Firestone ENERGY

ABN 71 058 436 794

Half-Year Financial Report

31 December 2011

FIRESTONE ENERGY LIMITED

CORPORATE DIRECTORY

DIRECTORS

Tim Tebeila
Non Executive Director (Chairman)

David Perkins
Non Executive Director (Deputy Chairman)

Pius Kasolo
Non Executive Director

Benjamin Mphahlele
Non Executive Director

Kobus Terblanche
Non Executive Director

COMPANY SECRETARY

Jerry Monzu

REGISTERED OFFICE

Suite B9, 431 Roberts Road
SUBIACO, WA 6008

Telephone: (08) 9287 4600
Facsimile: (08) 9287 4655

SOLICITORS TO THE COMPANY

Ashurst
Level 36, Grosvenor Place
225 George Street
Sydney NSW 2000

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

STOCK EXCHANGE LISTING

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

ASX & JSE CODE:

“FSE”

DIRECTORS' REPORT

Your directors present their financial report on the group (referred to hereafter as the group) consisting of Firestone Energy Limited and the entities it controlled at the end of, or during the period to the half-year ended 31 December 2011.

Directors

The names of the Directors of Firestone Energy Limited throughout the reporting period and at the date of this report are:

Timothy Tebeila *(Appointed as Director 30 November 2011, and Chairman on 15 December 2011)*
Non Executive Director (Chairman)

David Perkins
Non Executive Director (Deputy Chairman)

Pius Kasolo
Non Executive Director

Benjamin Mphahlele *(Appointed 6 October 2011)*
Non Executive Director

Kobus Terblanche *(Appointed 6 October 2011)*
Non Executive Director

Sizwe Nkosi *(Resigned 25 November 2011)*
Non Executive Director

Colin McIntyre (*Resigned 24 January 2012*)
Non Executive Director

Note: *Directors were in office for the entire period unless otherwise stated.*

Results of Operations

The net loss from continuing operations for the six months to 31 December 2011 amounted to $2,231,562 (half-year ended 31 December 2010: $2,363,693).

Review of Operations

During the half year ended 31 December 2011 the Company made significant progress on key issues affecting the progress of the Waterberg Coal Project.

In September 2011 the Company announced that it had been granted the Mining Right Approval over the Smitspan, Hooikraal, Massenberg and Minnasvlakte farms. The execution of these approvals in August 2011, albeit later than expected, has given the project a 30 year right to mine the above mentioned properties.

The Company made further progress with its off-taker, ESKOM, to negotiate increased tonnages and extend the supply period. Negotiations on the Memorandum of Understanding "MoU" are continuing and the Company is confident that the MoU will be concluded with a positive outcome for Firestone.

The Company announced in the September quarter that it had offered an exclusivity period to a major multinational power company for them to conduct a due diligence on the Waterberg Coal Project. The Board of Firestone was confident that the multinational power company would make an offer to Firestone for the development of the Smitspan project. On 7 March 2012 Firestone announced that The TATA Power Company (Ltd) had made an offer to acquire a 30% interest in the Waterberg Coal Project.

DIRECTORS' REPORT (CONTINUED)

The Company continues to progress the transfer of the section 11 mining right to the incorporated JV. However this transfer is complex and requires a substantial reorganisation of the existing Firestone corporate structure. The Company has sought the assistance of expert consultants to ensure that the section 11 transfer is effected properly and as expeditiously as possible. It is expected that the section 11 application will be lodged during the second quarter of 2012.

In addition from a funding perspective the Company raised $1.8m by way of a private placement of approximately 150m shares at $0.012 per share to Linc Energy Limited who now hold approximately 9.6% of Firestone. During the period under review Sekoko Resources Pty Ltd, Firestone's JV partner, funded a portion of Firestones operational expenditure.

The Company is currently evaluating various proposals with regard to short term funding for the Firestone Group. Once the board has finished with their review and selected its preferred financing option, an announcement will be made to the market.

