,000*
J Wallington	-	-

\* Balance includes amounts nominally held through directorship of a related entity, Sekoko Coal, whereby Sekoko Coal has 997,937,832 shares and 110,000,000 options held in Firestone Energy Ltd.

## 10 INDEMNIFICATION AND INSURANCE OF OFFICERS

### Indemnification

The Company has agreed to indemnify the directors and officers of the Company against all liabilities to another person (other than the Company or related body corporate) that may arise from their position as directors of the Company and its controlled entities, except where the liability arises out of conduct involving a lack of good faith.

During the financial year the Company paid a premium in respect of a contract insuring the directors and officers of the company and its controlled entities against any liability incurred in the course of their duties to the extent permitted by the Corporations Act 2001. The contract of insurance prohibits disclosure of the nature of the liability and the amount of the premium.

**Directors' Report**

**11 NON-AUDIT SERVICES**

During the year the consolidated group paid \$7,975 to a related entity of the auditor for non-audit services provided as outlined in Note 20 to the financial statements. The directors are satisfied that the provision of non-audit services is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001.

The directors are of the opinion that the services do not compromise the auditor's independence as all non-audit services have been reviewed to ensure that they do not impact the integrity and objectivity of the auditor and none of the services undermine the general principles relating to auditor independence as set out in APES 110 Code of Ethics for Professional Accountants issued by the Accounting Professional & Ethical Standards Board.

**12 PROCEEDINGS ON BEHALF OF THE COMPANY**

No person has applied for leave under section 237 of the Corporations Act 2001 to bring, or intervene in, proceedings on behalf of the company.

**13 AUDITOR'S INDEPENDENCE DECLARATION**

The auditor's independence declaration, under section 307C of the Corporations Act 2001, is attached behind the auditor's report and forms part of this directors' report.

**14 SUBSEQUENT EVENTS**

Subsequent to year end:-

(a) On 12 August 2010 the Company announced that it had decided to make amendments to the Convertible Note Deed Poll entered into in September 2009. The amendments are intended to position the Company to be better able to attract investors to rapidly progress FSE's Waterberg project and allow the Company to undertake its stated objectives. Further, the Company has agreed with BBY Limited to amend the terms of the Underwriting Agreement of the Convertible Note Deed Poll. The amendments to the convertible note deed are as follows;

- The pricing of the securities to be issued by FSE pursuant to subscription payments made after 13 July 2010, upon conversion of convertible notes will be the higher of:
  - (a) a 7.5% discount to the 5 day VWAP up to but not including the date upon which the note is issued by the issuer; and
  - (b) A\$0.02c per FSE share issued
- Convertible Notes issued after 4 June 2010 shall be in denominations of A\$500k or A\$100k at the election of the subscriber.
- Convertible notes may be converted monthly.

(b) On 23 August 2010 the Company announced that it had a significant increase in the total Coal Zone Resource to **5.173** billion tonnes **(+36%)** and Coal Gross Tonnes In-situ (GTIS) of **1.881** billion tonnes **(+41%)** compared to the October 2009 coal resource summary.

Other than this there has not arisen in the interval between the end of the year and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the Directors of the Company, to affect significantly the operations of the Consolidated Entity, the results of those operations, or the state of affairs of the Consolidated Entity in future periods.

Signed in accordance with a resolution of the directors.



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**John Dreyer**  
Chairman  
Perth  
Western Australia  
17 September 2010

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## STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 JUNE 2010

	Note	Consolidated Group		Parent Entity	
		2010 \$	2009 \$	2010 \$	2009 \$
Revenue	2(a)	62,386	55,667	62,386	55,667
Other Income		28,863	-	28,863	-
Accounting fees		(4,437)	(33,803)	(4,300)	(33,803)
Administration expenses		(538,204)	(25,133)	(172,676)	(25,133)
ASX fees and share registry expenses		(237,201)	(122,629)	(237,201)	(122,629)
Directors' fees		(252,911)	(164,705)	(252,911)	(164,705)
Foreign exchange gain / (loss)		144,762	(9,921)	144,762	(9,921)
Employee and consultant expenses		(420,075)	(550,336)	(348,497)	(550,336)
Finance Expenses	2(b)	(1,281,555)	(35,466)	(1,239,642)	(35,466)
Legal and professional fees		(642,791)	(202,447)	(352,844)	(202,447)
Occupancy costs		(76,242)	(108,603)	(74,659)	(108,603)
Share based payments		-	(11,645)	-	(11,645)
Travel and accommodation		(218,903)	(107,043)	(189,295)	(107,043)
<b>Loss before income tax expense</b>		<b>(3,436,308)</b>	<b>(1,316,064)</b>	<b>(2,636,014)</b>	<b>(1,316,064)</b>
Income tax expense	3	-	-	-	-
<b>Loss for the year</b>		<b>(3,436,308)</b>	<b>(1,316,064)</b>	<b>(2,636,014)</b>	<b>(1,316,064)</b>
<b>Other comprehensive income for the year</b>					
Foreign currency translation reserve		-	-	-	-
<b>Total comprehensive income for the year attributable to the owners of the Group</b>		<b>(3,436,308)</b>	<b>(1,316,064)</b>	<b>(2,636,014)</b>	<b>(1,316,064)</b>
Basic and diluted loss per share (cents)	4	<b>(0.16)</b>	<b>(0.12)</b>		

*The statements of comprehensive income are to be read in conjunction with the notes to the financial statements.*

# FIRESTONE ENERGY LIMITED

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## STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2010

	Note	Consolidated Group		Parent Entity	
		2010 \$	2009 \$	2010 \$	2009 \$
<b>CURRENT ASSETS</b>					
Cash and cash equivalents	6(a)	2,130,542	1,870,754	1,208,828	1,870,754
Trade and other receivables	7	420,031	38,047	20,595,944	5,120,749
<b>Total Current Assets</b>		<b>2,550,573</b>	<b>1,908,801</b>	<b>21,804,772</b>	<b>6,991,503</b>
<b>NON-CURRENT ASSETS</b>					
Receivables	7	147,119	171,649	26,758	171,649
Interest in joint venture	8	79,371,322	19,645,502	-	-
Other financial assets	9	-	-	56,276,357	12,867,529
Plant & equipment	10	113,330	30,454	27,385	30,454
<b>Total Non-Current Assets</b>		<b>79,631,771</b>	<b>19,847,605</b>	<b>56,330,500</b>	<b>13,069,632</b>
<b>TOTAL ASSETS</b>		<b>82,182,344</b>	<b>21,756,406</b>	<b>78,135,272</b>	<b>20,061,135</b>
<b>CURRENT LIABILITIES</b>					
Trade and other payables	11	3,489,487	1,914,532	770,741	1,914,532
Borrowings	12	-	100,000	-	100,000
<b>Total Current Liabilities</b>		<b>3,489,487</b>	<b>2,014,532</b>	<b>770,741</b>	<b>2,014,532</b>
<b>NON-CURRENT LIABILITIES</b>					
Borrowings	12	14,530,114	500,000	14,530,114	500,000
		14,530,114	500,000	14,530,114	500,000
<b>TOTAL LIABILITIES</b>		<b>18,019,601</b>	<b>2,514,532</b>	<b>15,300,855</b>	<b>2,514,532</b>
<b>NET ASSETS</b>		<b>64,162,743</b>	<b>19,241,874</b>	<b>62,834,417</b>	<b>17,546,603</b>
<b>EQUITY</b>					
Issued capital	13	62,704,850	14,781,022	62,704,850	14,781,022
Reserves	14	6,210,265	5,776,916	4,081,645	4,081,645
Accumulated losses	15	(4,752,372)	(1,316,064)	(3,952,078)	(1,316,064)
<b>TOTAL EQUITY</b>		<b>64,162,743</b>	<b>19,241,874</b>	<b>62,834,417</b>	<b>17,546,603</b>

*The statements of financial position are to be read in conjunction with the notes to the financial statements.*

# FIRESTONE ENERGY LIMITED

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## STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2010

	Note	Consolidated Group		Parent Entity	
		2010	2009	2010	2009
		\$	\$	\$	\$
		Inflows/(Outflows)		Inflows/(Outflows)	
<b>Cash Flows from Operating Activities</b>					
Payments to suppliers and employees		(4,129,775)	(1,360,194)	(3,159,799)	(1,360,194)
Interest received		62,386	41,818	62,376	41,818
Interest Paid		(338,122)	-	(325,980)	-
<b>Net cash used in operating activities</b>	<b>6(b)</b>	<b>(4,405,511)</b>	<b>(1,318,376)</b>	<b>(3,423,403)</b>	<b>(1,318,376)</b>
<b>Cash Flows from Investing Activities</b>					
Purchase of property, plant and equipment		(109,709)	(21,436)	(9,335)	(21,436)
Proceeds on sale of property, plant and equipment		-	58,205	-	58,205
Expenditure to acquire joint venture interest		(11,993,976)	(3,721,019)	-	-
Loans to controlled entities		-	-	(13,959,005)	(3,721,019)
<b>Net cash used in investing activities</b>		<b>(12,103,685)</b>	<b>(3,684,250)</b>	<b>(13,968,340)</b>	<b>(3,684,250)</b>
<b>Cash Flows from Financing Activities</b>					
Proceeds from issue of shares, net of issue costs		-	4,007,000	-	4,007,000
Proceeds from borrowings		16,869,167	600,000	16,830,000	600,000
Loans repaid		(100,000)	106,497	(100,000)	106,497
<b>Net cash provided by financing activities</b>		<b>16,769,167</b>	<b>4,713,497</b>	<b>16,730,000</b>	<b>4,713,497</b>
<b>Net (decrease)/ increase in cash held</b>		<b>259,971</b>	<b>(289,129)</b>	<b>(661,743)</b>	<b>(289,129)</b>
Cash at the beginning of the financial year		1,870,754	2,169,804	1,870,754	2,169,804
Effect of exchange rate changes on the balance of cash held in foreign currencies		(183)	(9,921)	(183)	(9,921)
Cash at the end of the financial year	<b>6(a)</b>	<b>2,130,542</b>	<b>1,870,754</b>	<b>1,208,828</b>	<b>1,870,754</b>

*The statements of cash flows are to be read in conjunction with the notes to the financial statements*



# FIRESTONE ENERGY LIMITED

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## STATEMENTS OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2010

Consolidated Group	Issued Capital	Accumulated Losses	Share based payment reserve	Foreign Currency Translation Reserve	Total
	\$	\$	\$	\$	\$
Balance at 1 July 2008	57,819,281	(58,297,793)	2,590,000	-	2,111,488
<b>Comprehensive Income for the year</b>					
Loss for the year	-	(1,316,064)	-	-	(1,316,064)
<b>Other comprehensive income</b>					
Total other comprehensive income	-	-	-	-	-
Total comprehensive income for the year	-	(1,316,064)	-	-	(1,316,064)
<b>Transactions with owners recorded directly in equity contributions by and distributions to owners</b>					
Shares issued during the year, net of costs	15,259,534	-	-	-	15,259,534
Options issued during the year	-	-	1,491,645	-	1,491,645
Reduction of Capital /accumulated losses	(58,297,793)	58,297,793	-	-	-
Net exchange differences on translation of the financial reports of foreign subsidiaries	-	-	-	1,695,271	1,695,271
<b>Balance at 30 June 2009</b>	<b>14,781,022</b>	<b>(1,316,064)</b>	<b>4,081,645</b>	<b>1,695,271</b>	<b>19,241,874</b>

