

QUARTERLY ACTIVITIES REPORT
for the Period to 31 December 2011

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

Highlights

- The off-take and/or coal supply MoU renegotiations to secure increased tonnages and an extended supply period are ongoing,
- Ongoing discussions with a listed multinational mining and power company with regards to investing in the project,
- Technical and environmental work on track, and
- Sekoko Resources (Sekoko) has made a restructuring proposal to Firestone to streamline the overall joint-venture operations.

Overview

Since joining the company at the beginning of the 3rd quarter of 2011, David Knox, the Firestone CEO, has focused his attention on working closely with the newly appointed management team at Sekoko, its major shareholder and joint venture partner. A review of operations, allocated resources and costs found that the Company’s respective resources have been operated in accordance with the requirements of the project.

The Company continues discussions with Eskom to secure increased tonnages and extend the supply period. In the event that the Company is successful in this initiative, the overall project may need to be re-modelled and re-budgeted.

Firestone received a proposal from Sekoko, which if implemented, would more closely align the management and economic interests of the two organisations. The advantages outlined in the proposal include streamlining management, simplifying the joint venture structure and providing a more easily understood investment vehicle for both the equity and debt markets. We expect to be able to provide updates during Q2 2012.

About Firestone Energy

Firestone Energy Limited is an independent, Australian exploration and development company listed on the Australian Stock Exchange Ltd (ASX) and the Johannesburg Stock Exchange (JSE). Firestone Energy has entered into a Joint Venture with Sekoko Resources (Pty) Ltd through which Firestone Energy has acquired the right to 60% participation interests in the Waterberg Coal Project located in Lephalale area, Limpopo Province, South Africa.

The first stage of the project is to develop the Smitspan mine which has a substantial measured thermal coal resource and to develop the Velleegte mine which is a substantial metallurgical coal deposit.

Firestone Energy is committed to becoming a profitable independent coal and energy producer at its projects in South Africa, thereby making a substantial contribution to the social and economic development of the Lephalale area and South Africa.

Corporate Details

ASX: FSE
JSE: FSE

Issued Capital:
2,958 million ordinary shares

Major Shareholders:
Sekoko Resources (Pty) Ltd
Linc Energy Ltd
BBY Nominees Ltd
Bell Potter Nominees Ltd

Directors and Officers

Non Executive Directors:
Tim Tebela (Chairman)
David Perkins (Deputy Chairman)
Dr Pius Kasolo
Mr Ben Mphahlele
Mr Kobus Terblanche

Company Secretary:
Jerry Monzu

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

Web: www.firestoneenergy.com.au

Funding

In relation to the funding arrangements between Sekoko and IDC, the Company confirms that it has been informed by Sekoko that the drawdowns under the facility have commenced. The Company, however, understands from Sekoko that the balance of the IDC facility is subject to certain conditions (which are usual for project development facilities) being fulfilled by 30 June 2012. Furthermore, Sekoko has confirmed that approval of the Australian Foreign Investment Review Board has been obtained. The company is assessing the current budget and expenses with regards to its ongoing and potential future contribution to the joint-venture operation. In light of this, it may be necessary to raise additional capital during 1st half, 2012. The company will advise shareholders accordingly.

Marketing

Eskom MOU

The board and Sekoko's designated project team are working to finalise a revised MoU and further announcements will be made in due course.

Corporate

Sekoko appointed Mr Jan Britz as CEO, Jan is an experienced mining engineer with extensive experience in the coal mining industry.

Ms Amanda Matthee was appointed Sekoko CFO. Both Firestone and Sekoko now have a focused executive team driving the joint-venture business.

During the quarter, Timothy Tebeila joined the Firestone Energy board as Chairman. His appointment follows a decision made by David Perkins who has held the position of Chairman since January 2011, and recently relinquished the position due to other work commitments. David Perkins will remain a non-executive director and assume the role of Deputy Chairman.

Firestone has mandated a highly regarded sector analyst to cover the Company. A review of the Company's corporate profile is being carried out and is now in the process of being updated by Q1 2012. The corporate profile will be regularly up-to-dated and include industry peer benchmarking, while providing continued analysis on the Company's material activities to the market.

Cornerstone investor

Discussions have continued with a major listed mining and power company to conduct due diligence on the project and further announcements will be made in due course.