On a Corporate level the Company appointed Mr David Knox as the CEO in the September quarter in order that he may have single point accountability for the Waterberg Coal Project. Mr Tim Tebeila was firstly appointed as a Non executive Director of Firestone in November 2011 and further as the Chairman on 15 December 2011, at the same time Mr David Perkins was appointed to the role of Non Executive Deputy Chairman of Firestone.

The Company appointed two highly experienced and credentialed directors Mr Ben Mphahlele and Mr Kobus Terblanche to the roles of Non Executive Directors of Firestone in October 2011. Mr Sizwe Nkosi resigned from the Board in November 2011.

<u>Post Balance Date Events</u>

Offer from Cornerstone Investor

The Firestone and Sekoko joint venture (JV) has received a formal offer from The Tata Power Company Ltd (Tata) to invest in the JV. If Firestone accepts the offer and if all of the conditions precedent are satisfied, the ownership interests of the JV will be adjusted so that Tata will hold 30% of the Project. The proposed investment offer is based on 100% of the JV's Waterberg Coal Project being valued at ZAR1.045 billion (approximately AUD 130 million).

The highly conditional offer proposes that Tata enters into a new joint-venture arrangement with Firestone and Sekoko to develop the Waterberg Coal Project and envisages acquiring a 30% interest in the JV in two stages, being:

- an interim funding stage during which Tata will provide debt funding to the Waterberg Coal Project that will be converted into equity upon completion of the final stage; and

- a final funding stage during which Tata will subscribe for shares in the JV company.

The Board is currently reviewing the offer and will communicate its findings and proposed further actions to shareholders in a future announcement.

DIRECTORS' REPORT (CONTINUED)

Auditor's Independence Declaration

A copy of the auditor's independence declaration as required under Section 307C of the Corporations Act is set out on page 15 and forms part of this report.

This report is made in accordance with a resolution of directors.

Dated at Perth this 15th day of March 2012.

Signed in accordance with a resolution of the Directors.

....
Timothy Tebeila
Chairman

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the Half-Year Ended 31 December 2011

	Note	December 2011	December 2010
		$	$
Continuing operations			
Interest revenue		27,854	36,030
Other income		12,917	4,023
Occupancy costs		(13,800)	(55,962)
Legal fees		(176,456)	(497,465)
Administration costs		(286,670)	(218,027)
Travel and accommodation		(65,793)	(23,798)
Directors fees		(130,004)	(130,000)
Employee & consultant costs		(6,530)	(39,822)
Listing and share registry costs		(118,916)	(135,270)
Finance costs	2	(1,474,164)	(1,303,402)
Loss before income tax		(2,231,562)	(2,363,693)
Income tax expense		-	-
Loss from continuing operations		(2,231,562)	(2,363,693)
Loss for the half-year attributable to the members of Firestone Energy Limited		(2,231,562)	(2,363,693)
Other comprehensive income for the half-year			
Foreign currency translation reserve		(10,200,250)	(2,124,377)
Total comprehensive income for the half-year attributable to the members of Firestone Energy Limited		**(12,431,812)**	**(4,488,070)**
Loss per share			
Loss per share on loss from continuing operations attributable to the ordinary equity holders of the company			
Basic loss per share (cents per share)		(0.08)	(0.10)

For JSE requirements, the Headline Earnings per Share ("HEPS") has been calculated to be the equivalent of the basic loss per share as displayed above.

