

ASX Release – 29<sup>th</sup> April 2011

## QUARTERLY ACTIVITIES REPORT FOR THE PERIOD TO 31 March 2011

The Board of Firestone Energy Limited (ASX / JSE: FSE) is pleased to provide shareholders with its Quarterly Activities Report for the 3 month period ended 31 March 2011.

### Highlights

#### Significant Events

- **Metallurgical Coal** - Drilling results from the Southern Farms, especially Vetleegte, disclose a significant resource of shallow open castable metallurgical coal;
- **Industrial Development Corporation of South Africa (IDC)** - Set to become a shareholder in FSE following execution of definitive agreements between Sekoko Resources and the IDC;
- **Memorandum of Understanding** - Binding off-take MOU signed with Eskom; definitive agreement to follow award of mining right expected by June 2011;
- **Shareholders Agreement** - FSE reached full 60% earn in on all 8 properties in the Waterberg and the shareholders agreement is signed to consolidate all three JV agreements;
- **Mining Rights** - Completed audit at regional DMR and transferred to National DMR for final consideration and approval. Still expected by end of June 2011; and
- **Production** - On target to begin overburden stripping in the second half of 2011 and production in the first half of 2012.

#### Other highlights

- FSE appoints Mr David Perkins, former Legal Counsel and Company Secretary of JP Morgan Chase Australia, to Chair the Board following resignation of Mr John Dreyer;
- Sekoko nominate two highly experienced Directors to the Board of FSE: Mr Matsidiso Peter Tshisevhe and Dr Pius Chilufya Kasolo;
- Water Use licence and full Environmental Impact Assessment (EIA) submitted;
- Major contractors for rail, wash plant and infrastructure appointed;
- An exclusive option to purchase Vetleegte surface rights secured;
- Cornerstone Investor activity and interest on-going; and
- Power supply agreements signed.

Firestone Energy Limited is an independent Australian exploration company focused on developing coal projects in South Africa. The Company is currently exploring the richly endowed Waterberg coal field in the Limpopo Province of South Africa.

The Company is committed to value-added growth through becoming an independent coal and energy producer at its projects in South Africa.

The Company has entered into three joint ventures with Sekoko Resources; a South African black empowerment company (BEE) and Sekoko has two directors on the Board of Firestone Energy.

#### Corporate Details

ASX: FSE  
JSE: FSE

**Issued Capital:**  
2,627 million ordinary shares

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

#### Directors and Officers:

**Non Executive Directors:**  
David Perkins (Chairman)  
Sizwe Nkosi  
Colin McIntyre  
Pius Kasolo  
Peter Tshisevhe

**Company Secretary**  
Jerry Monzu

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## OVERVIEW

Firestone Energy, through its Joint Venture with Sekoko Coal completed significant milestones, as detailed below, in the last three months to still remain on target for production in April 2012;

- Assisted Sekoko to sign definitive agreements with the IDC so that the IDC becomes a shareholder in FSE;
- Incorporated a project company to run the Waterberg Coal Project through finalising the JV Shareholder Agreement between Firestone Energy and Sekoko;
- Finalised an off-take MOU with Eskom; and
- Secured options for further surface rights to simplify access issues.

## WATERBERG COAL PROJECT

### Project Update

During the quarter the Joint Venture appointed wash plant, rail and infrastructure contractors. All contracts addressed the requirements of the off-take MOU with Eskom and are subject to confirmation of full funding. This will enable the Joint Venture to finalise designs of the wash plant and road and rail infrastructure. Long lead items have been ordered to ensure that the production date of April 2012 as per the Eskom MOU is achieved. Mining contractors have been shortlisted pursuant to a completed tender process. It is anticipated that a mining contract will be awarded by June 2011. This will enable overburden stripping to commence within 6 to 8 weeks of a mining contract appointment and subject to the award of Mining rights.

Firestone Energy received analysis and reports disclosing that the South Eastern properties have shallow open castable Metallurgical Coal with appropriate phosphorus qualities to be used as reductants in the steel and smelting processes. A preliminary report by SMS Geological estimates that about 58mt (Non-JORC and Non-SAMREC) can be accessed through open casting zones 3 and 2 in these Southern Farms. Further in-fill drilling is being undertaken to bring the resource to a JORC and SAMREC measured resource.