Consolidated Group	Issued Capital	Accumulated Losses	Share based payment reserve	Foreign Currency Translation Reserve	Total
	\$	\$	\$	\$	\$
Balance at 1 July 2009	14,781,022	(1,316,064)	4,081,645	1,695,271	19,241,874
<b>Comprehensive Income for the year</b>					
Loss for the year	-	(3,436,308)	-	-	(3,436,308)
<b>Other comprehensive income</b>					
Foreign currency translation	-	-	-	433,349	433,349
Total other comprehensive income	-	-	-	433,349	433,349
Total comprehensive income for the year	-	(3,436,308)	-	433,349	(3,002,959)
<b>Transactions with owners recorded directly in equity contributions by and distributions to owners</b>					
Shares issued during the year, net of costs	47,923,828	-	-	-	47,923,828
Options issued during the year	-	-	-	-	-
<b>Balance at 30 June 2010</b>	<b>62,704,850</b>	<b>(4,752,372)</b>	<b>4,081,645</b>	<b>2,128,620</b>	<b>64,162,743</b>

# FIRESTONE ENERGY LIMITED

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Parent	Issued Capital	Accumulated Losses	Share based payment reserve	Total
	\$	\$	\$	\$
Balance at 1 July 2008	57,819,281	(58,297,793)	2,590,000	2,111,488
<b>Comprehensive Income for the year</b>				
Loss attributable to members of the parent entity	-	(1,316,064)	-	(1,316,064)
<b>Other comprehensive income</b>				
Total other comprehensive income	-	-	-	-
Total comprehensive income for the year	-	(1,316,064)	-	(1,316,064)
<b>Transactions with owners recorded directly in equity contributions by and distributions to owners</b>				
Shares issued during the year, net of costs	15,259,534	-	-	15,259,534
Options issued during the year	-	-	1,491,645	1,491,645
Reduction of Capital /accumulated losses	(58,297,793)	58,297,793	-	-
<b>Balance at 30 June 2009</b>	<b>14,781,022</b>	<b>(1,316,064)</b>	<b>4,081,645</b>	<b>17,546,603</b>
Balance at 1 July 2009	14,781,022	(1,316,064)	4,081,645	17,546,603
<b>Comprehensive Income for the year</b>				
Loss attributable to members of the parent entity	-	(2,636,014)	-	(2,636,014)
<b>Other comprehensive income</b>				
Total other comprehensive income	-	-	-	-
Total comprehensive income for the year	-	(2,636,014)	-	(2,636,014)
<b>Transactions with owners recorded directly in equity contributions by and distributions to owners</b>				
Shares issued during the year, net of costs	47,923,828	-	-	47,923,828
Options issued during the year	-	-	-	-
Reduction of Capital /accumulated losses	-	-	-	-
<b>Balance at 30 June 2010</b>	<b>62,704,850</b>	<b>(3,952,078)</b>	<b>4,081,645</b>	<b>62,834,417</b>

*The statements of changes in equity are to be read in conjunction with the notes to the financial statements.*

# FIRESTONE ENERGY LIMITED

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## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

### 1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

#### (a) Basis of Preparation

The financial statements are general purpose financial statements, which has been prepared in accordance with the requirements of the Corporations Act 2001, Australian Accounting Standards and Interpretations and complies with other requirements of the law.

The financial statements are prepared on a historical cost basis. Cost is based on the fair values of the consideration given in exchange for assets.

The financial statements disclose information with respect to the Parent Entity of the Group. This is contrary to the requirements of the Corporations Amendment Bill 2010, which was passed by Parliament on 24 June 2010 and received Royal Assent on 28 June 2010. In order to do this, the Company has applied ASIC Class Order 10/654. The Class Order allows companies, registered schemes and disclosing entities that present consolidated financial statements to include parent entity financial statements as part of their financial report under Chapter 2M of the Corporations Act 2001. The Company is an entity to which this class order applies.

The financial report is presented in Australian dollars, which is the functional currency of the parent.

The company is a listed public company, incorporated in Australia and operating in Australia and South Africa. The entity's principal activities are mineral exploration and subsequent development.

#### (b) Statement of compliance

The financial report was authorised for issue on 17 September 2010.

The financial statements comply with Australian Accounting Standards, which include Australian equivalents to International Financial Reporting Standards (AIFRS). Compliance with AIFRS ensures that the financial report, comprising the financial statements and notes thereto, complies with International Financial Reporting Standards (IFRS).

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet effective have not been adopted by the Group for the annual reporting period ended 30 June 2010. These are outlined in the table below:

Reference	Title	Summary	Application date of standard	Impact on Group financial report	Application date for Group
AASB 5	Non-current Assets Held for Sale and Discontinued Operations	Clarifies that disclosures required for non-current assets (or disposal groups) classified as held for sale or discontinued operations are limited to those required by AASB 5 unless: Disclosures are specifically required for these assets by other AASBs; or Assets and liabilities of a disposal group are not within the measurement requirements of AASB 5 and disclosures are required by other AASBs.	Periods commencing on or after 1 January 2010	There will be no impact as these requirements are only required to be applied prospectively to disclosures for non-current assets (or disposal groups) classified as held for sale or discontinued operations.	1 July 2010
AASB 107	Statement of Cash Flows	Clarifies that only expenditures that result in a recognised asset in the statement of financial position are eligible for classification as cash flows from investing activities.	Periods commencing on or after 1 January 2010	Initial adoption of this amendment will have no impact as the entity only recognises cash flows from investing activities for expenditures that result in a recognised asset in the statement of financial position.	1 July 2010

# FIRESTONE ENERGY LIMITED

Annual Report 30 June 2010

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

Reference	Title	Summary	Application date of standard	Impact on Group financial report	Application date for Group
AASB 117	Leases	Land can be classified as a finance lease for very long leases where the significant risks and rewards are effectively transferred, despite there being no transfer of title.	Periods commencing on or after 1 January 2010	Initial adoption of this amendment will have no impact as the entity has no leases for land.	1 July 2010
AASB 136	Impairment of Assets	Clarifies that CGUs to which goodwill is allocated cannot be larger than an operating segment as defined in AASB 8 Operating Segments before aggregation.	Periods commencing on or after 1 January 2010	There will be no impact as these requirements are only required to be applied prospectively to goodwill impairment calculations for periods commencing on or after	1 July 2010
IFRS 7	Financial Instruments: Disclosures	Deletes various disclosures relating to credit risk, renegotiated loans and receivables and the fair value of collateral held.	Periods commencing on or after 1 January 2011	There will be no impact on initial adoption to amounts recognised in the financial statement as the amendments result in fewer disclosures only.	1 July 2011
IAS 1	Presentation of Financial Statements	A detailed reconciliation of each item of other comprehensive income may be included in the statement of changes in equity or in the notes to the financial statements.	Periods commencing on or after 1 January 2011	There will be no impact on initial adoption of this amendment as a detailed reconciliation of each item of other comprehensive income has always been included in the statement of changes in equity.	1 July 2011

Australian Accounting Standards and Interpretations that have recently been issued or amended and have been early adopted by the Group for the annual reporting period ended 30 June 2010 are outlined in the table below:

Reference	Title	Summary	Application date of standard
AASB 101	Presentation of Financial Statements	Clarifies that terms of a liability that could, at the option of the counterparty, result in the liability being settled by the issue of equity instruments, do not affect its classification. This means that unless the terms of such liabilities require a transfer of cash or other assets within 12 months, they do not necessarily have to be classified as current liabilities.	Periods commencing on or after 1 January 2010

### (c) Basis of consolidation

The consolidated financial statements comprise the financial statements of Firestone Energy Ltd (the Company) and its subsidiaries (the Group) as at 30 June each year.

Subsidiaries are all those entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies so as to obtain benefits from their activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether a group controls another entity.

The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies.

In preparing the consolidated financial statements, all intercompany balances and transactions, income and expenses and profit and losses resulting from intra-group transactions have been eliminated in full.

# FIRESTONE ENERGY LIMITED

Annual Report 30 June 2010

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

Subsidiaries are fully consolidated from the date on which control is transferred to the Group and cease to be consolidated from the date on which control is transferred out of the Group. Investments in subsidiaries are accounted for at cost in the individual financial statements of Firestone Energy Ltd.

### **(d) Critical accounting judgements and significant estimates**

The application of accounting policies requires the use of judgements, estimates and assumptions about carrying values of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions are recognised in the period in which the estimate is revised if it affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

#### ***Recoverability of interest in joint venture***

The Group considers the interest in the joint venture asset is recoverable based on future coal sales from a developed coal mine, and has not been impaired on the basis that the underlying asset will be successfully commercialised.

#### ***Share-based payment transactions:***

The Group measures the cost of equity-settled transactions with employees and consultants and shares issued in consideration for business combinations by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined by using a Black and Scholes model, using the assumptions detailed in Note 16.

### **(e) Cash and Cash Equivalents**

Cash and cash equivalents includes cash on hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within short-term borrowings in current liabilities on the statement of financial position.

### **(f) Income Tax**

The charge for current income tax expenses is based on the profit for the year adjusted for any non-assessable or disallowed items. It is calculated using tax rates that have been enacted or are substantively enacted by the balance date.

Deferred tax is accounted for using the liability method in respect of temporary differences arising between the tax base of assets and liabilities and their carrying amounts in the financial statements. No deferred income tax will be recognised from the initial recognition of an asset or liability, excluding a business combination, where this is no effect on accounting or taxable profit or loss.

Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realised or liability is settled. Deferred tax is credited in the statement of comprehensive income except where it relates to items that may be credited directly to equity, in which case the deferred tax is adjusted directly against equity.

Deferred income tax assets are recognised to the extent that it is probable that future tax profits will be available against which deductible temporary differences can be utilised.

The amount of benefits brought to account or which may be realised in the future is based on the assumption that no adverse change will occur in income taxation legislation and the anticipation that the Company will derive sufficient future assessable income to enable the benefit to be realised and comply with the conditions or deductibility imposed by the law.

### **(g) Jointly controlled operations and assets**

The interest of the Group in unincorporated joint ventures are jointly brought to account by recognising in its financial statements the assets it controls, the liabilities that it incurs, the expenses it incurs and its share of income that it earns from the sale of goods or services by the joint venture.

# FIRESTONE ENERGY LIMITED

Annual Report 30 June 2010

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

### (h) Investment in joint venture

Investment in an incorporated joint venture entity is accounted for using the equity method of accounting in the consolidated financial statements.

Under the equity method, the investment in the joint venture is carried in the consolidated statement of financial position at cost plus post-acquisition changes in the Group's share of net assets of the joint venture.

After application of the equity method, the Group determines whether it is necessary to recognise any additional impairment loss with respect to the Group's net investment in the joint venture.

The Group's share of the joint venture post-acquisition profits or losses are recognised in the statement of comprehensive income. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in the joint venture equals or exceeds its interest in the joint venture, including any unsecured long-term receivables and loans, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the joint venture.

The reporting dates of the joint venture and the Group are identical and the joint venture's accounting policies conform to those used by the Group for like transactions and events in similar circumstances.

### (i) Mineral Exploration and Evaluation and Development Expenditure

The Group has adopted the policy of capitalising the costs of purchasing its mining tenements and all exploration and evaluation expenditure in relation to its mineral tenements as incurred.

All projects are subject to detailed review on an annual basis and accumulated costs written off to the extent that they will not be recoverable in the future.

### (j) Property, Plant and Equipment

Plant and equipment are measured on the cost basis less depreciation and impairment losses.