Outlook

The Company continues to focus resources on concluding terms with Eskom and working to secure a satisfactory outcome with the proposed cornerstone investor. The management of the joint venture are working closely and costs are being kept to a minimum. The Company is confident of its positioning to unlock value in the project.

FOR FURTHER INFORMATION:

David Knox
CEO

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 2011

Consolidated statement of cash flows

	Current quarter \$A'000	Year to date \$A'000
Cash flows related to operating activities		
1.1 Receipts from product sales and related debtors		-
1.2 Payments for (a) exploration & evaluation	(181)	(500)
(b) development	-	-
(c) production	-	-
(d) administration	(400)	(800)
1.3 Dividends received	-	-
1.4 Interest and other items of a similar nature received	13	28
1.5 Interest and other costs of finance paid	-	-
1.6 Income taxes paid	-	-
1.7 Other	21	68
	(547)	(1,204)
Net Operating Cash Flows		
Cash flows related to investing activities		
1.8 Payment for purchases of: (a) prospects	(418)	(418)
(b) equity investments	-	-
(c) other fixed assets	(375)	(1,892)
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)	-	-
	(793)	(2,310)
Net investing cash flows		
1.13 Total operating and investing cash flows (carried forward)	(1,340)	(3,514)

+ See chapter 19 for defined terms.

Appendix 5B
Mining exploration entity quarterly report

1.13	Total operating and investing cash flows (brought forward)	(1,340)	(3,514)
	Cash flows related to financing activities		
1.14	Proceeds from issues of shares, options, Convertible Notes etc.	-	2,030
1.15	Proceeds from sale of forfeited shares	-	-
1.16	Proceeds from borrowings	146	719
1.17	Repayment of borrowings	-	-
1.18	Capital raising costs	-	(90)
1.19	Other – Interest paid	(173)	(173)
	Net financing cash flows	(27)	2,486
	Net increase (decrease) in cash held	(1,367)	(1,028)
1.20	Cash at beginning of quarter/year to date	2,239	1,892
1.21	Exchange rate adjustments to item 1.20	11	19
1.22	Cash at end of quarter	883	883

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
1.24	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) - \$78K.

Payments to wholly owned subsidiary, Lexshell Pty Limited, of which amounts are paid to third parties to make payments on behalf of Firestone Energy pursuant to its JV agreement with Sekoko Resources - \$973K

Non-cash financing and investing activities

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

N/A

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

N/A

+ See chapter 19 for defined terms.

Financing facilities available

Add notes as necessary for an understanding of the position.

		Amount available \$A'000	Amount used \$A'000
3.1	Loan facilities (The holder of the Convertible Notes has converted A\$3.7million to equity as at 31 Dec 2011. The outstanding convertible note liability for Firestone Energy as at 30 Sept 2011 is A\$21.0 million)	\$25,000	\$25,000
3.2	Credit standby arrangements	-	-

Estimated cash outflows for next quarter

	\$A'000	
4.1	Exploration and evaluation	-
4.2	Development	-
4.3	Production	-
4.4	Administration	390
Total		390

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	318
5.2	Deposits at call	1,921
5.3	Bank overdraft	-
5.4	Other (provide details)	-
Total: cash at end of quarter (item 1.22)		2,239

+ See chapter 19 for defined terms.

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.

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 (description)	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	2,958,675,784	2,958,675,784		Fully paid
7.4 Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs				
7.5 +Convertible debt securities (description)				
7.6 Changes during quarter (a) Increases through issues (b) Decreases through securities matured, converted				
7.7 Options FSEAK FSEAM FSEAO FSEAI FSEO	30,000,000 111,000,000 96,904,767 25,875,000 42,382,500	Nil Nil Nil Nil 42,382,500	Exercise price 5 Cents 6 Cents 6 Cents 6 Cents 4 Cents	Expiry date 30 Nov 2012 31 May 2013 30 Jun 2013 30 Jun 2014 31 May 2014
7.8 Issued during quarter	42,382,500	42,382,500	4 Cents	31 May 2014
7.9 Exercised during quarter				
7.10 Expired during quarter				

+ See chapter 19 for defined terms.

Appendix 5B Mining exploration entity quarterly report

7.11	Debentures <i>(totals only)</i>		
7.12	Unsecured notes <i>(totals only)</i>		

Compliance statement

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



Sign here:

Company Secretary

Date: 31 January 2012

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.

+ See chapter 19 for defined terms.