Firestone Energy is finalising a prime coal study within the Smitspan open pit. The Definitive Feasibility Study completed in October 2010 concentrated on power station coal. Parsons Brinckerhoff has been engaged to complete a definitive economic feasibility study for prime coal product that could potentially be a semi-soft blend coking coal product, export product and/or high Calorific Value product for the local market. We expect this study to be completed by June 2011.

### Regulatory Approvals

The Company is able to report that the Joint Venture has complied with all the requirements of its application for a Mining Right. The Joint Venture submitted the Social Labour Plan, held 3 public participation meetings in accordance with the Mineral Act, completed an EIA scoping study followed by the submission of the EIA itself in January and in addition submitted an application for a Water Use Licence. The Economic and Social Impact study has also been completed by an independent consultant as per the requirements of the Minerals Act. The joint venture has been unofficially informed by DMR officials that it has complied with all the requirements of Minerals Act in relation to the application for Mining Right.

The application for a Water Use Licence was submitted to the Department of Water Affairs (DWAF) in February following extensive consultations with DWAF and Trans-Caledon Tunnel Authority (TCTA) who are consultants to DWAF and project managers of the Waterberg Water Augmentation Scheme.

The DMR guideline is that an application for a mining right takes 9 months to approve and given that we submitted the mining right application in July 2010 we were expecting approval by March 2011. We have been informed by DMR that the detailed audit and verification of the application of the mining right has been completed by the Limpopo Province DMR and has been transferred to the National DMR for award and approval. We have also been informed that our Social and Labour Plan has been accepted. We expect the Mining Right to be awarded by June 2011.

Following approval of mining rights we expect the EIA and Water Use Licence to be immediately approved thereafter, thereby fulfilling all the necessary regulatory approvals for mining in South Africa.

## Marketing

Following 2 years of negotiation with Eskom which started with a Request for Proposal (RFP) in the second half of 2009, our Joint Venture partner, Sekoko Coal, signed a Memorandum of Understanding with Eskom for the supply of energy coal on behalf of the project. The project will supply 525,000 tonnes per annum for three years from April 2012 and thereafter supply 1 million tonnes of coal per annum for three years from April 2015 to March 2018 to Matimba power station.

The Joint Venture has a further option to supply 1 million tonnes per annum from April 2018, 2 million tonnes per annum from April 2019 and 2.3 million tonnes per annum for 13 years from April 2020 to March 2032. The MOU will convert to a Definitive Agreement following the issue of the mining rights and confirmation to Eskom that the joint venture has funding to complete construction of the mine. The Joint Venture expects the conversion from MOU to Coal Supply Agreement to occur around July 2011.

The Joint Venture is conducting further discussions with Eskom in connection with the supply of further tonnage to power stations other than Matimba.

The joint venture intends to approach Prime Coal users to discuss off-take possibilities as soon as we know the qualities, quantities, mining costs and yields.

## Logistics

The Eskom MOU requires us to supply coal by rail. A Transnet Freight Rail (TransNet) rail line (TFR line) to Eskom's Waterberg power stations exists. We are required to build our own rail siding and a spur line that will connect to the existing TFR line. This rail line also connects to Thabazimbi and provides potential for transport to other markets and the Port. Our spur line will only be 7 kilometres to the TFR line. negotiations with TransNet are progressing well and TransNet has offered its assistance and support for finalisation of detailed plans to enable authorisation of connecting to its rail line.

Negotiations to secure land on which rail siding will be laid are at an advanced stage. The Joint Venture appointed Cabanga Concepts to begin work on rail EIA in December 2010 and the first initial public participation meeting has already been completed.

## CORPORATE

Mr David Perkins, Mr Peter Tshisevhe and Dr Pius Kasolo were appointed as Non-Executive Directors to the Board in January 2011 following the resignations of Mr Tim Tebeila, Mr John Dreyer and Mr John Wallington. Mr David Perkins was appointed as Chairman of the Board following the departure of Mr John Dreyer.

## IDC

The IDC has signed definitive agreements with Sekoko Coal that will enable the IDC to become a shareholder in the Waterberg Coal Project and also a shareholder in Firestone Energy. The IDC will own 33% of Sekoko's shares in FSE and 33% of Sekoko's 40% in the project. IDC will pay for this investment by injecting a maximum of ZAR250million (approx A\$35.7 million) that will be partly used as an equity contribution for mine construction and partly used to maintain the IDC/Sekoko shareholding rights in FSE. ZAR30million (approx A\$4.3 million) of this funding is going to flow the project as soon as regulatory approvals (see below) have been approved. The remaining funds will be unlocked by the award and issue of Mining Rights by the DMR.