The carrying amount of plant and equipment is reviewed annually by directors to ensure it is not in excess of the recoverable amount from these assets. The recoverable amount is assessed on the basis of the expected net cash flows that will be received from the assets employment and subsequent disposal. The expected net cash flows have been discounted to their present values in determining recoverable amounts.

The cost of fixed assets constructed within the Group will include the cost of materials, direct labour, borrowing costs and an appropriate proportion of fixed and variable overheads.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to profit or loss during the financial period in which they are incurred.

### Depreciation

The depreciation amount of all fixed assets including building and capitalised lease assets is depreciated on a straight line basis over their useful lives to the Group commencing from the time the asset is held ready for use. Leasehold improvements are depreciated over the shorter of either the unexpired period of the lease or the estimated useful lives of the improvements.

The depreciation rates used for each class of depreciable assets are:

<i>Class of Fixed Asset</i>	<i>Depreciation Rate</i>
Motor vehicles	5 years
Office Furniture & Equipment	4 years
Software	3 years
Leasehold Improvements	3 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These gains and losses are included in profit or loss.

# FIRESTONE ENERGY LIMITED

Annual Report 30 June 2010

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

### (k) Impairment of Assets

At each reporting date, the Group reviews the carrying values of tangible assets and intangible assets to determine whether there is any indication that those assets have been impaired. If such an indication exists, the recoverable amount of the asset, being the higher of the asset's fair value less costs to sell and value in use, is compared to the asset's carrying value. Any excess of the asset's carrying value over its recoverable amount is expensed to the profit or loss.

Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

### (l) Financial Instruments

At present, the Group does not undertake any hedging or deal in derivative instruments.

#### *Recognition*

Financial instruments are initially measured at cost on trade date, which includes transaction costs, when the related contractual rights or obligations exist. Subsequent to initial recognition these instruments are measured as set out below.

#### *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are stated at amortised cost using the effective interest rate method. They are included in current assets, except for those maturities greater than 12 months after the balance sheet date which are classified as non current assets. Loans and receivables are included in trade and other receivables (note 7). They are measured initially at fair value and subsequently at amortised cost.

#### *Financial Liabilities*

Non-derivative financial liabilities are recognised initially at fair value and subsequently at amortised cost, comprising original debt less principle payments and amortisation.

#### *Impairment*

At each reporting date, the Group assesses whether there is objective evidence that a financial instrument has been impaired. If there is evidence of impairment for any of the Group's financial assets carried at amortised cost, the loss is measured as the difference between the assets carrying amount and the present value of estimated future cash flows, excluding future credit losses that have not been incurred. The cash flows are discounted at the asset's original effective interest rate. Any impairment losses are taken to the statement of comprehensive income.

### (m) Revenue Recognition

Revenue from the sale of goods and disposal of other assets is recognised when the Group has passed control of the goods or other assets to the buyer.

Interest income is recognised when it is credited by the relevant financial institution.

### (n) Borrowing Costs

Borrowing costs are recognised as an expense when incurred except those that relate to the acquisition, construction or production of qualifying assets where the borrowing cost is added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale. Assets capitalised within IFRS 6 have not been considered to be qualifying assets.

### (o) Earnings per share

#### *Basic earnings per share*

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the company, excluding any loss of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year.

# FIRESTONE ENERGY LIMITED

Annual Report 30 June 2010

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

### ***Diluted earnings per share***

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

### **(p) Leases**

Lease payments for operating leases, where substantially all the risks and benefits remain with the lessor, are charged as expenses on a straight line basis over the lease term.

### **(q) Interest-bearing loans and borrowings**

All loans and borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs.

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method.

Gains and losses are recognised in profit or loss when the liabilities are derecognised.

### **(r) Share-based payment transactions**

#### ***Equity settled transactions:***

The Group provides benefits to employees (including senior executives) or consultants of the Group in the form of share-based payments, whereby employees or consultants render services in exchange for shares or rights over shares (equity-settled transactions).

The cost of these equity-settled transactions with employees or consultants is measured by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined by an internal valuation using a Black-Scholes option pricing model for options or market price for ordinary shares or the fair value of the services received.

In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares of Firestone Energy Limited (market conditions) if applicable.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award (the vesting period).

The cumulative expense recognised for equity-settled transactions at each reporting date until vesting date reflects (i) the extent to which the vesting period has expired and (ii) the Group's best estimate of the number of equity instruments that will ultimately vest. No adjustment is made for the likelihood of market performance conditions being met as the effect of these conditions is included in the determination of fair value at grant date. The statement of comprehensive income charge or credit for a period represents the movement in cumulative expense recognised as at the beginning and end of that period.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is only conditional upon a market condition. If the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified. In addition, an expense is recognised for any modification that increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee, as measured at the date of modification.

If an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award and designated as a replacement award on the date that it is granted, the cancelled and new award are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect, if any, of outstanding options is reflected as additional share dilution in the computation of earnings per share.



# FIRESTONE ENERGY LIMITED

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## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

### (s) Employee leave benefits

#### *Wages, salaries, annual leave and sick leave*

Liabilities for wages and salaries, including non-monetary benefits, annual leave and accumulating sick leave expected to be settled within 12 months of the reporting date are recognised in other payables in respect of employees' services up to the reporting date. They are measured at the amounts expected to be paid when the liabilities are settled. Liabilities for non-accumulating sick leave are recognised when the leave is taken and are measured at the rates paid or payable.

Employee benefits payable later than one year have been measured at the present value of the estimated future cash outflows to be made for those benefits.

### (t) Provisions

Provisions are recognised when the group has a legal or constructive obligation, as a result of past events, for which it is probable that an outflow of economic benefits will result and that outflow can be reliably measured.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the balance sheet date. The discount rate used to determine the present value reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision due to the passage of time is recognized as interest expense.

### (u) Foreign currency translation

Both the functional and presentation currency of Firestone Energy Limited is Australian dollars. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

#### **Transactions:**

Transactions in foreign currencies are initially recorded in the functional currency by applying the exchange rates ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance date.

All exchange differences in the consolidated financial report are taken to profit or loss with the exception of differences on foreign currency borrowings that provide a hedge against a net investment in a foreign entity. These are taken directly to equity until the disposal of the net investment, at which time they are recognised in profit or loss.

Tax charges and credits attributable to exchange differences on those borrowings are also recognised in equity.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of the initial transaction.

Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

#### **Foreign Subsidiaries Translation:**

The functional currency of the foreign operations, Checkered Flag Investments 2 (Pty) Ltd, Lexshell 126 General Trading (Pty) Ltd and Utafutaji Trading 75 (Pty) Ltd is South African Rand (ZAR). As at the reporting date the assets and liabilities of these subsidiaries are translated into the presentation currency of Firestone Energy Limited at the rate of exchange ruling at the balance date and their income statements are translated at the weighted average exchange rate for the year.

Equity accounts are translated at their historical exchange rates. The exchange differences arising on the translation are taken directly to a separate component of equity.

On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in statement of comprehensive income.

### (v) Issued capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds. Incremental costs directly attributable to the issue of new shares or options for the acquisition of a business are not included in the cost of the acquisition as part of the purchase consideration.

# FIRESTONE ENERGY LIMITED

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## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

### **(w) Comparative Figures**

When required by Accounting Standards, comparative figures have been adjusted to conform to changes in presentation for the current financial year.

### **(y) Trade and other payables**

These amounts represent liabilities for goods and services provided to the Group prior to the end of the financial year which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition.

### **(z) Goods and services Tax (GST)**

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the taxation authority. In this case it is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the taxation authority is included with other receivables or payables in the statement of financial position.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to the taxation authority, are presented as operating cash flows.

# FIRESTONE ENERGY LIMITED

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## 2. REVENUE & EXPENSES

	Consolidated Group		Parent Entity	
	2010	2009	2010	2009
	\$	\$	\$	\$
<b>(a) Revenue</b>				
Interest received	62,386	55,667	62,376	55,667
	<b>62,386</b>	55,667	<b>62,376</b>	55,667
<b>(b) Finance Expenses</b>				
Interest expense	901,441	35,466	859,528	35,466
Amortisation of transaction costs	380,114	-	380,114	-
	<b>1,281,555</b>	35,466	<b>1,239,642</b>	35,466

## 3. INCOME TAX EXPENSE

### (a) Income tax recognised in profit

No income tax is payable by the parent or consolidated entities as they recorded losses for income tax purposes for the year.

### (b) Numerical reconciliation between income tax expense and the loss before income tax.

The prima facie income tax benefit on pre-tax accounting loss from operations reconciles to the income tax expense in the financial statements as follows:

	Consolidated Group		Parent Entity	
	2010	2009	2010	2009
	\$	\$	\$	\$
Accounting loss before tax	<b>(3,436,308)</b>	(1,316,064)	<b>(2,636,014)</b>	(1,316,064)
Income tax benefit at 30% (2009:30%)	1,030,892	394,819	790,804	394,819
Non-deductible expenses:				
Foreign tax rate adjustment	20,617	-	-	-
Foreign exchange gain	(43,581)	(2,976)	(43,581)	(2,976)
Share based payment	-	(3,494)	-	(3,494)
Other non deductible expenses	428,970	(920)	428,970	(920)
Unrecognised tax losses	624,886	(387,429)	405,415	(387,429)
Income tax benefit attributable to loss from ordinary activities before tax	-	-	-	-

# FIRESTONE ENERGY LIMITED

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## (c) Unrecognised deferred tax balances

Tax losses attributable to members of the Company - revenue

	<b>9,505,658</b>	10,300,060	<b>8,254,541</b>	10,300,060
Potential tax benefit at 30%	<b>2,851,697</b>	3,090,018	<b>2,476,362</b>	3,090,018
<b>Deferred tax liability not recognised</b>				
Deferred expenditure on African projects	-	(922,617)	-	(922,617)
<b>Deferred tax asset not recognised</b>				
Amounts recognised in profit & loss				
-employee provisions	<b>1,432</b>	3,046	<b>1,432</b>	3,046
-other	<b>4,770</b>	15,500	<b>4,770</b>	15,500
Net unrecognised deferred tax asset at 30%	<b>2,857,899</b>	2,185,947	<b>2,482,564</b>	2,185,947

## 4. LOSS PER SHARE

	<b>Consolidated Group and Parent</b>	
	<b>2010</b>	<b>2009</b>
	<b>Cents</b>	<b>Cents</b>
<i>Basic loss per share (cents per share)</i>	<b>(0.16)</b>	<b>(0.12)</b>
The loss and weighted average number of ordinary shares used in the calculation of basic earnings per share is as follows:		
Loss for the year	<b>(3,436,308)</b>	(1,316,064)
Weighted average number of shares outstanding during the year used in calculations of basic loss per share	<b>2,084,646,605</b>	1,112,280,531
<i>Diluted loss per share</i>		
There is no dilution of shares due to options as the potential ordinary shares are not dilutive and are therefore not included in the calculation of diluted loss per share		

## 5. SEGMENT INFORMATION

Management has determined that the consolidated group has one reportable segment, being coal exploration in South Africa. As the company is focused on mineral exploration, the Board monitors the consolidated group based on actual versus budgeted exploration expenditure incurred by area of interest.

This internal reporting framework is the most relevant to assist the Board with making decisions regarding the consolidated group and its ongoing exploration activities, while also taking into consideration the results of exploration work that has been performed to date. As the company is in the exploration phase it has no major customers.

