



ANNUAL REPORT

For the year ended

30 June 2009

Black Fire Energy Limited
ABN 29 122 921 813

CORPORATE DIRECTORY

Directors

Mr Simon Rigby (Director)

Mr Matthew Sheldrick (Chief Executive Officer)

Mr Michael Chester (Non Executive Director)

Company Secretary

Mr Matthew Sheldrick

Registered Office and Principal place of business

Level 1, 33 Ord Street

West Perth, WA 6005, Australia

Telephone: (61 8) 9420 9300

Facsimile: (61 8) 9481 2690

Share Register

Computershare Investor Services Pty Ltd

Level 2, Reserve Bank Building, 45 St Georges Terrace

Perth, WA, 6000, Australia

Telephone: 1300 557 010 International: (61 8) 9323 2000

Facsimile: (61 8) 9323 2033

Stock Exchange Listing

Black Fire Energy Limited shares and options are listed on the Australian Securities Exchange, the home branch being Perth.

ASX Code: Shares - BFE and Options - BFEO

Bankers

Westpac Banking Corporation

109 St George's Terrace

Perth WA 6000

Auditors

Ernst and Young

11 Mounts Bay Road

Perth WA 6000

Website Address www.blackfireenergy.com.au

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BLACK FIRE ENERGY LIMITED ABN 29 122 921 813

Financial Report for the Year Ended 30 June 2009

DIRECTORS' REPORT

The following report is submitted in respect of the results of the Company for the year ended on 30 June 2009, together with the state of affairs of the Company as at that date.

INFORMATION ON DIRECTORS

The names, qualifications and experience of the Company's Directors in office during the financial period and until the date of this report are as follows. Directors were in office for this entire period unless otherwise stated.

Mr Simon Rigby – Director (Appointed 9 September 2009)

Mr Rigby has twenty-one years experience in mineral exploration and business development predominantly with major mining companies including Newmont Australia, Newcrest Mining, Homestake Gold of Australia and most recently Barrick Gold Corporation where, until July 2007, he held the position of Exploration Manager - Australia and PNG. He is currently Principal of Beaumont Geological Consulting which he founded in 2007. Mr Rigby has broad geological experience with a strong knowledge of gold and base metal mineralised systems and has been involved in the discovery and resource definition of such systems.

In addition to working throughout Australia, Mr Rigby has extensive offshore exploration experience including working in the Solomon Islands, Papua New Guinea and Greece. He is a geologist with a Bachelor of Applied Science – Applied Geology from the Queensland Institute of Technology and a Bachelor of Science - Geology Honours (first class) from the James Cook University of North Queensland and is a member of the Australian Institute of Geologists.

Other Current Directorships

ABM Resources Limited since 31 July 2008.

Former Directorships in the Last Three Years

None

Special Responsibilities

Proposed Managing Director

Interests in Shares and Options

None

Mr Michael Chester – Non Executive Director (Appointed 9 September 2009)

Mr Chester possesses significant experience in the areas of investment banking, mining company research and analysis and funds management. In particular, Mike has specialised for over 25 years in the mining sector. Mike was a top rated mining analyst for many years prior to moving into corporate advisory / investment banking roles. He has originated IPO's and equity placements across the industrial and mining sectors for listed and unlisted entities, and has significant expertise in management accounting, financial modeling, funds management and project analysis. In addition, he has provided corporate advisory and investor relations services for a number of industrial and resources companies.

Mike is currently Managing Director of Axiom Advisory Pty Ltd, a boutique corporate advisory firm, and also Investment Manager for the Lowell Resources Fund. Some of his previous roles included 7 years at Salomon Smith Barney / County Natwest in research corporate and investment banking roles, at Grange Securities as Head of Equity Capital Markets and McIntosh Securities as a rated research analyst.

Other Current Directorships

Carpentaria Exploration Limited director since 15 January 2008

Former Directorships in the Last Three Years

None

Special Responsibilities

None

Interests in Shares and Options

None

BLACK FIRE ENERGY LIMITED ABN 29 122 921 813

Financial Report for the Year Ended 30 June 2009

DIRECTORS' REPORT (continued)

INFORMATION ON DIRECTORS (continued)

Mr Matthew Sheldrick – Chief Executive Officer / Director

Matthew Sheldrick holds a Bachelor of Commerce degree from the University of Western Australia and is a Chartered Accountant. Mr Sheldrick spent 10 years in the securities industry, advising both domestic and international institutional clients on Australian equities. He was formerly Chief Executive Officer of ASX listed Gawler Resources Ltd, having resigned that position on 1 March 2007. Prior to this, Mr Sheldrick was Chief Executive Officer of Eureka Energy Ltd.

Other Current Directorships

None

Former Directorships in the Last Three Years

Karmelsonix Limited (director from 28 January 2005 to 31 January 2007); and
Gawler Resources Limited (director from 17 May 2006 to 28 February 2007).

Special Responsibilities

Company Secretary- appointed 9 September 2009

Interests in Shares and Options

2,210,000 ordinary shares in Black Fire Energy Limited; and
2,140,000 options to acquire ordinary shares in Black Fire Energy Limited.