The IDC, as a 100% South African State owned self funding institution, requires FIRB approval in Australia prior to it owning shares in an Australian company. The application for this Australian regulatory approval has been lodged by the IDC with Australian authorities and is expected to be approved within 30 days (mid May 2012) of it being lodged. This is the only condition outstanding on the IDC/Sekoko agreement prior to the funds flowing to the Waterberg Coal Project.

## Shareholders Agreement

Following completion and approval of the Detailed Feasibility Study, the Boards of FSE and Sekoko Coal took a decision to proceed with the Waterberg project. This culminated in the incorporation of a company owned 60% by FSE and 40% by Sekoko Coal. A Shareholder Agreement detailing governance and structure of the company was negotiated and signed in February 2012.

The effect of this is that the 3 joint ventures covering 8 farms will be consolidated into one incorporated joint venture company. All joint venture assets including the prospecting rights and mining rights will be transferred from Sekoko Coal to the joint venture Company following application and approval as per the Section 11 of the MPRDA.

As at the 31<sup>st</sup> of March 2011 the Company had a positive cash balance of A\$1.3million.

**For further information please contact:**

**Jerry Monzu  
Company Secretary**

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# Appendix 5B

## Mining exploration entity quarterly report

Introduced 1/7/96. Origin: Appendix 8. Amended 1/7/97, 1/7/98, 30/9/2001, 01/06/10.

Name of entity

**Firestone Energy Limited**

ABN

**71 058 436 794**

Quarter ended ("current quarter")

**31 March 2011**

### Consolidated statement of cash flows

Cash flows related to operating activities	Current quarter \$A'000	Year to date (9 months) \$A'000
1.1 Receipts from product sales and related debtors	-	-
1.2 Payments for (a) exploration & evaluation	(1,032)	(3,523)
(b) development	-	-
(c) production	-	-
(d) administration	(398)	(1,044)
1.3 Dividends received	-	-
1.4 Interest and other items of a similar nature received	14	49
1.5 Interest and other costs of finance paid	-	(35)
1.6 Income taxes paid	-	-
1.7 Other (during Quarter - refund of Bond)	27	195
<b>Net Operating Cash Flows</b>	<b>(1,389)</b>	<b>(4,358)</b>
<b>Cash flows related to investing activities</b>		
1.8 Payment for purchases of: (a) prospects	-	-
(b) equity investments	-	-
(c) other fixed assets	(481)	(2,713)
1.9 Proceeds from sale of: (a) prospects	-	-
(b) equity investments	-	-
(c) other fixed assets	-	-
1.10 Loans to other entities	-	-
1.11 Loans repaid by other entities	-	-
1.12 Other (provide details if material)	-	-
<b>Net investing cash flows</b>	<b>(481)</b>	<b>(2,713)</b>
1.13 Total operating and investing cash flows (carried forward)	<b>(1,870)</b>	<b>(7,071)</b>

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

1.13	Total operating and investing cash flows (brought forward)	(1,870)	(7,071)
	<b>Cash flows related to financing activities</b>		
1.14	Proceeds from issues of shares, options, etc.	2,200	6,900
1.15	Proceeds from sale of forfeited shares	-	-
1.16	Proceeds from borrowings	-	-
1.17	Repayment of borrowings	-	-
1.18	Capital raising costs	(35)	(35)
1.19	Other – Interest paid	(593)	(593)
	<b>Net financing cash flows</b>	<b>1,572</b>	<b>6,272</b>
	<b>Net increase (decrease) in cash held</b>	<b>(298)</b>	<b>(799)</b>
1.20	Cash at beginning of quarter/year to date	1,607	2,130
1.21	Exchange rate adjustments to item 1.20	(26)	(48)
1.22	<b>Cash at end of quarter</b>	<b>1,283</b>	<b>1,283</b>

**Payments to directors of the entity and associates of the directors**  
**Payments to related entities of the entity and associates of the related entities**

	Current quarter \$A'000	
1.23	Aggregate amount of payments to the parties included in item 1.2	1,096
1.24	Aggregate amount of loans to the parties included in item 1.10	-

1.25 Explanation necessary for an understanding of the transactions

Directors fees (inc Exp reimbursements) - \$64K.

