

ASX Release – 28th January 2011

QUARTERLY ACTIVITIES REPORT FOR THE PERIOD TO 31 December 2010

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 December 2010.

Highlights

- FSE's major shareholder, Sekoko Resources, raises R250m with Industrial Development Corporation to fund Sekoko's portion of mine construction;
- Completed off-take discussions, and agreement expected to be signed shortly;
- On target to begin mine construction in the second half of 2011;
- Definitive Feasibility Study "DFS" completed and approved by the board on the 31st of October 2010;
- Submitted Environmental Impact Assessment / Environmental Management Programme Report, and have therefore, complied with all requirements for Mining Rights application. We expect Record Of Decisions and Mining Rights approval within the first half of 2011;
- Letter of interest signed for purchase of Wash plant and long lead plant items;
- Rail design work, environmental study and public participation commenced;
- Hooikraal surface rights ownership transferred to FSE's name and secured a 12 month purchase option for Massenberg surface rights;
- Cornerstone Investor activity and interest on-going;
- Secured and opened an office in Lephalale town within vicinity of the Waterberg Project.

Firestone Energy 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 two 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:
2,401 million ordinary shares

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

Directors and Officers:

Non Executive Directors:
John Dreyer (Chairman)
Sizwe Nkosi
Colin McIntyre
David Perkins

Company Secretary
Jerry Monzu

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OVERVIEW

The principle focus of the Company over the past quarter has been to:

- finalise the DFS on the Waterberg Project;
- Complete the Environmental Impact Assessment studies and submit Environmental Management Program Report as legally required within 90days of submitting Mining Rights application;
- Secure the off-take agreements; and
- Secure the surface rights.

The Board is pleased to report favourable performance on the above objectives.

WATERBERG COAL PROJECT

Definitive Feasibility Study (DFS)

The DFS proved that the Waterberg Project can run a profitable 20 year coal mine premised on power station type coal. The DFS did not take into account export coal, metallurgical and low phosphorus coal. A separate short term study is to commence to confirm yields, volumes, transport and market for these products which are by their nature more lucrative than power station coal. The board approved the power station coal DFS on the 31st of October 2010.

Project Update

A letter of interest was signed for a purpose built modular plant that will be suitable for the mine plan as detailed in the DFS. Long lead items relating to this plant have already been ordered by the supplier at their own cost. The final plant purchase agreement will be signed after off-take agreements have been signed and funding has been confirmed.

Hooikraal surface rights ownership has been registered into FSE's name. FSE now owns two surface rights being Smitspan and Hooikraal. The outstanding payments on the surface rights are currently being paid as per an agreed programme of payment. FSE signed a 12 month option in November 2010 to purchase Massenberg surface rights, FSE is negotiating a further option to purchase Vetleegte.

FSE has signed a lease for an office in Lephalale within the Waterberg vicinity. This further proves the interest and commitment by FSE to start mining operations in the Waterberg area and contribute to the economic growth and well being of the Lephalale Municipality, Limpopo Province and South Africa as a whole.

Socio-economic impact studies have commenced and are progressing well. Ground water and air quality monitoring studies commenced and are progressing as intended.

Regulatory Approvals

As part of the Mining Right Application various statutory compliance supporting documents were lodged with the South African government regulatory authorities during the quarter.

Milestones achieved within the Feasibility Study phase, include:

- Lodgement of the Environmental Management Plan (Dept of Mineral Resources/Dept of Environmental Affairs & Tourism);
- Lodgement of the Water Use Licence Application (Dept of Water Affairs). We have confirmed with current major users of water in the Waterberg area that there is spare capacity of water to accommodate start up of our mining activities.

The Company is expecting that the regulatory approvals will still be granted prior to the first half of 2011. Further commitments will be made for procurement of long-lead items for the Water Coal Project and construction is scheduled to commence following receipt of final regulatory approvals.

MARKETING

Following the approval of the DFS by the board of FSE on the 31st of October 2010, the potential off-taker requested time to study the contents and results of the DFS. This resulted in FSE not being able to conclude and sign an off-take agreement by the 31st of December 2010 due to further work, changes and comments requested by the off-taker following the DFS finalisation.

The potential off-taker satisfied themselves with the contents and changes to the DFS early in January 2011 and therefore the Sekoko/FSE JV is likely to sign the off-take agreement before the end of the first quarter of 2011.

Markets for export coal and metallurgical coal have been identified. These customers are adamant that they will commit to an off-take discussion on presentation of a DFS report reflecting viability, yields, volumes and costing of such coal. FSE plans to complete the prime products DFS before the end of 2011.