Mr David Steinepreis – Non-executive Chairman (resigned 9 September 2009)

Mr Steinepreis is a Chartered Accountant and former partner of an international accounting firm where he specialised in strategic corporate advice and taxation for listed companies. He entered commerce as a director, adviser and major shareholder of a number of listed companies in the gold, diamonds, oil and new mining technology sectors.

Mr Steinepreis has been a resident of the United Kingdom since 2006. He is a non-executive director of Norseman Gold plc which is listed on AIM and ASX. He is also managing director of North River Resources plc which is listed on AIM and a director of Black Fire Energy Limited, Atom Energy Limited and Monto Minerals Limited (subject to deed of company arrangement), companies listed on the ASX. Mr Steinepreis is non executive chairman of Ascent Capital Holdings Pty Ltd and a 50% beneficial shareholder.

Other Current Directorships

Non-Executive Director, Norseman Gold Plc since 2 March 2005;
Non-Executive Chairman, Atom Energy Limited since 27 November 2008;
Managing Director, North River Resources plc since 13 July 2006; and
Non-Executive Director, Monto Minerals Ltd since 26 June 2009.

Former Directorships in the Last Three Years

RMG Limited 31 January 2006 to 28 September 2007;
Croesus Mining NL 10 July 2007 to 31 August 2009;
WAG Limited 2 November 2006 to 13 March 2008;
Southern Pacific Petroleum NL 11 October 2007 to 19 August 2009;
Toodyay Resources (Lachlan Star) Limited 22 December 2005 to 15 October 2007;
Avalon Minerals Ltd 18 December 2006 to 15 January 2007;
Gawler Resources Limited 17 May 2006 to 1 March 2007;
Signature Brands Limited 1 June 2006 to 20 February 2007; and
Monitor Holdings Limited 16 April 2004 to 13 June 2007.

Special Responsibilities

None

Interests in Shares and Options

2,782,500 ordinary shares in Black Fire Energy Limited; and
2,000,000 options to acquire ordinary shares in Black Fire Energy Limited.

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Financial Report for the Year Ended 30 June 2009

DIRECTORS' REPORT (continued)

INFORMATION ON DIRECTORS (continued)

Mr Gary Steinepreis – Non-executive Director (resigned 9 September 2009)

Gary Steinepreis holds a Bachelor of Commerce degree from the University of Western Australia and is a Chartered Accountant. Mr Steinepreis provides corporate, management and accounting advice to a number of companies involved in the resource, technology and leisure industries. He is a founder and director of Ascent Capital Pty Ltd which specialises in the recapitalisation and listing of ASX companies. It has also completed a number of listings on the London AIM market.

Other Current Directorships

Non-Executive Director Norseman Gold Plc appointed 30 March 2006 resigned 11 September 2006 and reappointed 3 December 2007;
Non-Executive Director, Laguna Resources NL (formally Southern Pacific Petroleum) since 11 October 2007;
Non-Executive Director, WAG Limited since 2 November 2006;
Non-Executive Director, Avalon Minerals Ltd since 20 December 2006;
Executive Director, Monto Minerals Limited since 26 June 2009;
Non-Executive Director, RMG Limited since 31 January 2006; and
Executive Director, Agri Energy Limited (subject to a deed of company arrangement) since 22 June 2009.

Former Directorships in the Last Three Years

Toodyay Resources Limited 22 December 2005 to 23 October 2007;
Croesus Mining NL 10 July 2007 to 31 August 2009;
Gawler Resources Ltd 17 May 2006 to 27 November 2007;
GB Energy Limited 13 March 2006 to 29 August 2007;
Monitor Holdings Limited 16 April 2004 to 18 January 2007;
Karmelsonix Limited 18 August 2003 to 21 November 2006; and
Signature Brands Ltd 1 June 2006 to 27 November 2008.

Special Responsibilities

Company Secretary – resigned 9 September 2009

Interests in Shares and Options

3,077,500 ordinary shares in Black Fire Energy Limited; and
2,795,000 options to acquire ordinary shares in Black Fire Energy Limited.

COMPANY SECRETARY

The Company secretary is Mr Matthew Sheldrick who was appointed on 9 September 2009. Mr Sheldrick is also a director of the Company and information on him and his qualifications for the position are included under information on directors. Mr Gary Steinepreis resigned from the position on 9 September 2009.

DIVIDENDS

No dividend was paid or declared by the Company in the period and up to the date of this report. The Directors do not recommend that any amount be paid by way of dividend, for the financial period ended 30 June 2009.

CORPORATE STRUCTURE

Black Fire Energy Limited is a company limited by shares that is incorporated and domiciled in Australia. At the date of this report the Company has 40,666,875 ordinary shares on issue and 30,750,000 options over ordinary shares on issue.

NATURE OF OPERATIONS AND PRINCIPAL ACTIVITIES

Black Fire Energy Limited was incorporated on 30 November 2006 for the purpose of oil and gas exploration and development in Australia and overseas. During the year Black Fire Energy Limited has continued with its oil and gas exploration activities through its participation in the drilling of exploration wells through its farm-in commitments. In addition to this the Company has actively pursued alternative investments in the mining and exploration sector, the most notable being the proposed acquisition of a Nigerian iron ore project which terminated on 29 October 2008, as the conditions to a share sale agreement were not satisfied.