The above consolidated statement of comprehensive income should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 31 December 2011

	Note	December 2011 $	June 2011 $
Current assets			
Cash and cash equivalents	4	883,636	1,892,188
Trade and other receivables		19,634	47,067
Prepayments		5,776	15,043
Total current assets		909,046	1,954,298
Non-current assets			
Property, plant and equipment		4,788,576	5,374,513
Interest in joint venture	8	76,911,782	85,197,758
Receivables		968,168	108,618
Total non-current assets		82,668,526	90,680,889
Total assets		**83,577,572**	**92,635,187**
Current liabilities			
Trade and other payables		2,384,713	3,432,033
Payable to JV partner	9	3,029,559	-
Convertible note	3	8,688,525	1,330,587
Total current liabilities		14,102,797	4,762,620
Non-current liabilities			
Convertible note	3	12,139,521	20,372,463
Total non-current liabilities		12,139,521	20,372,463
Total liabilities		**26,242,318**	**25,135,083**
Net assets		**57,335,254**	**67,500,104**
Equity			
Issued capital	7	75,402,271	73,135,309
Reserves		(6,320,788)	3,879,461
Accumulated losses		(11,746,229)	(9,514,666)
Total Equity		**57,335,254**	**67,500,104**

The above consolidated statement of financial position should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the Half-Year Ended 31 December 2011

	Issued capital $	Accumulated losses $	Foreign currency translation reserve $	Share based payment reserve $	Total $
Balance at 1 July 2011	73,135,309	(9,514,666)	(202,184)	4,081,645	67,500,104
Comprehensive income for the half-year					
Loss for the half-year	-	(2,231,562)	-	-	(2,231,562)
Foreign currency translation reserve	-	-	(10,200,250)	-	(10,200,250)
Total comprehensive income for the half-year	-	(2,231,562)	(10,200,250)	-	(12,431,812)
Transactions with owners in their capacity as owners:					
Issue of shares, net of transaction costs	1,966,962	-	-	-	1,966,962
Conversion of convertible notes	300,000	-	-	-	300,000
Total transactions with owners	2,266,962	-	-	-	2,266,962
Balance at 31 December 2011	**75,402,271**	**(11,746,228)**	**(10,402,434)**	**4,081,645**	**57,335,254**

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONTINUED)
For the Half-Year Ended 31 December 2011

	Issued capital $	Accumulated losses $	Foreign currency translation reserve $	Share based payment reserve $	Total $
Balance at 1 July 2010	62,704,850	(4,752,372)	2,128,620	4,081,645	64,162,743
Comprehensive income for the half-year					
Loss for the half-year	-	(2,363,693)	-	-	(2,363,693)
Foreign currency translation reserve	-	-	(2,124,377)	-	(2,124,378)
Total comprehensive income for the half-year	-	(2,363,693)	(2,124,377)	-	(4,488,071)
Transactions with owners in their capacity as owners:					
Conversion of convertible notes	1,400,000	-	-	-	1,400,000
Total transactions with owners	1,400,000	-	-	-	1,400,000
Balance at 31 December 2010	**64,104,850**	**(7,116,065)**	**4,243**	**4,081,645**	**61,074,673**

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF CASH FLOWS
For the Half-Year Ended 31 December 2011

	Note	December 2011 $	December 2010 $
Cash flows from operating activities			
Payments to suppliers and employees		(509,961)	(883,917)
Interest paid		(256,629)	(69,233)
Interest received		27,854	36,030
Net cash used in operating activities		(738,736)	(917,120)
Cash flows from investing activities			
Project expenditure – JV's		(1,038,795)	(1,909,339)
Acquisition of surface rights – JV's		-	(2,232,441)
Payments to acquire fixed assets		(1,635)	-
Sale of office plant and equipment		-	3,545
Net cash used in investing activities		(1,040,430)	(4,138,235)
Cash flows from financing activities			
Proceeds from issue of shares		1,966,962	-
Proceeds from the issue of convertible notes		-	4,676,920
Transaction cost		-	(116,920)
Repayment of borrowings		(1,196,034)	-
Net cash from financing activities		770,928	4,560,000
Net decrease in cash and cash equivalents		(1,008,238)	(495,355)
Cash and cash equivalents at 1 July		1,892,188	2,130,542
Effect of exchange rate differences on the balance of cash held in foreign currencies		(314)	(28,137)
Cash and cash equivalents at 31 December	4	**883,636**	**1,607,050**

The above consolidated statement of cash flows should be read in conjunction with the accompanying notes.