# FIRESTONE ENERGY LIMITED

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## Segment information provided to the Board:

	Consolidated Group	
	2010	2009
	\$	\$
Revenue from external sources	-	-
Reportable segment loss	<b>150,172</b>	-
Reported segment assets	<b>79,371,322</b>	19,645,502

A reconciliation of reportable segment loss to operating loss before income tax is provided as follows:

Total loss for reportable segment	<b>(150,172)</b>	-
Other revenue and Income	<b>236,011</b>	55,667
Administration expenses	<b>(539,527)</b>	(68,857)
Finance Costs	<b>(1,239,642)</b>	(35,466)
ASX fees and share registry expenses	<b>(237,201)</b>	(122,629)
Employee and consultant expenses	<b>(601,445)</b>	(715,041)
Legal and professional fees	<b>(642,791)</b>	(202,447)
Occupancy costs	<b>(76,242)</b>	(108,603)
Share based payments	-	(11,645)
Travel and accommodation	<b>(185,299)</b>	(107,043)
Loss before income tax from continuing operations	<b>(3,436,308)</b>	(1,316,064)

## 6. (a) CASH AND CASH EQUIVALENTS

	Consolidated Group		Parent Entity	
	2010	2009	2010	2009
	\$	\$	\$	\$
Cash at bank	<b>2,130,542</b>	1,870,754	<b>1,208,828</b>	1,870,754
	<b>2,130,542</b>	1,870,754	<b>1,208,828</b>	1,870,754

Cash at bank earns interest at floating rates based on daily bank deposit rates. The Group and the parent entities exposure to interest rate risk is discussed in note 15. The maximum exposure to credit risk at the end of the reporting period is the carrying amount of cash and cash equivalents mentioned above.

### Reconciliation to Statement of Cash Flows

For the purposes of the cash flow statement, cash and cash equivalents comprise the following at 30 June:

Cash and cash equivalents	<b>2,130,542</b>	1,870,754	<b>1,208,828</b>	1,870,754
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# FIRESTONE ENERGY LIMITED

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## 7. TRADE AND OTHER RECEIVABLES

	Consolidated Group		Parent Entity	
	2010	2009	2010	2009
	\$	\$	\$	\$
<b>Current</b>				
Trade receivables	-	13,564	-	13,564
Amount receivable from controlled entity	-	-	20,436,598	5,082,702
GST recoverable	328,356	16,483	144,754	16,483
Security bond	8,000	8,000	8,000	8,000
Prepayments	83,162	-	6,592	-
Other receivables	513	-	-	-
	<b>420,031</b>	<b>38,047</b>	<b>20,595,944</b>	<b>5,120,749</b>
<b>Non-Current</b>				
Security bond	26,758	26,758	26,758	26,758
Deferred project costs	-	144,891	-	144,891
Environmental rehabilitation bond	120,361	-	-	-
	<b>147,119</b>	<b>171,649</b>	<b>26,758</b>	<b>171,649</b>

As at 30 June 2010 current trade debtors of the company were nil (2009:\$13,564) and were not impaired as management is confident that these amounts will be recovered.

The ageing of these receivables is as follows:

	Consolidated Group		Parent Entity	
	2010	2009	2010	2009
	\$	\$	\$	\$
1 to 3 months	-	-	-	-
3 to 6 months	-	-	-	-
Over 6 months	-	13,564	-	13,564

### Maturity of Security Bonds

a) Lease # 1	\$26,758	30 April 2012
b) Lease # 2	\$ 8,000	21 February 2010

## 8. INTEREST IN JOINT VENTURE

	Consolidated		Parent	
	2010	2009	2010	2009
	\$	\$	\$	\$
Interest in capitalised exploration and evaluation expenditure	79,371,322	19,645,502	-	-

In the prior year, the Company had entered into a Joint Venture Agreement (T1) with Sekoko Coal (Pty) Ltd for a coal project in the Waterberg locality in South Africa comprising the Olieboomsfontein and Vetleegte properties. The participation interest is that Checkered Flag (a wholly owned subsidiary) has a total holding of 30% in the projects relating to this joint venture. At 30 June the company has the rights to earn up to an interest of 55%.

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In September 2009, Firestone Energy Ltd issued 868,176,563 shares on behalf of Lexshell Trading which was deemed to have a fair value of \$43,408,828 at the transaction date.

The issue of shares was consideration for entering into another Joint Venture Agreement (T2) with Sekoko Coal (Pty) Ltd for a coal project in the Waterberg locality in South Africa, comprising the Hooikraal, Massenberg and Minnasvlakte properties. At 30 June Firestone Energy has full participation interest and is entitled earn up to a 60% in the project.

The Joint Venture is unincorporated at 30 June 2010 and is accounted for in accordance with note 1(g).

## 9. OTHER FINANCIAL ASSETS

	Consolidated		Parent	
	2010	2009	2010	2009
	\$	\$	\$	\$
<b>Non-Current</b>				
<i>Investments carried at cost:</i>				
Investments in subsidiaries	-	-	56,276,357	12,867,529

(b) Subsidiaries of Firestone Energy Limited are set out below:

	Place of Incorporation	Equity holding		Carrying Value of Parent Entity's Investment	
		2010	2009	2010	2009
		%	%	\$	\$
Parent Entity:					
Firestone Energy Limited	Australia				
Controlled Entities:-					
Checkered Flag Investments 2 (Pty) Ltd	South Africa	100	100	12,867,514 <sup>1</sup>	12,867,514 <sup>1</sup>
Lexshell 126 General Trading (Pty) Ltd	South Africa	100	100	43,408,843	15
				56,276,357	12,867,529

Lexshell 126 General Trading (Pty) Ltd acquired a 100% interest in Utafutaji Trading 75 (Pty) Ltd during the period, at a cost of \$15.

<sup>1</sup> In the prior period, the entity had acquired all the issued shares in Checkered Flag Investments 2 (Pty) Ltd, a South African exploration company, for a consideration of 180,000,000 fully paid ordinary shares, 90,000,000 options with an expiry of 30 June 2013, and a payment of up to USD 150,000.

Details of net assets acquired are as follows:

### Business Combination - 2009

#### Purchase consideration

Issue 180,000,000 fully paid ordinary shares at market value	5,040,000
Issue 90,000,000 options	666,000
Accrued expense reimbursement	187,500
Total purchase consideration	5,893,500
Fair value of net identifiable assets acquired (refer below)	5,893,500



# FIRESTONE ENERGY LIMITED

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The options were valued using a Black-Scholes option pricing model applying the following inputs:

Weighted average exercise price	<b>0.06</b>
Weighted average life of the option	<b>4.589 years</b>
Underlying share price	<b>0.025</b>
Expected share price volatility	<b>60.0%</b>
Risk free interest rate	<b>5.79%</b>
Fair value per option	<b>\$0.0074</b>

The assets and liabilities arising from the acquisition are as follows:

	<b>Acquiree's carrying amount</b>	<b>Fair value</b>
	<b>\$</b>	<b>\$</b>
Cash and cash equivalents	16	16
Option to acquire interest in JV Net identifiable assets acquired	-	5,893,484
	<u>16</u>	<u>5,893,500</u>

The acquired business contributed revenues of nil and net loss of nil to the group for the period to 30 June 2009.

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## 10. PLANT AND EQUIPMENT

	Consolidated Group		Parent Entity	
	2010	2009	2010	2009
	\$	\$	\$	\$
Office furniture and equipment				
Cost	122,779	41,591	50,926	41,591
Accumulated depreciation	(35,396)	(11,137)	(23,541)	(11,137)
	<b>87,383</b>	30,454	<b>27,385</b>	30,454
Leasehold improvements				
Cost	-	-	-	-
Accumulated depreciation	-	-	-	-
	-	-	-	-
Motor Vehicles				
Cost	28,830	-	-	-
Accumulated depreciation	(2,883)	-	-	-
	<b>25,947</b>	-	-	-
<b>Total Plant and Equipment</b>	<b>113,330</b>	30,454	<b>27,385</b>	30,454

Movements in the carrying amounts of each class of property, plant & equipment at the beginning and end of the current financial period is as set out below:

	Consolidated Group		Parent Entity	
	2010	2009	2010	2009
	\$	\$	\$	\$
<b>Office furniture and equipment</b>				
Balance at the beginning of year	30,454	69,718	30,454	69,718
Additions	81,188	21,436	9,335	21,436
Depreciation expense	(24,259)	(8,083)	(12,404)	(8,083)
Disposals	-	(52,617)	-	(52,617)
Carrying amount at the end of the year	<b>87,383</b>	30,454	<b>27,385</b>	30,454
<b>Leasehold improvements</b>				
Balance at the beginning of year	-	5,589	-	5,589
Additions	-	-	-	-
Depreciation expense	-	-	-	-
Disposals	-	(5,589)	-	(5,589)
Carrying amount at the end of the year	-	-	-	-
<b>Motor Vehicles</b>				
Balance at the beginning of year	-	-	-	-
Additions	28,830	-	-	-
Depreciation expense	(2,883)	-	-	-
Disposals	-	-	-	-
Carrying amount at the end of the year	<b>25,947</b>	-	-	-

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## 11. TRADE, OTHER PAYABLES AND PROVISIONS

	Consolidated Group		Parent Entity	
	2010	2009	2010	2009
	\$	\$	\$	\$
<b>Current</b>				
Trade payables	1,323,782	525,077	228,318	525,077
Employee entitlements	4,772	10,153	4,772	10,153
Accruals	620,853	1,363,364	537,651	1,363,364
Other payables	1,540,080	15,938	-	15,938
	<b>3,489,487</b>	<b>1,914,532</b>	<b>770,741</b>	<b>1,914,532</b>

Trade payables are non-interest bearing and are normally settled on 30-day terms, information about the Group and the parent entity's exposure to foreign exchange risk is provided in note 15.

## 12. BORROWINGS

	Consolidated Group		Parent Entity	
	2010	2009	2010	2009
	\$	\$	\$	\$
<b>Current</b>				
<i>Loans carried at amortised cost</i>				
Unsecured loans	-	100,000	-	100,000
<b>Non-Current</b>				
<i>Loans carried at amortised cost</i>				
Convertible note (Face Value)	15,923,080	500,000	15,923,080	500,000
Transaction Costs (Convertible notes)	(1,392,966)	-	(1,392,966)	-
	<b>14,530,114</b>	<b>500,000</b>	<b>14,530,114</b>	<b>500,000</b>

The total draw down facility is \$25 million with a maturity date of 3 years from the date of issue. The notes can be converted at any time before the maturity date and bears interest at a fixed rate of 10% per annum.

Details of the group's exposure to risks arising from current and non-current borrowings are set out in note 15.