BLACK FIRE ENERGY LIMITED ABN 29 122 921 813

Financial Report for the Year Ended 30 June 2009

DIRECTORS' REPORT (continued)

RESULTS OF OPERATIONS

The net loss of the Company for the financial period after income tax was \$1,229,802 (2008: \$842,007).

PROJECT OVERVIEW

Black Fire Energy Limited was earning equity in three onshore Western Australian petroleum permits by contributing towards the cost of wells in the permits as follows:

Well	Permit	Expected spud date	Contributing	Equity	Status
Parrot Hill 2	EP-435	Drilled April 2007	20%	10%	Plugged and abandoned
Lake Macleod	EP-439	August 2008	15%	7.5%	Plugged and abandoned
Moriary 1	EP-426	Drilled February 2008	13 ¹ / ₃ %	10%	Plugged and abandoned

REVIEW OF OPERATIONS

The Company was participating in three onshore Western Australian oil and gas exploration programs. The Company has withdrawn from the Lake Macleod and Moriary prospects however retains the option to continue to participate in the Parrot Hill prospect and it is the Company's intention to pursue this opportunity based on the results achieved on the adjoining prospect EP-359. The Board of Black Fire Energy is continuing to actively search for other new projects and is committed to pursuing opportunities that will deliver long term growth to shareholders.

The **Parrot Hill-2 well (EP-435)** (BFE paying 20% to earn 10%) was drilled during April 2007 with no commercial hydrocarbon indications within the reservoir objectives. This well has been plugged and abandoned and the drill rig released. The Operator of EP-435, Rough Range Oil Pty Ltd has advised that they will be drilling a well in an adjoining permit (EP-359) which has reservoir objectives that have been mapped to potentially extend into EP-435. The Company has no commercial interest in EP-359, however, if Rough Range Oil Pty Ltd are successful in discovering commercial hydrocarbons in this permit, then there maybe a case for drilling additional wells in EP-435.

The **Lake Macleod Prospect (EP 439)** # 1 well was spudded on 30 September 2008 and reached a total depth of 894m on approximately 11 November 2008. Subsequent wire line logs provided no evidence of commercial hydrocarbons. Black Fire was earning a 7.5% interest in EP 439 by contributing 15% to the cost of drilling the Lake Macleod 1 well. Black Fire has provided a written request to the Operator, Rough Range Oil Pty Ltd, to formally withdraw from EP439 and this request has been granted and finalised.

The **Moriary Prospect (EP 426)** Black Fire was earning a 10% interest in EP 426 by contributing 13.3% to the cost of drilling the Moriary well, however, due to the absence of commercial hydrocarbons in this well. Black Fire has provided a written request to the Operator, Empire Oil Company (WA) Pty Ltd, to formally withdraw from EP426. This request has been granted and finalised.

Acquisition of Iron Ore, Dolomite and Limestone Projects in Kogi State, Nigeria

Shareholders approved the acquisition of Ado Ibrahim Mining Co Pty Ltd ("AICO") on 30 July 2008 and a share sale agreement was executed on 6 September 2008. However on 29 October 2008 the Company terminated the agreement to acquire AICO, as certain conditions precedent had not been satisfied.

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

On 29 October 2008, the Company terminated the agreement to acquire AICO, as certain conditions precedent had not been satisfied.

BLACK FIRE ENERGY LIMITED ABN 29 122 921 813

Financial Report for the Year Ended 30 June 2009

DIRECTORS' REPORT (continued)

SIGNIFICANT EVENTS AFTER THE BALANCE DATE

In keeping with its previously advised strategy of seeking opportunities in the resources sector, the Board of Black Fire Energy Ltd has agreed (on 9 September 2009) to raise additional capital and augment its management team and Board to assist in the future growth of the company. The Company has also entered into (on 9 September 2009) a Joint Venture over strategic tenements covering the Mystique Gold Project located in the Proterozoic Albany-Fraser (Tropicana) Belt of Western Australia. The Albany-Fraser Belt is host to a number of recent gold discoveries including the +5Moz Tropicana-Havana deposit (Anglogold & Independence Group JV).

Additional capital will be raised by the placement of two tranches of new shares to a range of domestic and offshore institutional and sophisticated investors. The first placement of 5,304,375 ordinary shares was completed on 9 September 2009 raising additional funds of \$318,262.50. The second tranche placement of 45,000,000 ordinary shares requires shareholder approval which will be sought at a meeting of shareholders to be held in October 2009.

Further capital will be raised by a proposed Non-renounceable Entitlement Issue to existing shareholders. This offer will be on the basis of one new share for every two existing shares held. A prospectus will be sent to eligible shareholders advising them of the details of the offer.

The funds raised will be used to continue participation in the Company's existing oil and gas interests as well as to advance exploration at the Mystique Gold Joint Venture. The funds will also be used to assist with the identification and review of additional resource opportunities as they present. The introduction of a number of highly supportive new investors to the company with strong resource sector networks and focus is expected to assist with ongoing identification and funding of these future growth opportunities.

The combination of the placements and Entitlement Issue (if fully subscribed or upon placement of any shortfall) will result in total capital raised of approximately \$4.2 million (before costs). Together with existing cash reserves of approximately \$1.9 million, Black Fire will have total cash reserves of approximately \$6.1 million (before costs).