CORPORATE

It was reported in the first quarter, as part of the post quarter activities, that Amanda Matthee resigned from FSE as a director and was replaced by Mr Sizwe Nkosi as the Finance Director. On the 31st of December 2010, Mr John Wallington resigned from the board of FSE to pursue personal interests.

In early January 2011 Mr Timothy Tebeila resigned from the Firestone board to remove himself from any future conflicts of interests that he may be presented with by virtue of his directorships of Sekoko Resources and Firestone Energy Limited.

As at the 31st of December 2010 the Company had a positive cash balance of \$1.6m.

For further information please contact:

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Company Secretary

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www.firestoneenergy.com.au

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 December 2010

Consolidated statement of cash flows

Cash flows related to operating activities	Current quarter \$A'000	Year to date (6 months) \$A'000
1.1 Receipts from product sales and related debtors	-	-
1.2 Payments for (a) exploration & evaluation	(938)	(2,491)
(b) development	-	-
(c) production	-	-
(d) administration	(343)	(646)
1.3 Dividends received	-	-
1.4 Interest and other items of a similar nature received	16	35
1.5 Interest and other costs of finance paid	-	(35)
1.6 Income taxes paid	-	-
1.7 Other (GST refund)	20	168
Net Operating Cash Flows	(1,245)	(2,969)
Cash flows related to investing activities		
1.8 Payment for purchases of: (a) prospects	-	-
(b) equity investments	-	-
(c) other fixed assets	(429)	(2,232)
1.9 Proceeds from sale of: (a) prospects	-	-
(b) equity investments	-	-
(c) other fixed assets	-	-
1.10 Loans to other entities	-	-
1.11 Loans repaid by other entities	-	-
1.12 Other (provide details if material)	-	-
Net investing cash flows	(429)	(2,232)
1.13 Total operating and investing cash flows (carried forward)	(1,674)	(5,201)

+ See chapter 19 for defined terms.

Appendix 5B
Mining exploration entity quarterly report

1.13	Total operating and investing cash flows (brought forward)	(1,674)	(5,201)
	Cash flows related to financing activities		
1.14	Proceeds from issues of shares, options, etc.	1,800	4,700
1.15	Proceeds from sale of forfeited shares	-	-
1.16	Proceeds from borrowings	-	-
1.17	Repayment of borrowings	-	-
1.18	Capital raising costs	-	-
1.19	Other – Interest paid	-	-
	Net financing cash flows	1,800	4,700
	Net increase (decrease) in cash held	126	(501)
1.20	Cash at beginning of quarter/year to date	1,503	2,130
1.21	Exchange rate adjustments to item 1.20	(22)	(22)
1.22	Cash at end of quarter	1,607	1,607

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	1,009
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 - \$71K.
 Payments to Sekoko Resources (director related entity) pursuant to JV agreements and for costs incurred for and on behalf of FSE - \$938K

Non-cash financing and investing activities

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

N/A

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

N/A

+ See chapter 19 for defined terms.

Financing facilities available

Add notes as necessary for an understanding of the position.

	Amount available \$A'000	Amount used \$A'000
3.1 Loan facilities	\$25,000	\$20,600
3.2 Credit standby arrangements	-	-

Estimated cash outflows for next quarter

	\$A'000
4.1 Exploration and evaluation	1,200
4.2 Development	
4.3 Production	
4.4 Administration	300
Total	1,500

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	1,607	1,503
5.2 Deposits at call	-	-
5.3 Bank overdraft	-	-
5.4 Other (provide details)	-	-
Total: cash at end of quarter (item 1.22)	1,607	1,503

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		

+ See chapter 19 for defined terms.

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 Preference securities <i>(description)</i>	Nil	Nil		
7.2 Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs, redemptions	Nil	Nil		
7.3 +Ordinary securities FSE	2,400,712,230	2,400,712,230		Fully paid
7.4 Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs				
7.5 +Convertible debt securities <i>(description)</i>				
7.6 Changes during quarter (a) Increases through issues (b) Decreases through securities matured, converted	18 (8)	Nil	\$100,000 each \$100,000 each	\$100,000 each \$100,000 each
7.7 Options FSEAK FSEAM FSEAO FSEAI	30,000,000 111,000,000 96,904,767 25,875,000	Nil Nil Nil Nil	Exercise price 5 Cents 6 Cents 6 Cents 6 Cents	Expiry date 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 Debentures <i>(totals only)</i>				

+ See chapter 19 for defined terms.

7.12	Unsecured notes (<i>totals only</i>)		
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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: 28 January 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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