Payments to wholly owned subsidiary, Lexshell Pte Limited, of which amounts are paid to third parties to make payments on behalf of Firestone Energy pursuant to its JV agreement with Sekoko Resources - \$1,032K

**Non-cash financing and investing activities**

2.1 Details of financing and investing transactions which have had a material effect on consolidated assets and liabilities but did not involve cash flows

N/A

2.2 Details of outlays made by other entities to establish or increase their share in projects in which the reporting entity has an interest

N/A

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### Financing facilities available

Add notes as necessary for an understanding of the position.

	Amount available \$A'000	Amount used \$A'000
3.1 Loan facilities	\$25,000	\$22,800
3.2 Credit standby arrangements	-	-

### Estimated cash outflows for next quarter

	\$A'000
4.1 Exploration and evaluation	400
4.2 Development	5,600
4.3 Production	
4.4 Administration	450
<b>Total</b>	<b>6,450</b>

### Reconciliation of cash

Reconciliation of cash at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts is as follows.

	Current quarter \$A'000	Previous quarter \$A'000
5.1 Cash on hand and at bank	1,283	1,607
5.2 Deposits at call	-	-
5.3 Bank overdraft	-	-
5.4 Other (provide details)	-	-
<b>Total: cash at end of quarter (item 1.22)</b>	<b>1,283</b>	<b>1,607</b>

### Changes in interests in mining tenements

	Tenement reference	Nature of interest (note (2))	Interest at beginning of quarter	Interest at end of quarter
6.1	Interests in mining tenements relinquished, reduced or lapsed	Nil		
6.2	Interests in mining tenements acquired or increased	Nil		

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

**Issued and quoted securities at end of current quarter**

*Description includes rate of interest and any redemption or conversion rights together with prices and dates.*

	Total number	Number quoted	Issue price per security (see note 3) (cents)	Amount paid up per security (see note 3) (cents)
7.1 <b>Preference securities</b> <i>(description)</i>	Nil	Nil		
7.2 Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs, redemptions	Nil	Nil		
7.3 <b>+Ordinary securities</b> FSE	2,627,028,020	2,627,028,020		Fully paid
7.4 Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs	226,315,790	226,315,790		Fully Paid
7.5 <b>+Convertible debt securities</b> <i>(description)</i>				
7.6 Changes during quarter (a) Increases through issues (b) Decreases through securities matured, converted	22  (6)	Nil	\$100,000 each  \$100,000 each	\$100,000 each  \$100,000 each
7.7 <b>Options</b> FSEAK FSEAM FSEAO FSEAI	30,000,000 111,000,000 96,904,767 25,875,000	Nil Nil Nil Nil	<b>Exercise price</b> 5 Cents 6 Cents 6 Cents 6 Cents	<b>Expiry date</b> 30 Nov 2012 31 May 2013 30 Jun 2013 30 Jun 2014
7.8 Issued during quarter				
7.9 Exercised during quarter				
7.10 Expired during quarter				
7.11 <b>Debentures</b> <i>(totals only)</i>				

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7.12	Unsecured notes (totals only)		
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### Compliance statement

- 1 This statement has been prepared under accounting policies which comply with accounting standards as defined in the Corporations Act or other standards acceptable to ASX (see note 4).
- 2 This statement does /does not\* (*delete one*) give a true and fair view of the matters disclosed.



Sign here: ..... Date: 29 April 2011  
Company Secretary

Print name: Mr Jerry Monzu

### Notes

- 1 The quarterly report provides a basis for informing the market how the entity's activities have been financed for the past quarter and the effect on its cash position. An entity wanting to disclose additional information is encouraged to do so, in a note or notes attached to this report.
- 2 The "Nature of interest" (items 6.1 and 6.2) includes options in respect of interests in mining tenements acquired, exercised or lapsed during the reporting period. If the entity is involved in a joint venture agreement and there are conditions precedent which will change its percentage interest in a mining tenement, it should disclose the change of percentage interest and conditions precedent in the list required for items 6.1 and 6.2.
- 3 **Issued and quoted securities** The issue price and amount paid up is not required in items 7.1 and 7.3 for fully paid securities.
- 4 The definitions in, and provisions of, *AASB 1022: Accounting for Extractive Industries* and *AASB 1026: Statement of Cash Flows* apply to this report.
- 5 **Accounting Standards** ASX will accept, for example, the use of International Accounting Standards for foreign entities. If the standards used do not address a topic, the Australian standard on that topic (if any) must be complied with.

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