As part of the expansion of operational activities, the Board and management team has been augmented with the appointment (on 9 September 2009) of Mr Simon Rigby as Managing Director and Mr Mike Chester as a Non-Executive Director. Upon the appointment of the new directors Mr David Steinepreis (Non-Executive Chairman) and Mr Gary Steinepreis (Non-Executive Director) resigned from the Board. Mr Gary Steinepreis also resigned as Company Secretary on 9 September. He was replaced by Mr Matthew Sheldrick on the same date.

Since 30 June 2009 there has been no matter or circumstance that has arisen, (other than that disclosed above), that has significantly affected, or may significantly affect:

- (1) the Company's operations in future financial years, or
- (2) the results of those operations in future financial years, or
- (3) the Company's state of affairs in future financial years.

LIKELY DEVELOPMENTS AND EXPECTED RESULTS OF OPERATIONS

There were no likely developments in the operations of the Company that were not finalised at the date of this report. Further information on likely developments in the operations of the Company and expected results of operations have not been included in this annual financial report because the directors believe it would be likely to result in unreasonable prejudice to the Company.

ENVIRONMENTAL REGULATION AND PERFORMANCE

The Company is subject to and will comply with environmental protection laws and regulations in force in Australia that effect its operations as a result of its participation in three onshore Western Australian oil and gas exploration programs. The drilling has now finished and no known major rehabilitation costs are expected and there are no known breaches of any relevant laws and regulations as at the date of this report.

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Financial Report for the Year Ended 30 June 2009

DIRECTORS' REPORT (continued)

SHARE OPTIONS

Un-issued Shares

As at the date of this report, there are 30,750,000 (2008: 30,750,000) un-issued ordinary shares under option. (30,750,000 at reporting date).

Option holders do not have any right, by virtue of the options, to participate in any share issue of the company or any related body corporate.

Shares Issued as a result of the Exercise of Options

There were no shares issued as a result of the exercise of options in the financial period.

No options were granted, exercised, lapsed or vested during the financial year

The numbers of options over ordinary shares in the company held during the financial year by each director of Black Fire Energy Limited, including their personally related parties, are set out below. There were no options granted during the reporting period as part of remuneration. All options are listed, vested and exercisable at the end of the year.

2009	Balance As at 1/7/2008	Granted during the period as compensation	Exercised during the period	Other changes during the period	Balance at the end of the period	Exercisable As at 30/6/2009
DIRECTORS						
Simon Rigby	-	-	-	-	-	-
Michael Chester	-	-	-	-	-	-
David Steinepreis	2,000,000	-	-	-	2,000,000	2,000,000
Matthew Sheldrick	2,140,000	-	-	-	2,140,000	2,140,000
Gary Steinepreis	2,795,000	-	-	-	2,795,000	2,795,000
	6,935,000	-	-	-	6,935,000	6,935,000

2008	Balance As at 1/7/2007	Granted during the period as compensation	Exercised during the period	Other changes during the period	Balance at the end of the period	Exercisable As at 30/6/2008
DIRECTORS						
David Steinepreis	2,000,000	-	-	-	2,000,000	2,000,000
Matthew Sheldrick	2,140,000	-	-	-	2,140,000	2,140,000
Gary Steinepreis	2,795,000	-	-	-	2,795,000	2,795,000
	6,935,000	-	-	-	6,935,000	6,935,000

BLACK FIRE ENERGY LIMITED ABN 29 122 921 813

Financial Report for the Year Ended 30 June 2009

DIRECTORS' REPORT (continued)

REMUNERATION REPORT (AUDITED)

This report outlines the remuneration arrangements in place for directors and executives of Black Fire Energy Limited.

Remuneration Policy

The Board is responsible for determining and reviewing compensation arrangements for the Directors. The Board assesses the appropriateness of the nature and amount of emoluments of such officers on a periodic basis by reference to relevant employment market conditions with the overall objective of ensuring maximum stakeholder benefit from the retention of a high quality board and executive team. The Company does not have existing remuneration policies in place that links the nature and amount of the emoluments to the Company's financial or operational performance.

The expected outcome of this remuneration structure is:

- Retention and motivation of Directors
- Performance rewards to allow Directors to share the rewards of the success of the Company

As part of its Corporate Governance Policies and Procedures, the board has adopted a formal Remuneration Committee Charter. Due to the current size of the Company and number of directors, the board has elected not to create a separate Remuneration Committee but has instead decided to undertake the function of the Committee as a full Board under the guidance of the formal charter.

Company Performance

The Company has been in a loss making position since inception and therefore earnings per share is not a meaningful measure of performance. The table below shows the performance of the Company as measured by the Company's share price and basic and diluted loss per share since incorporation (including the current period).

	2007	2008	2009
Share price	20 cents	18 cents	5.5 cents
Basic and diluted loss per share	(4.84)	(2.72)	(3.48)

Details of Key Management Personnel

- Mr David Steinepreis (Non Executive Chairman) (resigned 9 September 2009)
- Mr Matthew Sheldrick (Executive Director)
- Mr Gary Steinepreis (Non Executive Director) (resigned 9 September 2009)
- Mr Simon Rigby (Proposed Managing Director) (appointed 9 September 2009)
- Mr Michael Chester (Non Executive Director) (appointed 9 September 2009)

During the period there were no executives or key management personnel other than the directors.

