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ABN 71 058 436 794

Half Year Financial Report

31 December 2008

This interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 30 June 2007, and any public announcements made by Firestone Energy Ltd during the interim reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001.

FIRESTONE ENERGY LIMITED

CORPORATE DIRECTORY

DIRECTORS

Lee Boyd
Non Executive Director

Daryl Henthorn
Non Executive Director

Amanda Matthee
Non Executive Director

Malcolm Smartt
Non Executive Director

Tim Tebeila
Non Executive Director

COMPANY SECRETARY

Lee Boyd

REGISTERED OFFICE

Level 1, 63 Hay Street
SUBIACO WA 6008

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SOLICITORS TO THE COMPANY

Steinepreis Paganin
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PERTH WA 6000

SHARE REGISTRY

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

BDO Audit and Assurance (WA) Pty Ltd
128 Hay Street
SUBIACO WA 6008

ASX CODE

"FSE"

FIRESTONE ENERGY LIMITED

Half yearly report for 6 months ended 31 December 2008

DIRECTORS' REPORT

The Directors present their report together with the consolidated financial report for the half-year ended 31 December 2008 and the review report thereon.

Directors

The names and details of the Directors of Firestone Energy Limited at the date of this report are:

MR LEE BOYD BBus, Dip Mgmt, Adv Cert Bus, CPA, FAICD, ACSA
Non-Executive Director

Experience: Lee Boyd has considerable Directorial, Company Secretarial and Corporate Financial experience with a number of listed and unlisted public and private companies in the resources and industrial sectors. He is currently a director and company secretary of ASX listed GSF Corporation Limited and Gleneagle Gold Limited and a director of Australian Wine Holdings Limited. He has been a past director and company secretary of ASX listed Hydrotech International Limited, a director of Cell Aquaculture Limited and company secretary of St Barbara Mines Limited and NuStar Mining Corporation Limited. Lee is company secretary of Firestone Energy.

Lee is a CPA member of CPA Australia, a Fellow of Australian Institute of Company Directors and an Affiliate of Chartered Secretaries Australia.

MR DARYL HENTHORN BSc, MAIPM, MAICD
Non-Executive Director

Experience: Daryl Henthorn holds a Bachelor of Applied Science and has completed business studies at MBA Level. He is a Director of a number private companies, sits on the compliance committee for a Responsible Entity and is a Member of the Australian Institute of Company Directors and the Australian Institute of Project Management.

Daryl was previously Chief Operating Officer of a funds management division of public listed company. He has a strong commercial background in corporate finance, project management and operations.

MR MALCOLM SMARTT BBus, Dip Corp Management, FCPA, FCIS, FCIM
Non-Executive Director

Experience: Mal Smartt is a Corporate Consultant to listed and unlisted public companies. He is a qualified accountant and company secretary having had considerable experience in Directorial, Financial and Company Secretarial roles with a number of listed companies in the resource sector in Australia, South East Asia and Africa.

Mal is a Fellow of CPA Australia and a Fellow of Chartered Secretaries Australia. He is currently a director of Gleneagle Gold Limited (GLN) and unlisted Discovery Capital Limited and African Strategic Minerals Limited and Company Secretary for Crossland Uranium Mines Limited.

FIRESTONE ENERGY LIMITED

Half yearly report for 6 months ended 31 December 2008

DIRECTORS' REPORT - CONTINUED

MR TIMOTHY TEBEILA
Non-Executive Director

Appointed 29 October 2008

Experience 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).

MS AMANDA MATTHEE
Non-Executive Director

Appointed 28 October 2008

Experience 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, Amanda has worked with many of the industry's leading companies. Before joining Sekoko in January 2007, Amanda 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.

Results of Operations

The net loss of the consolidated entity for the six months to 31 December 2008, amounted to \$283,066 (Half year ended 31 December 2007: Net Loss \$1,608,696).

Review of Operations

As reported to the ASX, the Company was granted shareholder approval at a GM on 19 September 2008 to issue shares, enter into a joint venture with coal operations in South Africa and appoint two South African Directors. Specific details are provided in the Notice of General Meeting released to the ASX on 19 August 2008.

Activities Post 31st December 2008

There were no activities post 31 December 2008 that need to be disclosed.

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 12 and forms part of this report.