# FIRESTONE ENERGY LIMITED

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## 13. ISSUED CAPITAL

	Consolidated 2010 \$	Group 2009 \$	Parent Entity 2010 \$	2009 \$
2,331,300,464 (2009: 1,354,951,295 ) fully paid ordinary shares	<b>62,704,850</b>	14,781,022	<b>62,704,850</b>	14,781,022

	Consolidated 2010 No.	Group 2009 No.	Parent Entity 2010 No.	2009 No.
<b>(i) Ordinary shares - number</b>				
At start of period	<b>1,354,951,295</b>	709,208,879	<b>1,354,951,295</b>	709,208,879
Options converted at 1 cent	-	-	-	-
Options converted 11 Jul 2008 at 1 cent	-	24,000,000	-	24,000,000
Options converted 13 Aug 2008 at 1 cent	-	67,500,000	-	67,500,000
Issue to Sekoko 29 Oct 2008 at 2.8 cents	-	220,000,000	-	220,000,000
Issue for Checkered Flag acquisition 29 Oct 2008 at 2.8 cents	-	180,000,000	-	180,000,000
Options converted 19 Nov 2008 at 1 cent	-	49,750,000	-	49,750,000
Issue to consultant 23 Nov 2008 at 2.8 cents	-	4,833,325	-	4,833,325
Placement for working capital 23 Dec 09 at 1.1 cents	-	22,727,273	-	22,727,273
Placement for working capital 24 Feb 09 at 1.1 cents	-	22,681,818	-	22,681,818
Options exercised 4 May 2009 at 1 cent	-	1,250,000	-	1,250,000
Options exercised 19 May 2009 at 1 cent	-	1,250,000	-	1,250,000
Placement for working capital 16 Jun 09 at 4 cents	-	45,500,000	-	45,500,000
Placement for working capital 30 Jun 09 at 4 cents	-	6,250,000	-	6,250,000
Conversion of Convertible loan 16 Sept at 4 cents	<b>67,000,000</b>	-	<b>67,000,000</b>	-
Conversion of Convertible note 16 Sept at 3.6 cents	<b>15,172,606</b>	-	<b>15,172,606</b>	-
Issued for the Sekoko coal transaction 30 Sept 2009 at 5 cents	<b>868,176,563</b>	-	<b>868,176,563</b>	-
Issue to consultant 30 Sept 2009 at 5.0 cents	<b>25,000,000</b>	-	<b>25,000,000</b>	-
Issue to consultant 30 Sept 2009 at 4.0 cents	<b>1,000,000</b>	-	<b>1,000,000</b>	-
<b>Balance at 30 June</b>	<b>2,331,300,464</b>	1,354,951,295	<b>2,331,300,464</b>	1,354,951,295

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(ii) Ordinary shares – value	Consolidated	Group	Parent Entity	
	2010	2009	2010	2009
	\$	\$	\$	\$
At start of period	14,781,022	57,819,281	14,781,022	57,819,281
Options converted at 1 cent	-	-	-	-
Options converted 11 Jul 2008 at 1 cent	-	240,000	-	240,000
Options converted 13 Aug 2008 at 1 cent	-	675,000	-	675,000
Issue to Sekoko 29 Oct 2008 at 2.8 cents	-	6,160,000	-	6,160,000
Issue for Checkered Flag acquisition 29 Oct 2008 at 2.8 cents	-	5,040,000	-	5,040,000
Options converted 19 Nov 2008 at 1 cent	-	497,500	-	497,500
Issue to consultant 23 Nov 2008 at 2.8 cents	-	135,334	-	135,334
Placement for working capital 23 Dec 09 at 1.1 cents	-	250,000	-	250,000
Reduction of capital	-	(58,297,793)	-	(58,297,793)
Placement for working capital 24 Feb 09 at 1.1 cents	-	249,500	-	249,500
Options exercised 4 May 2009 at 1 cent	-	12,500	-	12,500
Options exercised 19 May 2009 at 1 cent	-	12,500	-	12,500
Placement for working capital 16 Jun 09 at 4 cents	-	1,820,000	-	1,820,000
Placement for working capital 30 Jun 09 at 4 cents	-	250,000	-	250,000
Conversion of Convertible loan 16 Sept at 4 cents	2,680,000	-	2,680,000	-
Conversion of Convertible note 16 Sept at 3.6 cents	545,000	-	545,000	-
Issued for the Sekoko coal transaction 30 Sept 2009 at 5 cents	43,408,828	-	43,408,828	-
Issue to consultant 30 Sept 2009 at 5.0 cents	1,250,000	-	1,250,000	-
Issue to consultant 30 Sept 2009 at 4.0 cents	40,000	-	40,000	-
Less: Share issue costs	-	(82,800)	-	(82,800)
<b>Balance at 30 June</b>	<b>62,704,850</b>	<b>14,781,022</b>	<b>62,704,850</b>	<b>14,781,022</b>

## Unlisted Options

Unissued ordinary shares of the Company under option are as follows:

Number under option	Expiry date	Exercise price of option
30,000,000	30-Nov-12	\$0.05
110,000,000	31-May-13	\$0.06
96,904,767	30-Jun-13	\$0.06
25,875,000	30-Jun-14	\$0.06

No option holder has any right under the options to participate in any other share issue of the Company.

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## 14. RESERVES

	Consolidated	Group	Parent Entity	
	2010	2009	2010	2009
	\$	\$	\$	\$
Reserves	<b>6,210,265</b>	5,776,916	<b>4,081,645</b>	4,081,645

Reserves comprise the following:

### Share based payment reserve

	Consolidated Group		Parent Entity	
	2010	2009	2010	2009
	No.	No.	No.	No.
<b>Options - number</b>				
At start of period	<b>262,779,767</b>	173,750,000	<b>262,779,767</b>	173,750,000
Options issued in consideration for project purchase	-	200,000,000	-	200,000,000
Options issued in consideration for consulting services	-	6,904,767	-	6,904,767
Free attaching options issued with share placement	-	25,875,000	-	25,875,000
Exercised during the period	-	(143,750,000)	-	(143,750,000)
<b>Balance at 30 June</b>	<b>262,779,767</b>	262,779,767	<b>262,779,767</b>	262,779,767

	Consolidated Group		Parent Entity	
	2010	2009	2010	2009
	\$	\$	\$	\$
<b>Options - value</b>				
At start of period	<b>4,081,645</b>	2,590,000	<b>4,081,645</b>	2,590,000
Options issued	-	-	-	-
Options issued in consideration for project purchase	-	1,480,000	-	1,480,000
Options issued in consideration for consulting services	-	11,645	-	11,645
<b>Balance at 30 June</b>	<b>4,081,645</b>	4,081,645	<b>4,081,645</b>	4,081,645

### Foreign Currency Translation Reserve

At start of period	<b>1,695,271</b>	-	-	-
Currency translation differences	<b>433,349</b>	1,695,271	-	-
<b>Balance at 30 June</b>	<b>2,128,620</b>	1,695,271	-	-

#### *Nature and purpose of reserves*

##### *Share based payments reserve*

This reserve is used to record the value of equity benefits provided to employees and directors or consultants as part of their remuneration or services to the entity. Refer to Note 16 for further details.

##### *Foreign currency translation reserve*

The foreign currency translation reserve is used to record exchange differences arising from the translation balances of foreign subsidiaries.

# FIRESTONE ENERGY LIMITED

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## 15. FINANCIAL INSTRUMENTS

### (i) Capital Risk Management

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance.

The Group's overall strategy remains unchanged from 2010.

The capital structure of the Group consists of debt, cash and cash equivalents and equity attributable to equity holders of the parent, comprising issued capital, reserves and accumulated losses.

None of the Group's entities are subject to externally imposed capital requirements.

Gearing levels are reviewed by the Board on a regular basis after factoring in the cost of capital and the risks associated with each class of capital.

The company's objectives when managing capital are to safeguard their ability to continue as a going concern, so that they can continue to provide returns to shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

### (ii) Financial risk management objectives

The Group's activities may expose it to a variety of financial risks in the future: market risk (including currency risk and interest rate risk), credit risk and liquidity risk. The Groups overall risk management program does focus on the unpredictable nature of the financial markets and seek to minimise potential adverse effects on the financial performance of the Group.

Risk management is carried out under an approved framework covering a risk management policy and internal compliance and control by management. The Board identifies, evaluates and approves measures to address financial risks.

### (iii) Market risk

#### *Cash flow interest rate risk*

The Consolidated entity's main interest rate risk arises from cash deposits to be used in investment, exploration and development of areas of interest. Deposits at variable rates expose the Group to cash flow interest rate risk. During 2010 and 2009, the Groups deposits at variable rates were denominated in Australian Dollars and South African Rand.

As at the reporting date, the Parent and Consolidated entity had the following variable rate deposits and there were no interest rate swap contracts outstanding:

Parent	2010		2009	
	Weighted average interest rate %	Balance \$	Weighted average interest rate %	Balance \$
Deposit - Cash	4.5%	1,208,828	4.5%	1,870,754
<b>Consolidated</b>				
Deposit - Cash	2.5%	2,130,542	4.5%	1,870,754

#### *Summarised Sensitivity Analysis – Interest Rate Risk and Foreign Currency Risk*

The effect of possible interest rate movements used to determine the impact upon profit and loss and equity have been determined based upon management's assessment of current and future market conditions.

As a result of increasing investment overseas, large transactions are denominated in South African Rand, and the Group's balance sheet can be affected significantly by movements in the ZAR/AUD exchange rates. The Group seeks to mitigate some of the effect of its foreign currency exposure by holding South African Rand.

# FIRESTONE ENERGY LIMITED

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The Group also has transactional currency exposures. Such exposure arises from sales or purchases by an operating entity in currencies other than the functional currency.

The Group does not have a policy to enter into forward contracts and does not negotiate hedge derivatives to exactly match the terms of the hedged item.

At 30 June, the Group had the following exposure to Australian dollar short term interest rates, South African prime overdraft rate and ZAR foreign currency expressed in AUD equivalents that are not designated in cash flow hedges:

	Consolidated Group 2010	Consolidated Group 2009	Parent Entity 2010	Parent Entity 2009
	\$	\$	\$	\$
<i>Subject to Foreign Currency Risk:</i>				
<b>Financial assets</b>				
Cash and cash equivalents	921,969	22,820	-	22,820
Trade and Other Receivables	129,593	-	-	-
	1,051,562	22,820	-	-
<b>Financial liabilities</b>				
Trade and other payables	1,549,312	1,435,173	-	1,435,173
<i>Subject to Interest Rate Risk:</i>				
<b>Financial assets</b>				
Cash and cash equivalents	2,130,797	1,870,754	1,208,828	1,870,754
<b>Financial liabilities</b>				
Trade and other payables	1,531,394	-	-	-

The following sensitivity is based on the foreign currency risk and interest rate risk exposures in existence at the reporting date.

Based on historical information, and market trends, management's assessment of the possible change in foreign exchange rates are between the range of 10% either way. As for interest rates, management has determined a range of 50 basis points decrease and a 100 basis point increase is appropriate.

Based on these factors, at 30 June the effects on post tax loss and equity would be as follows;

Future possible changes in interest rates and foreign exchange rates based on managements estimates.	Consolidated Group	Consolidated Group	Parent Entity	Parent Entity
	2010	2009	2010	2009
	\$	\$	\$	\$
Interest Rates + 100 bp	5,994	18,708	12,088	18,708
Interest Rates – 50 bp	(2,997)	(9,354)	(6,044)	(9,354)
	(49,775)	2,589	-	2,589
AUD/ZAR+10%	(49,775)	2,589	-	2,589
AUD/ZAR - 10%	49,775	(1,127)	-	(1,127)



# FIRESTONE ENERGY LIMITED

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## (iv) Credit risk

The Group has no significant concentrations of credit risk. Cash transactions are limited to high credit quality financial institutions. The company has a concentration in the receivable from its subsidiaries.

Credit risk arises from cash and cash equivalents, deposits with banks and financial institutions, as well as credit exposures on outstanding receivables and committed transactions. In relation to other credit risk areas management assesses the credit quality of the customer, taking into account its financial position, past experience and other factors.

## (v) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash, the availability of funding through an adequate amount of committed credit facilities. The Consolidated entity manages liquidity risk by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities. The Group will aim at maintaining flexibility in funding by accessing appropriate committed credit lines available from different counterparties where appropriate and possible. Surplus funds when available are generally only invested in high credit quality financial institutions in highly liquid markets.