BLACK FIRE ENERGY LIMITED ABN 29 122 921 813

Financial Report for the Year Ended 30 June 2009

DIRECTORS' REPORT (continued)

REMUNERATION REPORT (AUDITED) (continued)

Remuneration Paid to Directors and Executives

Details of the nature and amount of each element of the emolument of each Director and Executive of the Company for the financial period are as follows:

2009	Short Term			Post Employment	Total
	Base Salary	Directors Fees	Consulting Fees	Superannuation	
DIRECTORS	\$	\$	\$	\$	\$
Simon Rigby	-	-	-	-	-
Michael Chester	-	-	-	-	-
David Steinepreis ^(b)	-	-	46,000	-	46,000
Matthew Sheldrick	170,833	-	-	15,375	186,208
Gary Steinepreis ^(a)	-	-	46,000	-	46,000
	170,833	-	92,000	15,375	278,208

2008	Short Term			Post Employment	Total
	Base Salary	Directors Fees	Consulting Fees	Superannuation	
DIRECTORS	\$	\$	\$	\$	\$
David Steinepreis ^(b)	-	-	60,000	-	60,000
Matthew Sheldrick	150,000	-	-	13,500	163,500
Gary Steinepreis ^(a)	-	-	60,000	-	60,000
	150,000	-	120,000	13,500	283,500

There were no options or other share based payments granted as part of remuneration for the years ended 30 June 2009 and / or 30 June 2008. No element of remuneration was performance related for the years ended 30 June 2009 and / or 30 June 2008.

The fees paid to director related entities were for the provision of corporate management services for the ongoing operations of the Company, of the particular director, to the Company, as follows:

- (a) Leisurewest Consulting Pty Limited, as trustee for the Leisurewest Trust, an entity associated with Gary Steinepreis was paid \$46,000 (2008: \$60,000); and
- (b) Ord Street Services, an entity associated with David Steinepreis was paid \$46,000 (2008: \$60,000).

Non- Executive Directors Remuneration

Non-executive directors serve on a month to month basis and there is no formal agreement in place between the Company and its non-executive directors.

Chief Executive Officer (Matthew Sheldrick will resign from the position upon Simon Rigby's appointment)

Executive director remuneration is outlined in an executive services agreement between the Company and the executive. A summary of the key terms of any such agreements are outlined below.

BLACK FIRE ENERGY LIMITED ABN 29 122 921 813

Financial Report for the Year Ended 30 June 2009

DIRECTORS' REPORT (continued)

REMUNERATION REPORT (AUDITED) (continued)

Chief Executive Officer (continued)

Employment Contract

The Company has entered into an executive services agreement with Matthew Sheldrick, an executive director and chief executive officer of the Company, to provide executive services for the management and operations of the Company, effective 1 September 2006 and ceases when the contract is terminated by either the Company or Mr Sheldrick. The contract is current as at 30 June 2009.

Mr Sheldrick is responsible for overseeing the implementation of the Company's business objectives and management of the Company. Mr Sheldrick will become a non executive director pending the outcome of various resolutions to be decided by shareholders at the forthcoming AGM. He was appointed company secretary on 9 September 2009. These changes to his role will affect his services contract in the coming financial year ending 30 June 2010.

Remuneration consists of fixed remuneration being base salary plus statutory superannuation.

During the year ended 30 June 2009 Mr Sheldrick was paid a salary of \$170,833 (2008: \$150,000) plus superannuation, subject to annual review. If the agreement is terminated by the Company, a three month termination payment of \$37,500 (2008: \$50,000) is payable whilst no payment is required to be made if terminated by Mr Sheldrick. There is no notice period required to be given by the Company when terminating the agreement however Mr Sheldrick is required to give one month's notice of his intention to terminate the contract.

MEETINGS OF THE COMPANY'S DIRECTORS

During the financial period, in addition to regular Board discussions, the number of meetings of directors held during the period and the number of meetings attended by each director were as follows:

Name	Number of Meetings Eligible to Attend	Number of Meetings Attended
Simon Rigby	-	-
Michael Chester	-	-
Matthew Sheldrick	5	5
Gary Steinepreis	5	5
David Steinepreis	5	5

EMPLOYEES

The Company had one employee, Mr Matthew Sheldrick, at 30 June 2009. Details of his executive service agreement are provided above.

INDEMNIFICATION AND INSURANCE OF DIRECTORS AND OFFICERS

The Company does not currently have directors and / or officers insurance but the Company is currently investigating potential underwriters to cover this risk. No insurance to cover the prospective liability of directors and / or officers was paid during the financial year.

CORPORATE GOVERNANCE

In recognising the need for the highest standards of corporate behaviour and accountability, the Directors of the Company support and have adhered to the principles of sound corporate governance.

The Board recognises the recommendations of the Australian Stock Exchange Corporate Governance Council, and considers that the Company is in compliance with those recommendations, which are of importance to the commercial operation of a junior listed resources company. Where the Company has not adhered to the recommendations it has stated that fact using the "if not why not" approach in its Corporate Governance Statement.

During the financial period, shareholders continued to receive the benefit of an efficient and cost-effective corporate governance policy for the Company. The Company's Corporate Governance Statement and disclosures are contained elsewhere in the annual report.