1 Basis of preparation of half-year financial report

These general purpose financial statements for the half-year reporting period ended 31 December 2011 have been prepared in accordance with Accounting Standard AASB 134 *Interim Financial Reporting* and the Corporations Act 2001.

These half-year financial statements do not include all the notes of the type normally included in annual financial statements. Accordingly, these financial statements are to be read in conjunction with the annual financial statements for the year ended 30 June 2011 and any public announcements made by Firestone Energy Ltd during the half-year reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001.

The accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period unless otherwise stated.

Impact of standards issued but not yet applied by the entity

There have been no new accounting standards, or amendments to, that would have any impact on the group.

Going Concern

The financial report has been prepared on the going concern basis, which contemplates the continuity of normal business activity and the realisation of assets and the settlement of liabilities in the normal course of business.

The Group has incurred a comprehensive loss after tax for the half-year ended 31 December 2011 of $2,231,562 (2010 half-year: $2,363,693) and experienced net cash outflows from operating activities of $738,736 (2010 half-year: $917,120). There is a working capital deficit at 31 December 2011 of $13,193,751 (30 June 2011: $2,808,322).

The Company is currently in negotiation for a further working capital facility. Further to this, as seen in the statement of financial position, Firestone has the aid of JV partner Sekoko Resources in assisting with project funding.

The Company is also currently in negotiation with the convertible noteholders with a view to restructure the loan and potentially convert some of the outstanding liability into equity. The Board is confident that this negotiation will progress to a satisfactory conclusion.

However, the Directors recognise that the ability of the Group to continue as a going concern and to pay its debts as and when they fall due is dependent on the ability to secure further working capital by the issue of additional equities, debt, or entering into negotiations with third parties regarding farm out of assets.

The Directors believe that at the date of signing the financial report there are reasonable grounds to believe that having regard to matters set out above, the group will be able to raise sufficient funds to meet its obligations as and when they fall due.

2. Expenses – Finance Costs

	December 2011 $	December 2010 $
Interest expense	1,145,634	976,329
Amortisation of transaction costs	328,530	327,073
Total finance costs	**1,474,164**	**1,303,402**

3. Borrowings

	December 2011 $	June 2011 $
Loans carried at amortised cost		
Convertible notes (face value)*	25,000,000	24,700,000
Conversions	(3,700,000)	(3,400,000)
Transaction costs – carrying amount	(606,507)	(927,537)
	20,693,493	**20,372,463**
Other borrowings	134,553	1,330,587
Total borrowings	**20,693,493**	**20,372,463**

*The total draw-down facility of $25 million has now been fully utilised. These notes have a maturity date of 3 years from the date of issue and can be converted at any time before the maturity date bearing interest at a fixed rate of 10% per annum. The effective interest rate on the liability will also be 10%. The notes commence maturing in October 2012, with an amount of $8,553,973 classified as current in the statement of financial position.

For convertible notes issued prior to 13 July 2010 the conversion price will be $0.04, all notes issued subsequent to that date will have a conversion price set to the higher of $0.02 or the 7.5% discount to the 5day VWAP.

4. Cash & Cash Equivalents

Cash at bank	**883,636**	**1,892,188**

5. Dividends

No dividend has been paid during or is recommended for the financial period ended 31 December 2011.

6. Commitments and Contingencies

There have been no significant changes to commitments or contingencies since 30 June 2011.

7. Issued Capital

Reconciliation of movement in issued capital attributable to equity holders of the Company.