Maturity analysis of financial assets and liability based on management's expectation

### Consolidated

Year ended 30 June 2010	<6 months	6-12 months	1-5 years	>5 years	Total	Carrying Amount
<b>Financial assets</b>						
Trade & other receivables <sup>1</sup>	513	-	147,119	-	147,119	147,632
	<b>513</b>	<b>-</b>	<b>147,119</b>	<b>-</b>	<b>147,119</b>	<b>147,632</b>
<b>Financial liabilities</b>						
Trade & other payables	(3,489,487)	-	-	-	(3,489,487)	(3,489,487)
Borrowings <sup>2</sup>	-	(1,081,808)	(18,803,080)	-	(19,884,888)	(15,923,080)
Net maturity	<b>(3,069,456)</b>	<b>(1,081,808)</b>	<b>(18,655,961)</b>	<b>-</b>	<b>(23,227,256)</b>	<b>(19,265,448)</b>

### Parent

Year ended 30 June 2010	<6 months	6-12 months	1-5 years	>5 years	Total	Carrying Amount
<b>Financial assets</b>						
Trade & other receivables <sup>1</sup>	-	-	26,758	-	26,758	26,758
	<b>-</b>	<b>-</b>	<b>26,758</b>	<b>-</b>	<b>26,758</b>	<b>26,758</b>
<b>Financial liabilities</b>						
Trade & other payables	(770,741)	-	-	-	(770,741)	(770,741)
Borrowings <sup>2</sup>	-	(1,081,808)	(18,803,080)	-	(19,884,888)	(15,923,080)
Net maturity	<b>(3,069,456)</b>	<b>(1,081,808)</b>	<b>(18,776,322)</b>	<b>-</b>	<b>(20,628,871)</b>	<b>(16,667,063)</b>

<sup>1</sup> No impairment is required on long term receivables, as these are long term deposits.

<sup>2</sup> The note holder has the option to convert the face value of the liability to equity, in align with the terms stated in note 21.

# FIRESTONE ENERGY LIMITED

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Maturity analysis of financial assets and liability based on management's expectation

Year ended 30 June 2009	<6 months	6-12 months	1-5 years	>5 years	Total	Carrying Amount
<b>Parent &amp; Consolidated</b>						
<b>Financial assets</b>						
Trade & other receivables <sup>1</sup>	30,047	-	34,758	-	64,805	64,805
	30,047	-	34,758	-	64,805	64,805
<b>Financial liabilities</b>						
Trade & other payables	(2,014,532)	(101,973)	(519,644)	-	(2,636,149)	(2,636,149)
Net maturity	(1,984,485)	(101,973)	(484,886)	-	(2,571,344)	(2,571,344)

## 16. SHARE-BASED PAYMENTS

The following table illustrates the number (No.) and weighted average exercise prices of and movements in share options issued during the year:

	2010	2010	2009	2009
	No.	Weighted average exercise price	No.	Weighted average exercise price
		\$		\$
Outstanding at the beginning of the period	262,779,767	0.059	173,750,000	0.017
Granted during the period	-	-	232,779,767	0.06
Forfeited during the period	-	-	-	-
Exercised during the period	-	-	(143,750,000)	0.01
Expired during the period	-	-	-	-
Outstanding at the end of the period	262,779,767	0.059	262,779,767	0.059
Exercisable at the end of the year	262,779,767	0.059	262,779,767	0.059

The fair value of the equity-settled share options granted have been estimated as at the date of grant using a Black-Scholes option pricing model taking into account the terms and conditions upon which the options were granted.

The following table lists the inputs to the model:

	2010	2009
Weighted average exercise price	-	\$0.059
Weighted average life of the option	-	4.62 years
Underlying share price	-	\$0.025
Expected share price volatility	-	60%
Risk free interest rate	-	5.75%
Fair value per option	-	\$0.0072

# FIRESTONE ENERGY LIMITED

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The outstanding balance as at 30 June 2010 is represented by:

Number Under Option	Expiry	Exercise Price
30,000,000	30 Nov 2012	\$0.05
110,000,000	30 May 2013	\$0.06
96,904,767	30 June 2013	\$0.06
25,875,000	30 June 2014	\$0.06
<b>262,779,767</b>		

There were no options granted during the period (2009: \$1,491,645).

The expected life of the options is based on historical data and is not necessarily indicative of exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome. No other features of options granted were incorporated into the measurement of fair value.

## 17. COMMITMENTS

### Consolidated Group

### Parent Entity

2010	2009	2010	2009
\$	\$	\$	\$

#### (i) Operating Lease Commitments

Non-cancellable operating leases contracted for but not capitalised in the financial statements

Payable - minimum lease payments

- not later than 12 months

<b>71,429</b>	68,028	<b>71,429</b>	68,028
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- between 12 months and 5 years

<b>62,501</b>	133,930	<b>62,501</b>	133,930
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<b>133,930</b>	201,958	<b>133,930</b>	201,958
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The company entered into an operating lease on 1 May 2007 for office space it occupies in Subiaco. The term of the lease is 5 years.

#### (ii) Expenditure commitments contracted for:

### Consolidated Group

### Parent Entity

2010	2009	2010	2009
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\$	\$	\$	\$
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#### Exploration Tenements

At year-end the entity had committed to purchase the Hooikraal farm. These obligations are not provided for in the financial statements and are payable:

- not later than 12 months

<b>2,374,352</b>	-	-	-
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- between 12 months and 5 years

-	-	-	-
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<b>2,374,352</b>	-	-	-
------------------	---	---	---

Further to the above, Checkered Flag will commit to spending a maximum of ZAR50 million, approximately \$7.65million, (2009: ZAR 50 Million) to earn a further 25% interest (for a total of 55%) on the farms Vetleegte 304LQ and Olieboomsfontein 220LQ to advance to a Bankable Feasibility Study ("BFS") level enabling the establishment of a future commercial mining operation. A production royalty, equivalent to ZAR0.50 (A\$0.07) per tonne of coal sold is payable during the term of the mining operations to a maximum aggregated amount of ZAR25 million (A\$3.83million).

# FIRESTONE ENERGY LIMITED

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## 18. DIRECTORS AND EXECUTIVE DISCLOSURES

### (a) Compensation by category of Key Management Personnel for the year ended 30 June 2010

	Consolidated Group		Parent Entity	
	2010	2009	2010	2009
	\$	\$	\$	\$
Short-term employee benefits	828,368	625,350	828,268	625,350
Termination benefits	60,000	-	60,000	-
Post-employment benefits	12,013	35,035	12,013	35,035
Share-based payments	-	-	-	-
	<b>900,381</b>	<b>660,385</b>	<b>900,381</b>	<b>660,385</b>

### (b) Compensation options: Granted and vested during the year

No options were granted during the year

### (c) Shares issued on Exercise of Compensation Options

No options were exercised during the period

### (d) Option holdings of Key Management Personnel - Unlisted

2010	Balance at the start of the year	Granted as remuneration	Options Exercised	Net change other	Balance at the end of the period*	Vested and exercisable at 30 June 2010
<b>Directors</b>						
J Dreyer	-	-	-	-	-	-
A Matthee	110,000,000	-	-	-	110,000,000	110,000,000
C McIntyre	-	-	-	3,125,000	3,125,000	3,125,000
T Tebeila	110,000,000	-	-	-	110,000,000	110,000,000
J Wallington	-	-	-	-	-	-
<b>Executives</b>						
G Higgo <sup>1</sup>	250,000	-	-	(250,000)	-	-
S Storm <sup>1</sup>	-	-	-	-	-	-
R Dorrington <sup>1</sup>	-	-	-	-	-	-
J Monzu <sup>2</sup>	-	-	-	-	-	-
	<b>220,250,000</b>	<b>-</b>	<b>-</b>	<b>24,875,000</b>	<b>223,125,000</b>	<b>223,125,000</b>

Note 1 - resigned during the financial year

Note 2 - appointed during the financial year

# FIRESTONE ENERGY LIMITED

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2009	Balance at the start of the year	Granted as remuneration	Options Exercised	Net change other	Balance at the end of the period*	Vested and exercisable at 30 June 2009
<b>Directors</b>						
J Dreyer	-	-	-	-	-	-
A Matthee	-	-	-	110,000,000	110,000,000	110,000,000
C McIntyre <sup>3</sup>	-	-	-	-	-	-
T Tebeila <sup>2</sup>	-	-	-	110,000,000	110,000,000	110,000,000
J Wallington	-	-	-	-	-	-
E Boyd <sup>1</sup>	10,000,000	-	-	(10,000,000)	-	-
M Smartt <sup>1</sup>	10,000,000	-	-	(10,000,000)	-	-
D Henthorn <sup>1</sup>	10,000,000	-	-	(10,000,000)	-	-
<b>Executives</b>						
G Higgs	-	-	-	250,000	250,000	250,000
S Storm	-	-	-	-	-	-
	30,000,000	-	-	190,250,000	220,250,000	220,250,000

Note 1 - resigned during the financial year

Note 2 - appointed during the financial year

Note 3 - appointed subsequent to financial year end

\* Balance includes amounts nominally held through directorship of a related entity, Sekoko Coal, whereby Sekoko Coal has 997,937,832 shares and 110,000,000 options held in Firestone Energy Ltd.

## (e) Shareholdings of Key Management Personnel

2010	Balance at the start of the period	Granted as remuneration	On exercise of options	Net change other	Balance at the end of the period*
<b>Directors</b>					
J Dreyer	-	-	-	-	-
A Matthee	165,000,000	-	-	853,237,832	1,018,237,832
C McIntyre	-	-	-	27,075,000	27,075,000
T Tebeila	165,000,000	-	-	832,937,832	997,937,832
J Wallington	-	-	-	-	-
<b>Executives</b>					
G Higgs <sup>1</sup>	500,000	-	-	(500,000)	-
S Storm <sup>1</sup>	-	-	-	-	-
R Dorrington <sup>1</sup>	-	-	-	-	-
J Monzu <sup>2</sup>	-	-	-	150,000	150,000
	330,500,000	-	-	1,712,900,664	2,043,400,664

Note 1 - resigned during the financial year

Note 2 - appointed during the financial year

# FIRESTONE ENERGY LIMITED

Annual Report 30 June 2010

2009	Balance at the start of the period	Granted as remuneration	On exercise of options	Net change other	Balance at the end of the period
<b>Directors</b>					
J Dreyer	-	-	-	-	-
A Matthee <sup>2</sup>	-	-	-	165,000,000	165,000,000
C McIntyre <sup>3</sup>	-	-	-	-	-
T Tebeila <sup>2</sup>	-	-	-	165,000,000	165,000,000
J Wallington	-	-	-	-	-
E Boyd <sup>1</sup>	1,035,000	-	-	(1,035,000)	-
M Smartt <sup>1</sup>	350,000	-	-	(350,000)	-
D Henthorn <sup>1</sup>	183,000	-	-	(183,000)	-
<b>Executives</b>					
G Higgs	-	-	-	500,000	500,000
S Storm	-	-	-	-	-
	1,568,000	-	-	328,932,000	330,500,000

Note 1 - resigned during the financial year

Note 2 - appointed during the financial year

Note 3 - appointed subsequent to year end

\* Includes amounts held nominally

All equity transactions with key management personnel other than those arising from the issue or exercise of compensation options have been entered into under terms and conditions no more favourable than those the Group would have adopted if dealing at arm's length.

**(f) Loans to Key Management Personnel (Consolidated)**

No loans have been provided to key management personnel during the year.

**(g) Other transactions and balances with Key Management Personnel**

No other transactions with key management personnel have occurred during the year.

# FIRESTONE ENERGY LIMITED

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## 19. RELATED PARTY INFORMATION

The consolidated financial statements include the financial statements of Firestone Energy Limited and its wholly owned subsidiaries Checkered Flag Investments 2 (Pty) Ltd, Lexshell 126 General Trading (Pty) Ltd and Utafutaji Trading 75 (Pty) Ltd.