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

Dated at Perth this 12th day of March 2009

Signed in accordance with a resolution of the Directors.


.....
Malcolm Smartt
Director

FIRESTONE ENERGY LIMITED

Half yearly report for 6 months ended 31 December 2008

INCOME STATEMENT

For the Half-Year Ended 31 December 2008

	Note	Consolidated 31 Dec 08 \$	Company 31 Dec 07 \$
Continuing operations			
Interest revenue	2	51,808	49,107
Rental revenue		-	77,362
Occupancy costs		(74,986)	(20,590)
Legal fees		(76,411)	(102,594)
Administration costs		(118,563)	(159,637)
Directors fees		(64,914)	(61,537)
Project Generation costs		-	(280,807)
Equity-based payments		-	(1,110,000)
Loss from continuing operations before income tax		<u>(283,066)</u>	<u>(1,608,696)</u>
Income tax expense		-	-
Net Loss attributable to members of Company		<u>(283,066)</u>	<u>(1,608,696)</u>
<i>Loss per share on loss from continuing operations attributable to the ordinary equity holders of the company</i>			
Basic loss per share (cents per share)		(0.003)	(0.026)
Diluted loss per share (cents per share)		N/a	N/a

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

FIRESTONE ENERGY LIMITED

Half yearly report for 6 months ended 31 December 2008

BALANCE SHEET

As at 31 December 2008

	Note	Consolidated 31 Dec 08 \$	Company 30 Jun 08 \$
Current Assets			
Cash and cash equivalents	5	555,733	2,169,804
Trade and other receivables		649	107,145
Prepayments		8,532	-
Other assets (GST)		33,679	-
Total Current Assets		598,593	2,276,949
Non-Current Assets			
Property, plant and equipment		35,667	34,758
Interest in joint venture	12	16,354,271	176,000
Intangible		-	75,307
Bonds		34,758	-
Total Non-Current Assets		16,424,696	286,065
Total Assets		17,023,289	2,563,014
Current Liabilities			
Trade and other payables		575,867	451,526
Provisions		105,375	-
Other - Bonds		35,791	-
Total Current Liabilities		717,033	451,526
Total Liabilities		717,033	451,526
Net Assets		16,306,256	2,111,488
Equity			
Issued capital	8	12,519,322	57,819,281
Reserves	4	4,070,000	2,590,000
Accumulated losses		(283,066)	(58,297,793)
Total Equity		16,306,256	2,111,488

The above balance sheet should be read in conjunction with the accompanying notes.

FIRESTONE ENERGY LIMITED

Half yearly report for 6 months ended 31 December 2008

STATEMENT OF CHANGES IN EQUITY For the Half-Year Ended 31 December 2007

Company	Issued Capital	Accumulated losses	Reserves	Total
	\$	\$	\$	\$
Balance at beginning of the half-year (1 July 2007)	55,756,782	(56,110,795)	1,480,000	1,125,987
Net loss for the period	-	(1,608,696)		(1,608,696)
Total Income and expense recognised in period		(1,608,696)		(1,608,696)
Transactions with equity holders in their capacity as equity holders				
Equity-based payments	-	-	1,110,000	1,110,000
Issue of shares (Option Conversions)	1,062,500	-	-	1,062,500
Balance at end of the half-year	56,819,282	(57,719,491)	2,590,000	1,689,791

For the Half-Year Ended 31 December 2008

Consolidated	Issued Capital	Accumulated losses	Reserves	Total
	\$	\$	\$	\$
Balance at beginning of the half-year (1 July 2008)	57,819,282	(58,297,793)	2,590,000	2,111,488
Net loss for the period	-	(283,066)	-	(283,066)
Total Income and expense recognised in period	-	(283,066)	-	(283,066)
Transactions with equity holders in their capacity as equity holders				
Issue of shares	11,335,333	-	-	11,335,333
Equity Based Payments	-	-	1,480,000	1,480,000
Issue of shares (Option Conversions)	1,662,500	-	-	1,662,500
Reduction of Capital / accumulated losses	(58,297,793)	58,297,793	-	-
Balance at end of the half-year	12,519,322	(283,066)	4,070,000	16,306,256