	31 December 2011 Shares	31 December 2011 $
Movements in Ordinary Shares		
At 1 July 2011 – Opening Balance	2,781,314,361	73,135,309
18 Jul – Share Placement Plan	12,025,000	226,414
3 Aug – Note conversion	15,000,000	300,000
8 Sept – Placement (*Linc Energy*)	150,336,423	1,804,037
Share issue costs		(63,489)
Ordinary shares at 31 December 2011	**2,958,675,784**	**75,402,271**
Movements in Options		
At 1 July 2011 – Opening Balance	305,162,267	4,081,645
18 Jul – Issued as free attaching	6,012,500	-
Options at 31 December 2011	**311,174,767**	**4,081,645**

The unlisted options on issue as at 31 December 2011 are as follows:

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
48,395,000	31 May 2014	$0.04
311,174,767		

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

Reconciliation of movement in issued capital attributable to equity holders of the Company.

	31 December 2010 Shares	31 December 2010 $
Movements in Ordinary Shares		
At 1 July 2010 – Opening Balance	2,331,300,464	62,704,850
4 Oct – Note conversion	30,000,000	600,000
8 Nov – Note conversion	39,411,766	800,000
Ordinary shares at 31 December 2010	**2,400,712,230**	**64,104,850**
Movements in Options		
At 1 July 2010 – Opening Balance	262,779,767	4,081,645
Options at 31 December 2010	**262,779,767**	**4,081,645**

8. Interest in Joint Venture

The Company has previously 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 Olieboomfontein and Vetleegte properties. An amendment was later made to the Joint Venture agreement, to allow Checkered Flag (a wholly owned subsidiary) to earn up to an interest of 60% in the T1 Joint Venture, in which it had a full participation at 31 December 2011.

In addition to T1, Lexshell Trading (a wholly owned subsidiary) entered into a second Joint Venture Agreement (T2) with Sekoko Coal (Pty) Ltd for a coal project in the Waterberg locality in South Africa, comprising the Smitspan, Hooikraal, Massenberg and Minnasvlakte properties. An addendum was later made to include additional properties Duikerfontein and Swanepoelpan (T3). At 31 December Firestone Energy had completed its performance conditions and was entitled to 60% in the project.

	Half-year ended Dec 2011 $	Year ended June 2011 $
Opening balance	85,197,758	75,849,117
Acquisition of properties via equity	-	5,400,000
Project costs	319,576	9,603,304
Foreign exchange movements	(8,605,552)	(5,654,663)
Closing balance	**76,911,782**	**85,197,758**

The above amounts include Joint Venture agreements T1, T2 and T3. The balance represents total amounts capitalised as exploration and evaluation expenditure.

9. Related Party Transactions

During the period, there has been a significant change with Non-Executive Directors. Newly appointed directors shall be remunerated consistently with the past directors, as disclosed in the 30 June 2011 financial statements.

Firestones JV partner, Sekoko Coal, is now considered a related party due to the appointment of common director Tim Tebeila. At 31 December Firestone had a payable of $3,029,559 owing to Sekoko, relating to Firestone's share of JV expenditure.

There are no other material changes to related parties since 30 June 2011.

10. 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.

Segment information provided to the Board:

	December 2011 $	December 2010 $
Revenue from external sources	-	-
Reportable segment loss	(168,160)	(510,864)
Reportable segment assets	81,573,995	81,754,574

10. Segment Information (CONTINUED)

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

	December 2011 $	December 2010 $
Total loss for reportable segment	(168,160)	(510,864)
Unallocated:		
Interest revenue	27,386	36,030
Other income	2,376	4,023
Occupancy costs	(13,800)	(55,962)
Legal fees	(176,456)	(140,746)
Administration costs	(133,685)	(218,551)
Directors fees	(130,004)	(130,000)
Employee & Consultant costs	(67,388)	(77,336)
Listing and share registry costs	(118,916)	(135,270)
Travel & accommodation	(54,779)	(23,275)
Finance cost	(1,398,136)	(1,111,742)
Loss before income tax from continuing operations	**(2,231,562)**	**(2,363,693)**

11. Events occurring after Balance Date

Offer from Cornerstone Investor

The Firestone and Sekoko joint venture (JV) has received a formal offer from The Tata Power Company Ltd (Tata) to invest in the JV. If Firestone accepts the offer and if all of the conditions precedent are satisfied, the ownership interests of the JV will be adjusted so that Tata will hold 30% of the Project. The proposed investment offer is based on 100% of the JV's Waterberg Coal Project being valued at ZAR1.045 billion (approximately AUD 130 million).