	Parent Entity	
	2010	2009
Amounts owed by Related Parties	\$	\$
Subsidiaries		
Checkered Flag Investments 2 (Pty) Ltd ('CF')	6,211,596	12,056,717
Utafutaji Trading 75 (Pty) Ltd	-	-
Lexshell 126 General Trading (Pty) Ltd ('Lexshell')	14,225,002	(15)
Total	20,436,598	12,056,702
Provision for impairment	-	-
	20,436,598	12,056,702
Amounts payable to Directors for Directors Fees	2,500	41,667
	2,500	41,667

Firestone Energy Limited is the ultimate Australian parent entity and ultimate parent of the Group.

Outstanding balances at year-end are unsecured and settlement will occur in cash once these subsidiaries become financially self sufficient.

An impairment assessment is undertaken each financial year by examining the financial position of the related party and the market in which the related party operates to determine whether there is objective evidence that a related party receivable is impaired. When such objective evidence exists, the Group recognises an allowance for the impairment loss.

Sekoko Coal (Pty) Ltd is an entity controlled by Mr Timothy Tebeila and Amanda Matthee, directors of the Company and accordingly, Sekoko Coal is a related party of the Company.

As disclosed in not 8, an amount of 868,176,563 fully paid up shares were issued to Sekoko Coal (Pty) Ltd during the period as part consideration for the 2nd joint venture transaction with Sekoko Coal (Pty) Ltd through its wholly owned subsidiary Lexshell 126 General Trading (Pty) Ltd.

The Company, through Checkered Flag Investments 2 (Pty) Ltd and Lexshell 126 General Trading (Pty) Ltd, has management control of all JV planning and expenditure.

During the year the following payments have been made to Sekoko Resources Pty Ltd, a company associated with Sekoko Coal Pty Ltd. Sekoko Resources is a related entity through common directorship of Ms A Matthee and Mr T Tebeila.

# FIRESTONE ENERGY LIMITED

Annual Report 30 June 2010

Expenditure	Consolidated Group		Parent Entity	
	2010	2009	2010	2009
	\$	\$	\$	\$
Management Fees	299,850	123,648	-	-
Reimbursement of expenditure incurred on behalf of joint venture with CF and Sekoko	230,976	897,480	-	-
Reimbursement of expenditure incurred in relation to planned joint venture with Lexshell and Sekoko	3,798,055	144,891	-	-
<b>Amounts owed to related parties</b>				
Due to Sekoko	8,686	32,884	-	32,884

These fees were charged based on normal commercial terms and conditions.

## 20. AUDITORS' REMUNERATION

	Consolidated Group		Parent Entity	
	2010	2009	2010	2009
	\$	\$	\$	\$
Amounts received or due and receivable by BDO Audit (WA) Pty Ltd:				
Audit or review of the financial reports of the Company and Group	67,615	26,000	52,230	26,000
Other services (Taxation services) by BDO Corporate Tax (WA) Pty Ltd	7,975	21,220	7,975	8,075
	<b>75,590</b>	<b>47,220</b>	<b>60,205</b>	<b>34,075</b>

## 21. SUBSEQUENT EVENTS

Subsequent to year end the following events occurred;

On 12 August 2010 the Company announced that it had decided to make amendments to the Convertible Note Deed Poll entered into in September 2009. The amendments are intended to position the Company to be better able to attract investors to rapidly progress FSE's Waterberg project and allow the Company to undertake its stated objectives. Further, the Company has agreed with BBY Limited to amend the terms of the Underwriting Agreement of the Convertible Note Deed Poll. The amendments to the convertible note deed are as follows;

- The pricing of the securities to be issued by FSE pursuant to subscription payments made after 13 July 2010, upon conversion of convertible notes will be the higher of:
  - (a) a 7.5% discount to the 5 day VWAP up to but not including the date upon which the note is issued by the issuer; and
  - (b) A\$0.02c per FSE share issued
- Convertible Notes issued after 4 June 2010 shall be in denominations of A\$500k or A\$100k at the election of the subscriber.
- Convertible notes may be converted monthly.

## 22. CONTINGENT LIABILITIES

A term sheet and a deposit of A\$200,000 has been paid to Sekoko Coal (T3 Joint Venture) in order to purchase a further two properties Swanepoelpan and Duikerfontein. This will result in all eight properties being owned in joint venture with Sekoko Coal (Pty) Ltd. A further A\$1.8 million is payable on the earlier of transfer of concessions to the joint venture company by 30 June 2011. The agreement is subject to shareholder approval, and therefore this \$1.8m is a contingent liability at 30 June.



## Directors' Declaration

The directors of the company declare that:

1. The financial statements, comprising the statement of comprehensive income, statement of financial position, statement of cash flows, statement of changes in equity, accompanying notes, are in accordance with the Corporations Act 2001 and:
  - (a) comply with Accounting Standards and the Corporations Regulations 2001; and
  - (b) give a true and fair view of the financial position as at 30 June 2010 and of the performance for the year ended on that date of the company and the consolidated entity.
2. In the directors' opinion, there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.
3. The remuneration disclosures included in pages 8 to 11 of the directors' report (as part of audited Remuneration Report), for the year ended 30 June 2010, comply with section 300A of the *Corporations Act 2001*.
4. The directors have been given a declaration by the chief financial officer required by section 295A.
5. The consolidated entity has included in the notes to the financial statements an explicit and unreserved statement of compliance with International Financial Reporting Standards

This declaration is made in accordance with a resolution of the Board of Directors and is signed for and on behalf of the directors by:



**John Dreyer**  
Director

Perth  
Western Australia

17 September 2010

**FIRESTONE ENERGY LIMITED**  
Annual Report 30 June 2010



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Subiaco, WA 6008  
PO Box 700 West Perth WA 6872  
AUSTRALIA

17 September 2010

Firestone Energy Limited  
The Directors  
PO Box 8284  
SUBIACO WA 6008

Dear Directors,

**DECLARATION OF INDEPENDENCE BY BRAD MCVEIGH TO THE DIRECTORS OF FIRESTONE ENERGY LIMITED**

As lead auditor of Firestone Energy Limited for the year ended 30 June 2010, I declare that, to the best of my knowledge and belief, there have been no contraventions of:

- the auditor independence requirements of the Corporations Act 2001 in relation to the audit
- any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Firestone Energy Limited and the entities it controlled during the period.

Brad McVeigh

Director

BDO Audit (WA) Pty Ltd

Perth, Western Australia

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**FIRESTONE ENERGY LIMITED**  
Annual Report 30 June 2010



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**INDEPENDENT AUDITOR'S REPORT  
TO THE MEMBERS OF FIRESTONE ENERGY LIMITED**

**Report on the Financial Report**

We have audited the accompanying financial report of Firestone Energy Limited, which comprises the statement of financial position as at 30 June 2010, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

**Directors' Responsibility for the Financial Report**

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with *International Financial Reporting Standards*.

**Auditor's Responsibility**

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

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**Independence**

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001* would be in the same terms if it had been given to the directors at the time that this auditor's report was made.

**Auditor's Opinion**

In our opinion:

- (a) the financial report of Firestone Energy Limited is in accordance with the *Corporations Act 2001*, including:
  - (i) giving a true and fair view of the company's and consolidated entity's financial position as at 30 June 2010 and of their performance for the year ended on that date; and
  - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*; and
- (b) the financial report also complies with *International Financial Reporting Standards* as disclosed in Note 1.

**Report on the Remuneration Report**

We have audited the Remuneration Report included in pages 8 to 11 of the directors' report for the year ended 30 June 2010. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

**Auditor's Opinion**

In our opinion, the Remuneration Report of Firestone Energy Limited for the year ended 30 June 2010, complies with section 300A of the *Corporations Act 2001*.

BDO Audit (WA) Pty Ltd

A handwritten signature in black ink, appearing to read 'Brad McVeigh', written over the printed name below.

Brad McVeigh  
Director

Perth, Western Australia  
Dated this 17 day of September 2010

# FIRESTONE ENERGY LIMITED

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## CORPORATE GOVERNANCE STATEMENT

### Introduction

Firestone Energy Limited ("Company") has made it a priority to adopt systems of control and accountability as the basis for the administration of corporate governance. Some of these policies and procedures are summarised in this statement. To the extent that they are applicable, and given its circumstances, the Company adopts the Eight Essential Corporate Governance Principles and Best Practice Recommendations ('Recommendations') published by the Corporate Governance Council of the ASX.

Where the Company's corporate governance practices follow a recommendation, the Board has made appropriate statements reporting on the adoption of the recommendation. Where, after due consideration, the Company's corporate governance practices depart from a recommendation, the Board has offered full disclosure and reason for the adoption of its own practice, in compliance with the "if not, why not" regime.

As the Company's activities develop in size, nature and scope, the size of the Board and the implementation of additional corporate governance structures will be afforded further consideration.

### DISCLOSURE OF CORPORATE GOVERNANCE PRACTICES

#### Summary Statement

Recommendation	ASX Principles and Recommendations	If not, why not	Recommendation	ASX Principles and Recommendations	If not, why not
1.1	X	Refer (a) below	4.3	n/a	n/a
1.2	X	Refer (a) below	4.4 <sup>3</sup>	n/a	n/a
1.3	X	Refer (a) below	5.1	X	Refer (h) below
2.1	√	Refer (b) below	5.2	n/a	n/a
2.2	√	Refer (b) below	6.1	X	Refer (i) below
2.3	√	Refer (b) below	6.2	n/a	n/a
2.4	X	Refer (c) below	7.1	X	Refer (j) below
2.5	X	Refer (d) below	7.2	n/a	n/a
2.6	√	Refer (e) below	7.3	√	Refer (k) below
3.1	X	Refer (f) below	7.4	n/a	n/a
3.2	√	Refer (g) below	8.1	X	Refer (l) below
3.3	X	Refer (f) below	8.2	n/a	n/a
4.1	X	Refer (c) below	8.3	n/a	n/a
4.2	n/a	n/a			

**CORPORATE GOVERNANCE STATEMENT****(a) Principle 1 Recommendation 1.1, 1.2 and 1.3***Notification of Departure*

Firestone has not formally disclosed the functions reserved to the Board and those delegated to senior executives.

*Explanation for Departure:*

The Board recognises the importance of distinguishing between the respective roles and responsibilities of the Board and management. The Board has established an informal framework for the management of the Company and the roles and responsibilities of the Board and management. Due to the small size of the Board and of the Company, the Board do not think that it is necessary to formally document the roles of Board and management as it believes that these roles are being carried out in practice and are clearly understood by all members of the Board and management. The Board is responsible for the strategic direction of the Company, establishing goals for management and monitoring the achievement of these goals, monitoring the overall corporate governance of the Company and ensuring that Shareholder value is increased.

The appointments of non-executive directors are formalised in accordance with the regulatory requirements and the Company's constitution.

**(b) Principle 2 Recommendations 2.1, 2.2, 2.3**

A majority of the Board should be independent directors and the Chair should be an independent director. The roles of the Chair and Chief Executive Officer should not be exercised by the same individual.

**Disclosure:**

The independent directors of the Board are John Dreyer, Colin McIntyre and John Wallington. Tim Tebeila and Amanda Matthee are not independent directors.

The Non Executive Chairman is Mr John Dreyer.

**(c) Principle 2 Recommendation 2.4 and Principle 4 Recommendations 4.1, 4.2, 4.3, 4.4***Notification of Departure*

Separate nomination and audit committees have not been formed.