BLACK FIRE ENERGY LIMITED ABN 29 122 921 813

Financial Report for the Year Ended 30 June 2009

DIRECTORS' REPORT (continued)

AUDITOR'S INDEPENDENCE AND NON-AUDIT SERVICES

The Company has obtained an independence declaration from its auditors, Ernst and Young, which forms part of this report. A copy of that declaration is included at page 41 of this report. There were no non-audit services provided by the company's auditor.

AUDITOR'S REMUNERATION

During the period the following fees were paid or are payable for services provided by the auditor of the Company.

	2009	2008
	\$	\$
Audit or review of financial reports of the entity	<u>27,240</u>	<u>34,590</u>
Total remuneration	<u>27,240</u>	<u>34,590</u>

Signed on behalf of the board in accordance with a resolution of the Directors.



Matthew Sheldrick

Director

15 September 2009

CORPORATE GOVERNANCE

CORPORATE GOVERNANCE STATEMENT

The Board of Directors of Black Fire Energy Limited (Black Fire) is responsible for corporate governance of the Company. The Board guides and monitors the business and affairs of the Company on behalf of the shareholders by whom they are elected and to whom they are accountable.

The Company has established a set of corporate governance policies and procedures that are based on the Australian Stock Exchange Corporate Governance Council's (the Council's) "Principles of Good Corporate Governance and Best Practice Recommendations" (the Recommendations). A copy of the board charter is available on the Company's website at www.blackfireenergy.com.au.

In accordance with the Council's recommendations, the Corporate Governance Statement contains certain specific information and discloses the extent to which the Company has followed the guidelines during the period. Where, a recommendation has not been followed that fact has been disclosed, together with the reasons for the departure.

Corporate Governance Compliance

The board sets out below its "if not, why not" report in relation to those matters of corporate governance where the Company's practices depart from the recommendations.

Principle 1 – Lay solid foundations for management and oversight

1.1 There is no delineation of functions between the board and senior executives.

All functions, roles and responsibilities are undertaken by the board as there are no executives other than directors as at the date of this report.

Principle 2 – Structure the board to add value

Directors of the Company are considered to be independent when they are independent of management and free from any business or other relationship that could materially interfere with – or could reasonably be perceived to materially interfere with – the exercise of their unfettered and independent judgment. In accordance with the definition of independence, there are no Independent Directors currently on the board. The Directors consider that the current structure and composition of the Board is appropriate to the size and nature of operations of the Company.

2.1 The Company does not have a majority of independent directors.

Consistent with the size of the Company and its activities, the board is comprised of three (3) directors, one (1) of whom is considered to be an executive director.

The board's policy is that the majority of directors shall be independent, non-executive directors. The composition of the board does not currently conform to its policy. It is the board's intention to comply with its policy at a time when the size of the Company and its activities warrants such a structure.

2.2 The chairman is not an independent director.

The chairman is one of the non-executive directors currently on the board and given the size and nature of operations of the Company this current status is considered appropriate. The board's policy is that the chairman shall be independent and non-executive at a time when the size of the Company and its activities warrants such a position.

2.4 A nomination committee has not been established.

The Board has formally adopted a Nomination Committee Charter but given the present size of the Company, has not formed a separate Committee. Instead the function will be undertaken by the full Board in accordance with the policies and procedures outlined in the Nomination Committee Charter. At such time when the Company is of sufficient size a separate Nomination Committee will be formed.

Principle 4 – Safeguard integrity in financial reporting

4.1 The Company does not have an audit committee.

4.2 Given 4.1 the structure of the audit committee does not comply with the structure set out in the board charter adopted by the Company.

CORPORATE GOVERNANCE

Corporate Governance Compliance (continued)

Principle 4 – Safeguard integrity in financial reporting (continued)

The Board has formally adopted an Audit and Risk Management Committee Charter but given the present size of the Company, has not formed a separate Committee. Instead the function of the Committee will be undertaken by the full Board in accordance with the policies and procedures outlined in the Audit and Risk Management Committee Charter. At such time when the Company is of sufficient size a separate Audit and Risk Management Committee will be formed.

It is the Board's responsibility to ensure that an effective internal control framework exists within the entity. This includes internal controls to deal with the effectiveness and efficiency of significant business processes, the safeguarding of assets, the maintenance of proper accounting records, and the reliability of financial and non financial-information. It is the Board's responsibility for the establishment and maintenance of a framework of internal control.

Principle 7 – Recognise and manage risk

All functions, roles and responsibilities with regard to risk oversight and management and internal control are undertaken by the board as a whole as there are no executives other than directors as at the date of this report.

The role of the Risk Management Committee has been assumed by the full Board operating under the Risk Management Committee Charter adopted by the Board.

The Company policies are designed to ensure strategic, operational, legal, reputation and financial risks are identified, assessed, effectively and efficiently managed and monitored to enable achievement of the Company's business objectives.

Principle 8 – Remunerate fairly and responsibly

8.1 The Company does not have a Remuneration Committee.

The Board is responsible for determining and reviewing compensation arrangements for themselves and the Chief Executive Officer. The Board has formally adopted a Remuneration Committee Charter however given the present size of the Company, has not formed a separate Committee. Instead the function will be undertaken by the full Board in accordance with the policies and procedures outlined in the Remuneration Committee Charter. At such time when the Company is of sufficient size a separate Remuneration Committee will be formed.