The highly conditional offer proposes that Tata enters into a new joint-venture arrangement with Firestone and Sekoko to develop the Waterberg Coal Project and envisages acquiring a 30% interest in the JV in two stages, being:

- an interim funding stage during which Tata will provide debt funding to the Waterberg Coal Project that will be converted into equity upon completion of the final stage; and
- a final funding stage during which Tata will subscribe for shares in the JV Company.

The Board is currently reviewing the offer and will communicate its findings and proposed further actions to shareholders in a future announcement.

With exceptions to the above, there have been no other matters or circumstances that have arisen since 31 December 2011 that have significantly affected, or may significantly affect:

(i) The consolidated entity's operations in future financial years, or
(ii) The results of those operations in future financial years, or
(iii) The consolidated entity's state of affairs in future financial years.

DIRECTORS' DECLARATION

The Directors of the Company declare that:

1. The consolidated financial statements and notes are in accordance with the Corporations Act 2001 and:

    a. comply with Accounting Standard AASB 134: Interim Financial Reporting, Corporations Regulations 2001 and any other mandatory professional reporting requirements; and

    b. give a true and fair view of the consolidated entity's financial position as at 31 December 2011 and of its performance for the half-year then ended on that date.

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.

This declaration is made in accordance with a resolution of the Board of Directors.

Dated at Perth this 15th day of March 2012.

....

Timothy Tebeila
Chairman

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38 Station Street
Subiaco, WA 6008
PO Box 700 West Perth WA 6872
Australia

15 March 2012

The Directors
Firestone Energy Limited
Suite B9, 431 Roberts Road
SUBIACO WA 6008

Dear Sirs,

DECLARATION OF INDEPENDENCE BY WAYNE BASFORD TO THE DIRECTORS OF FIRESTONE ENERGY LIMITED

As lead auditor for the review of Firestone Energy Limited for the half-year ended 31 December 2011, 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 review; and
- no contraventions of any applicable code of professional conduct in relation to the review.

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

Wayne Basford
Director

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Perth, Western Australia

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Australia

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

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Firestone Energy Limited, which comprises the consolidated statement of financial position as at 31 December 2011, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the disclosing entity and the entities it controlled at the half-year's end or from time to time during the half-year.

Directors' Responsibility for the Half-Year Financial Report

The directors of the disclosing entity are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the half-year financial report that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2011 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Firestone Energy Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of Firestone Energy Limited, would be in the same terms if given to the directors as at the time of this auditor's report.

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Firestone Energy Limited is not in accordance with the *Corporations Act 2001* including:

(a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2011 and of its performance for the half-year ended on that date; and
(b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and *Corporations Regulations 2001*.

Emphasis of Matter

Without modifying our conclusion, we draw attention to Note 1 in the half-year financial report which indicates that Firestone Energy Limited incurred a net cash outflow from operating activities of $738,736 (2010 half-year: $917,120) and has a working capital deficiency of $13,193,751 (30 June 2011: $2,808,322). Firestone Energy Limited is in the process of developing a mine and requires significant equity raising or loan funds in order to develop the area of interest and fund working capital. These conditions, along with other matters as set forth in Note 1, indicate the existence of a material uncertainty which may cast significant doubt about the consolidated entity's ability to continue as a going concern and therefore, the consolidated entity may be unable to realise its assets and discharge its liabilities in the normal course of business.

BDO Audit (WA) Pty Ltd

BDO

Wayne Basford
Director

Perth, Western Australia
Dated this 15th day of March 2012