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

FIRESTONE ENERGY LIMITED

Half yearly report for 6 months ended 31 December 2008

CONDENSED CASH FLOW STATEMENT

For the Half-Year Ended 31 December 2008

		Consolidated	Company
	Note	31 Dec 08	31 Dec 07
		\$	\$
Cash flows from operating activities			
Cash payments in the course of operations		(258,605)	(298,278)
Payments for project generation and due diligence		-	(280,807)
Interest received		51,808	15,616
Net cash flows used in operating activities		(206,797)	(563,469)
Cash flows from investing activities			
Expenditure to acquire JV interest		(3,212,938)	(77,362)
Loans repaid by other entities		106,496	-
Payments to acquire fixed assets		(21,436)	(12,087)
Sale of office property plant and equipment		58,104	-
Net cash flows used in investing activities		(3,069,774)	(89,449)
Cash flows from financing activities			
Proceeds from issue of shares		1,662,500	1,062,500
Capital raising costs		-	-
Net cash flows from financing activities		1,662,500	1,062,500
Net increase / (decrease) in cash and cash equivalents		(1,614,071)	409,582
Cash and cash equivalents at beginning of the half-year		2,169,804	1,127,076
Cash and cash equivalents at end of the half-year	5	555,733	1,536,658

The above cash flow statement should be read in conjunction with the accompanying notes.

FIRESTONE ENERGY LIMITED

Half yearly report for 6 months ended 31 December 2008

1 Basis of preparation of half-year report

This general purpose financial report for the interim financial half-year reporting period ended 31 December 2008 had been prepared in accordance with Accounting Standard AASB 134 *Interim Financial Reporting* and the Corporations Act 2001.

This interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 30 June 2008 and any public announcements made by Firestone Energy Ltd during the interim 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, except for the following

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.

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.

Investment in joint venture

The Group's investment in a 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 balance sheet 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 income statement. 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.

FIRESTONE ENERGY LIMITED
ACN: 058 436 794

Going Concern

The financial statements have been prepared on the going concern basis of accounting which assumes that the Group will be able to meet its commitments, realise its assets and discharge its liabilities in the ordinary course of business.

The directors believe that at the date of signing this 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.

In the event that the Group does not achieve the matters set out above there is significant uncertainty whether the Group will continue as a going concern and therefore whether it will realise its assets and extinguish its liabilities in the normal course of business and at amounts stated in the interim financial report.

The interim financial report does not include any adjustment relating to the recoverability or classification of recorded asset amounts or classifications of liabilities that might be necessary should the Group to be able to continue as a going concern.

	31 Dec 08	31 Dec 07
	\$	\$
2. Revenue		
Interest received	<u>51,808</u>	<u>49,107</u>
3. Expenses		
Legal fees	76,411	2,310
Audit fees	14,519	10,034
Share registry costs	32,056	41,713
Directors fees	64,914	61,538
Equity-based payments	<u>-</u>	<u>1,110,000</u>
4 Reserves		
Option Reserve		
	31 Dec 08	31 Dec 07
	\$	\$
Option Reserve	2,590,000	1,480,000
Options issued to Directors 30 November 2007	-	1,110,000
Options issued in consideration for purchase of Projects	<u>1,480,000</u>	<u>-</u>
Total	<u>4,070,000</u>	<u>2,590,000</u>
5. Cash & Cash Equivalents		
Cash at bank	<u>555,733</u>	<u>2,169,804</u>
6. Dividends		

No dividend has been paid during or is recommended for the financial period ended 31 December 2008.

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7. Commitments

There were no outstanding commitments, which are not disclosed in the financial statements as at 31 December 2008 other than:

Office Lease	\$
No later than 1 year	116,616
Later than 1 year but not later than 5 years	58,331
	174,947

8. Contributed Equity

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

(a) Movements in Ordinary Shares

	31 December 2008	
	Shares	\$
At 1 July 2008	709,208,879	57,819,282
17 Jul 08 – Options converted	24,000,000	240,000
14 Aug 08 – Options converted	67,500,000	675,000
29 Oct 08 – Issued Shares	400,000,000	11,200,000
19 Nov 08 – Options converted	49,750,000	497,500
24 Nov 08 – Issued Shares	4,833,325	135,333
24 Dec 08 – Issued Shares	22,727,273	250,000
Reduction of Capital	-	(58,297,793)
Ordinary shares at end of period	1,278,019,477	12,519,322

(b) Movements in Options

At 1 July 2008	173,750,000	-
Converted as above	(171,250,000)	-
Options at end of period	2,500,000	-

9. Related Party Transactions

During the period Mr Boyd's directors fees of \$27,236 as well as fees for the provision of Company Secretarial and associated administrative services by him of \$64,004 were paid to The Elovadae Trust and Agri Project Services Pty Ltd (AP Partners), a Company in which Mr Henthorn is a shareholder and a Director, was paid \$27,250 being his Directors fees.