It is the Company's objective to provide maximum stakeholder benefit from the retention of a high quality board by remunerating directors fairly and appropriately with reference to relevant market conditions.

The Board of Black Fire Energy Limited conducts its performance review of itself on an ongoing basis throughout the year. The small size of the Company and hands on management style requires an increased level of interaction between directors and executives throughout the period. Board members meet amongst themselves both formally and informally. The Board considers that the current approach that it has adopted with regard to the review of its performance provides the best guidance and value to the Company.

Financial Report for the year ended 30 June 2009

**Income Statement
For the year ended 30 June 2009**

	Note	Company 2009 \$	Company 2008 \$
Revenues and income from operations			
Interest revenue		105,256	118,315
Gain on sale of financial assets classified as held for trading		11,256	-
Revenue and other income		116,512	118,315
Expenses			
Audit Fees	21	27,240	34,590
Exploration expenditure	12(a)	404,201	470,675
Acquisition costs written off	12(b)	417,754	-
Public company costs		35,209	28,993
Legal fees		1,500	10,245
Employee benefits expense	6	278,208	283,500
Employment related expenses		53,109	-
Office rental and outgoings		76,917	83,747
Administration expenditure	6(a)	52,176	48,572
Expenses		1,346,314	960,322
(Loss) from operations before income tax		(1,229,802)	(842,007)
Income tax expense	7	-	-
(Loss) from operations after income tax		(1,229,802)	(842,007)
		Cents	Cents
Basic (loss) per share (cents per share)	9(a)	(3.48)	(2.72)
Diluted (loss) per share (cents per share)	9(b)	(3.48)	(2.72)

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

BLACK FIRE ENERGY LIMITED ABN 29 122 921 813

Financial Report for the year ended 30 June 2009

**Balance Sheet
As at 30 June 2009**

	Note	Company 2009 \$	Company 2008 \$
ASSETS			
Current assets			
Receivables	10	2,086	5,057
Financial assets classified as held for trading	11	90,000	-
Cash and cash equivalents	11	<u>1,878,984</u>	<u>2,738,721</u>
Total current assets		<u>1,971,070</u>	<u>2,743,778</u>
Non - current assets			
Exploration and evaluation costs	12(a)	-	240,913
Deferred acquisition costs	12(b)	<u>-</u>	<u>248,600</u>
Total non - current assets		<u>-</u>	<u>489,513</u>
Total assets		<u>1,971,070</u>	<u>3,233,291</u>
LIABILITIES			
Current liabilities			
Trade and other payables	13	<u>32,940</u>	<u>65,359</u>
Total current liabilities		<u>32,940</u>	<u>65,359</u>
Total liabilities		<u>32,940</u>	<u>65,359</u>
Net assets		<u>1,938,130</u>	<u>3,167,932</u>
Equity			
Contributed equity	14	4,223,366	4,223,366
Reserves	14	307,500	307,500
Accumulated losses		<u>(2,592,736)</u>	<u>(1,362,934)</u>
Total equity		<u>1,938,130</u>	<u>3,167,932</u>

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

Financial Report for the year ended 30 June 2009

**Statement of Changes in Equity
For the year ended 30 June 2009**

	Ordinary shares \$	Share option reserve \$	Accumulated losses \$	Total \$
2008				
Balance 1 July 2007	3,571,637	307,500	(520,927)	3,358,210
Loss for the year	-	-	(842,007)	(842,007)
Total income and expense for the year	3,571,637	307,500	(1,362,934)	2,516,203
Shares issued	691,875	-	-	691,875
Transaction costs on share issue	(40,146)	-	-	(40,146)
Balance 30 June 2008	<u>4,223,366</u>	<u>307,500</u>	<u>(1,362,934)</u>	<u>3,167,932</u>
2009				
Balance 1 July 2008	4,223,366	307,500	(1,362,934)	3,167,932
Loss for the year	-	-	(1,229,802)	(1,229,802)
Total income and expense for the year	4,223,366	307,500	(2,592,736)	1,938,130
Balance 30 June 2009	<u>4,223,366</u>	<u>307,500</u>	<u>(2,592,736)</u>	<u>1,938,130</u>

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

Financial Report for the year ended 30 June 2009

**Cash Flow Statement
For the year ended 30 June 2009**

	Note	Company 2009 \$	Company 2008 \$
Cash flows from operating activities			
Payments to suppliers and employees		(544,283)	(488,390)
Payments for acquisition expenditure written off		(169,154)	(460,705)
Payments for exploration and evaluation costs		(163,288)	(240,913)
Receipt of refunds		9,223	-
Interest received		105,256	118,315
Net cash used in operating activities	15(a)	(762,246)	(1,071,693)
Cash flows from investing activities			
Payment for investments in shares		(172,250)	-
Proceeds from sale of shares		93,506	-
Payments for acquisition costs		-	(248,600)
Net cash used in investing activities		(78,744)	(248,600)
Cash flows from financing activities			
Proceeds from the issue of shares		-	691,875
Transaction costs for issue of shares		(18,747)	(33,969)
Net cash (used in)/ received from financing activities		(18,747)	657,906
(Decrease) in cash and cash equivalents		(859,737)	(662,387)
Cash and cash equivalents at the start of the year		2,738,721	3,401,108
Cash and cash equivalents at the end of the year	11	1,878,984	2,738,721

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

BLACK FIRE ENERGY LIMITED ABN 29 122 921 813

Financial Report for the Year Ended 30 June 2009

Notes to the Financial Statements

1. CORPORATE INFORMATION

The financial report of Black Fire Energy Limited for the year ended 30 June 2009 was authorised for issue in accordance with a resolution of the directors on 15 September 2009.