*Explanation for Departure*

The Board considers that the Company is not currently of a size, or its affairs of such complexity, that the formation of separate or special committees is justified at this time. The Board as a whole is able to address the governance aspects of the full scope of the Company's activities and ensure that it adheres to appropriate ethical standards.

In particular, the Board as a whole considers those matters that would usually be the responsibility of an audit committee and a nomination committee. The Board considers that, at this stage, no efficiencies or other benefits would be gained by establishing a separate audit committee or a separate nomination committee.

**(d) Principle 2 Recommendation 2.5***Notification of Departure*

Firestone does not have in place a formal process for evaluation of the Board, its committees, individual directors and key executives.

*Explanation for Departure*

Evaluation of the Board is carried out on a continuing and informal basis. The Company will put a formal process in place as and when the level of operations of the Company justifies this.

**CORPORATE GOVERNANCE STATEMENT****(e) Principle 2 Recommendation 2.6**

Companies should provide the information indicated in the Guide to Reporting on Principle 2.

**Disclosure:****Skills, Experience, Expertise and term of office of each Director**

A profile of each director containing their skills, experience, expertise and term of office is set out in the Directors' Report.

**Identification of Independent Directors**

The independent directors of the Company during the Reporting Period is disclosed in (b) above.

Independence is measured having regard to the relationships listed in Box 2.1 of the Principles & Recommendations.

**Statement concerning availability of Independent Professional Advice**

To assist directors with independent judgement, it is the Board's policy that if a director considers it necessary to obtain independent professional advice to properly discharge the responsibility of their office as a director then, provided the director first obtains approval for incurring such expense from the Chair, the Company will pay the reasonable expenses associated with obtaining such advice.

**Nomination Matters**

The full Board sits in its capacity as a Nomination Committee.

**Performance Evaluation**

During the Reporting Period the performance evaluations for the Board and individual directors did occur on an informal basis in accordance with the disclosed process in Recommendation 2.5.

**Selection and Reappointment of Directors**

The Board considers the balance of independent directors on the Board as well as the skills and qualifications of potential candidates that will best enhance the Board's effectiveness.

Each director other than the managing director (if appointed) must retire from office no later than the longer of the third annual general meeting of the company or 3 years following that director's last election or appointment. At each annual general meeting a minimum of one director or a third of the total number of directors must resign. A director who retires at an annual general meeting is eligible for re-election at that meeting. Reappointment of directors is not automatic.

**(f) Principle 3 Recommendation 3.1, 3.3***Notification of Departure*

Firestone has not established a formal code of conduct.

*Explanation for Departure:*

The Board considers that its business practices, as determined by the Board and key executives, are the equivalent of a code of conduct.

**(g) Principle 3 Recommendation 3.2**

Companies should establish a policy concerning trading in company securities by directors, senior executives and employees, and disclose the policy or a summary of that policy.

**Disclosure:**

The Company has adopted a formal trading policy which embraces the best practice recommendation as recommended by the Corporate Governance Council of the ASX. The Company's constitution permits directors to acquire shares in the Company. Company policy prohibits directors from dealing in shares whilst in possession of price sensitive information. Directors must notify the company secretary once they have bought or sold shares in the Company or exercised options over ordinary shares. In accordance with the provisions of the Corporations Act 2001 and the Listing Rules of the Australian Stock Exchange, the Company on behalf of the directors must advise the Australian Stock Exchange of any transactions conducted by them in shares and / or options in the Company.

**CORPORATE GOVERNANCE STATEMENT****(h) Principle 5 Recommendation 5.1, 5.2***Notification of Departure*

Firestone has not established written policies and procedures designed to ensure compliance with ASX Listing Rule disclosure requirements and accountability for compliance.

*Explanation for Departure*

The Directors have a long history of involvement with public listed companies and through the support of professional staff, are kept familiar with the disclosure requirements of the ASX listing rules.

The Company has in place informal procedures that it believes are sufficient for ensuring compliance with ASX Listing Rule disclosure requirements and accountability for compliance. The Board has nominated the Chief Executive Officer and the Company Secretary as being responsible for all matters relating to disclosure.

**(i) Principle 6 Recommendation 6.1, 6.2***Notification of Departure*

Firestone has not established a formal Shareholder communication strategy.

*Explanation for Departure*

While the Company has not established a formal Shareholder communication strategy, it actively communicates with its Shareholders in order to identify their expectations and actively promotes Shareholder involvement in the Company. It achieves this by posting on its website copies of all information lodged with the ASX. Shareholders with internet access are encouraged to provide their email addresses in order to receive electronic copies of information distributed by the Company. Alternatively, hard copies of information distributed by the Company are available on request.

**(j) Principle 7 Recommendation 7.1, 7.2***Notification of Departure*

Firestone has an informal risk oversight and management policy and internal compliance and control system.

*Explanation for Departure*

The Board does not currently have formal procedures in place but is aware of the various risks that affect the Company and its particular business. As the Company develops, the Board will develop appropriate procedures to deal with risk oversight and management and internal compliance, taking into account the size of the Company and the stage of development of its projects.

**(k) Principle 7 Recommendation 7.3**

The Board should disclose whether it has received assurance from the Chief Executive Officer (or equivalent) and the Chief Financial Officer (or equivalent) that the declaration provided in accordance with section 295A of the Corporations Act is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks.

**Disclosure:**

The Chief Executive Officer (or equivalent) and the Chief Financial Officer (or equivalent) have provided a declaration to the Board in accordance with section 295A of the Corporations Act and have assured the Board that such declaration is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial risk.

**(l) Principle 8 Recommendations 8.1***Notification of departure*

Firestone does not have a formal remuneration policy and has not established a separate remuneration committee.



# FIRESTONE ENERGY LIMITED

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## CORPORATE GOVERNANCE STATEMENT

### *Explanation for Departure*

The current remuneration of the Directors is disclosed in the Directors' Report. Non-executive Directors receive a fixed fee for their services. Subject to shareholder approval, the issue of options or shares to non-executive Directors may be an appropriate method of providing sufficient incentive and reward while maintaining cash reserves. Due to the Company's early stage of development and small size, it does not consider that a separate remuneration committee would add any efficiency to the process of determining the levels of remuneration for the Directors and key executives. The Board believes it is more appropriate to set aside time at specified Board meetings each year to specifically address matters that would ordinarily fall to a remuneration committee. In addition, all matters of remuneration will continue to be in accordance with regulatory requirements, especially in respect of related party transactions; that is, none of the Directors will participate in any deliberations regarding their own remuneration or related issues.

# FIRESTONE ENERGY LIMITED

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## ASX ADDITIONAL INFORMATION

### Shareholder Information

Additional information as required by the Australian Securities Exchange Limited Listing Rules and not disclosed elsewhere in this report is set out below. This information is current as at 16 September 2010.

### Distribution of equity security holders (number of holders)

Category (size of holding)	Number of Holders
1 - 1,000	2,469
1,001 - 5,000	1,543
5,001 - 10,000	350
10,001 - 100,000	1,492
100,001 - and over	1,018
	<hr/>
	6,872

There are 4,761 holders of shares holding less than a marketable parcel.

### Twenty largest holders of quoted shares

SHAREHOLDERS	Number of shares held	% Holding
1 SEKOKO RESOURCESPTY LTD	997,937,832	42.8%
2 COLBERN FIDUCIARY NOMINEES PTY LTD	113,500,000	4.9%
3 BELL POTTER NOMINEES LTD <BB NOMINEES A/C>	76,500,000	3.3%
4 UZALILE INVESTMENTS PTY LTD	55,000,000	2.4%
5 JP MORGAN NOMINEES AUSTRALIA LIMITED <CASH INCOME A/C>	40,000,000	1.7%
6 MILLCORP SECURITIES PTY LTD <MILLCORP SECURITIES A/C>	40,000,000	1.7%
7 SEPHOR INVESTMENTS LIMITED	27,000,000	1.2%
8 ISTANA SECURITIES LIMITED	26,841,696	1.2%
9 BLACKMORT NOMINEES PTY LTD <48662 ACCOUNT>	25,000,000	1.1%
10 MICHAEL GILBERT SUPER FUND PTY LTD <MICHAEL GILBERT SUPER A/C>	20,050,000	0.9%
11 MRS AMANDA MATTHEE	20,000,000	0.9%
12 FMR INVESTMENTS PTY LIMITED	18,001,750	0.8%
13 SANPOINT PTY LTD <FIORE FAMILY FUND A/C>	16,875,000	0.7%
14 CARRICK HOLDINGS LIMITED	16,281,817	0.7%
15 GLENEAGLE GOLD LIMITED	15,157,890	0.7%
16 MILLCORP SECURITIES PTY LTD <SUPER FUND A/C>	14,750,000	0.6%
17 WISEPLAN INVESTMENTS PTY LTD <LEON DAVIES INVESTMENT A/C>	14,434,000	0.6%
18 HIDDEN VALLEY HOLDINGS (AUST) PTY LIMITED <SOUTH BANK INVESTMENT A/C>	14,100,000	0.6%
19 MRS ALLISON ANNETT <THE ANNETT INVESTMENT A/C>	14,000,000	0.6%
20 COLMAC PTY LTD	13,200,000	0.6%
	<hr/>	
	1,578,629,985	67.7%

# FIRESTONE ENERGY LIMITED

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## ASX ADDITIONAL INFORMATION

### Quoted and unquoted equity securities

Equity Security	Quoted	Unquoted
Ordinary Shares	2,331,300,464	-
Options	-	262,779,767

### Substantial shareholders

A substantial shareholder who has notified the Company in accordance with section 671B of the Corporations Act 2001 is:-

Shareholder	Number of shares
Sekoko Resources Pty Ltd	<u>997,937,832</u>

### Unlisted Option holdings at 16 September 2010

	<u>Number of Holders</u>	<u>Number of Options</u>
<b>Options expiring 30 Nov 2012 exercisable at 5 cents (FSEAK)</b>	<b>3</b>	30,000,000
<b>Holdings of more than 20%</b>		
The Boyd Super Fund Pty Ltd		10,000,000
Lantech Developments Pty Ltd<Claire Family A/C>		10,000,000
Mr Malcolm Keith Smartt + Ms Janice Leonie Smartt<Smartt Super Fund A/C>		10,000,000
<b>Options expiring 30 Jun 2013 exercisable at 6 cents (FSEAO)</b>	<b>9</b>	96,904,767
<b>Holdings of more than 20%</b>		
Hsbc Custody Nominees	-	20,000,000
Sephor Investments Limited	-	20,000,000
<b>Options expiring 31 May 2013 exercisable at 6cents (FSEAM)</b>	<b>1</b>	110,000,000
<b>Holdings of more than 20%</b>		
Sekoko Coal Pty Ltd	-	88,000,000
<b>Options expiring 30 Jun 2014 exercisable at 6 cents (FSEAI)</b>	<b>11</b>	25,875,000
<b>Holdings of more than 20%</b>		
Nil	-	-

### Voting rights

Ordinary shares carry one vote per share. There are no voting rights attached to the options in the Company.

# **FIRESTONE ENERGY LIMITED**

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## **ASX ADDITIONAL INFORMATION**

### **Stock Exchange**

The Company is dual listed on the Australian Securities Exchange and the Johannesburg Stock Exchange and has been allocated the code "FSE". The "Home Exchange" is Perth.

### **Other information**

Firestone Energy Limited, is incorporated and domiciled in Australia, and is a publicly listed company limited by shares.

### **On-market buy-back**

There is no current on-market buy-back.