The Company sold property plant and equipment to Gleneagle Gold Limited, a Company which both Mr Boyd and Mr Smartt are Directors. The total consideration was \$58,104 and this was equal to the written down values as at 30 June 2008.

Other related party transactions continue without significant variation. For details of these, please refer to the 30 June 2008 financial statements.

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10. Events occurring after balance sheet date

There were no events occurring after balance date that need to be disclosed.

11. Contingent Liabilities

The Company does not have any contingent liabilities other than those previously disclosed.

12. Interest in Joint Venture

As at 31 December 2008, the Company had entered into a Joint Venture Agreement with Sekoko Coal (Pty) Ltd for a coal project in the Waterberg locality in South Africa.

At the half year, 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.

13 Business Combination

On 18th September 2008, FSE 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:

	\$
Purchase consideration	
Issue 180,000,000 fully paid ordinary shares at market value	5,040,000
Issue 90,000,000 options	666,000
Cash - not paid yet	<u>150,000</u>
Total purchase consideration	<u>5,856,000</u>
Fair value of net identifiable assets acquired (refer below)	<u>5,856,000</u>
Goodwill	<u>0</u>

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

	2008
Weighted average exercise price	0.06
Weighted average life of the option	4.589 years
Underlying share price	0.025
Expected share price volatility	60.0%
Risk free interest rate	5.79%
Fair value per option	\$0.0074

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

	Acquiree's carrying amount	Fair value
	\$	\$
Cash and cash equivalents	1	1
Option to acquire interest in JV	-	<u>5,855,999</u>
Net identifiable assets acquired	<u>1</u>	<u>5,856,000</u>

The acquired business contributed revenues of \$ nil and net profit of \$ nil to the group for the period from 19 September to 31 December 2008. Consolidated revenue and consolidated loss for the half year ended 31 December 2008 would have been \$ nil and \$283,066 respectively.

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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 and the Corporations Regulations 2001; and
 - b. give a true and fair view of the consolidated entity's financial position as at 31 December 2008 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.



Malcolm Smartt
Director

Dated at Perth this 12th day of March 2009

12th of March 2009

The Directors
Firestone Energy Limited
Level 1, 63 Hay Street
SUBIACO WA 6008

Dear Board Members

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

As lead auditor of Firestone Energy Limited for the half year ended 31 December 2008, 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
- 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.

Brad McVeigh
Director

BDO Kendalls Audit & Assurance (WA) Pty Ltd
Perth, Western Australia

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**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 balance sheet as at 31 December 2008, and the income statement, statement of changes in equity and cash flow statement for the half-year ended on that date, a statement of accounting policies, other selected explanatory notes and the directors' declaration of the consolidated entity comprising the disclosing entity and the entities it controlled at the half-year end or from time to time during the half-year.

Directors' Responsibility for the Half-Year Financial Report

The directors of the consolidated entity are responsible for the preparation and fair presentation of the half-year 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 control relevant to the preparation and fair presentation of the half-year 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.

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 Interim and Other Financial Reports 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 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 2008 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.

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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*.

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 2008 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.

Material Uncertainty Regarding Continuation as a Going Concern

Without qualifying our opinion, we draw attention to the fact that, as disclosed in Note 1, the company will have to seek additional funding in order to continue to exploit its exploration assets held in the joint venture. If the company is unable to obtain additional funding it may cast significant doubt about the company's ability to continue as a going concern and will be able to realise its assets and extinguish its liabilities in the normal course of business and at amounts stated in the report.

BDO Kendalls Audit & Assurance (WA) Pty Ltd

BDO Kendalls
BG McVeigh

BG McVeigh
Director

Perth, Western Australia
Dated this 12th day of March 2009

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