Black Fire Energy Limited is a company limited by shares incorporated in Australia whose shares are publicly traded on the Australian Stock Exchange.

The nature of the operations and principal activities of the Company are described in the Directors report.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Preparation

The financial report is a general purpose financial report, which has been prepared in accordance with the requirements of the *Corporations Act 2001*, Australian Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards Board. The financial report has also been prepared on a historical cost basis, except for held for trading investments, which have been measured at fair value.

The financial report is presented in Australian dollars and all values are rounded to the nearest dollar unless otherwise stated.

(b) Statement of Compliance

The financial report complies with Australian Accounting Standards as issued by the Australian Accounting Standards Board and International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board.

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet effective have not been adopted by the Company for the reporting period ending 30 June 2009. These are outlined in the following tables.

Reference	Title	Summary	Application date of standard	Impact on Group's financial report	Application date for Group
AASB Int. 17 and AASB 2008-13	Distributions of Non-cash assets to Owners and consequential amendments to other Australian Accounting Standards AASB 5 and AASB 110.	The Interpretation outlines how an entity should measure distributions of assets, other than cash, as a dividend to its owners acting in their capacity as owners. This applies to transactions commonly referred to as spin-offs, split offs or demergers and in-specie distributions.	1 July 2009	The Company does not intend to distribute non-cash assets to owners and as such this interpretation is not expected to have any impact on the Company's financial report.	1 July 2009
AASB 8 and AASB 2007-3	Operating Segments and consequential amendments to other Australian Accounting Standards.	New standard replacing AASB 114 <i>Segment Reporting</i> , which adopts a management reporting approach to segment reporting.	1 January 2009	AASB 8 is a disclosure standard so will have no direct impact on the amounts included in the Company's financial statements.	1 July 2009

BLACK FIRE ENERGY LIMITED ABN 29 122 921 813

Financial Report for the Year Ended 30 June 2009

Notes to the Financial Statements (continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) Statement of Compliance (continued)

AASB 123 (revised) and AASB 2007-6	Borrowing Costs and consequential amendments to other Australian Accounting Standards.	The amendments to AASB 123 require that all borrowing costs associated with a qualifying asset be capitalised.	1 January 2009	The Company has no borrowing costs associated with qualifying assets and the amendments are not expected to have any impact on the Company's financial report.	1 July 2009
AASB 101 (revised), AASB 2007-8 and AASB 2007-10	Presentation of financial statements and consequential amendments to other Australian Accounting Standards.	Introduces a statement of comprehensive income. Other revisions include impacts on the presentation of items in the statement of changes in equity, new presentation requirements for restatements or reclassifications of items in the financial statements, changes in the presentation requirements for dividends and changes to the titles of the financial statements.	1 January 2009	Amendments are expected to only affect the presentation of the financial report and will not have a direct impact on the measurement and recognition of amounts under current AASB 101. The Company has not determined whether to present the new statement of comprehensive income as a single or two statements.	1 July 2009
AASB 2008-1	Amendments to Australian Accounting Standard – Share-based Payments: Vesting Conditions and Cancellations.	The amendments clarify the definition of 'vesting conditions', introducing the term 'non-vesting conditions' for conditions other than vesting conditions as specifically defined and prescribe the accounting treatment of an award that is effectively cancelled because a non-vesting condition is not satisfied.	1 January 2009	The adoption of this standard will not impact the financial position or performance of the company.	1 July 2009
AASB 2008-2	Amendments to Australian Accounting Standards – Puttable Financial Instruments and Obligations arising on Liquidation.	The amendments provide a limited exception to the definition of a liability so as to allow an entity that issues puttable financial instruments with certain specified features, to classify those instruments as equity rather than financial liabilities.	1 January 2009	As the company has not issued any puttable financial instruments the adoption of this standard will not impact the financial position or performance of the company.	1 July 2009

Financial Report for the Year Ended 30 June 2009

Notes to the Financial Statements (continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) Statement of Compliance (continued)

AASB 3 (revised)	Business Combinations.	The revised Standard introduces changes to the accounting for business combinations, the most significant of which includes the requirement to expense transaction costs and a choice to measure a non-controlling interest (formerly a minority interest) in the acquiree either at its fair value or at its proportionate interest in the acquiree's net assets. This choice will result in recognising goodwill relating to 100% of the business (applying the fair value option) or recognising goodwill relating to the percentage interest acquired. The changes apply prospectively.	1 July 2009	The adoption of this standard will not impact the financial position or performance of the company. However the company will establish an accounting policy for business combinations should one occur.	1 July 2009
AASB 127 (revised)	Consolidated and Separate Financial Statements.	There are a number of changes arising from the revision to AASB 127 relating to changes in ownership interest in a subsidiary without loss of control, allocation of losses of a subsidiary and accounting for the loss of control of a subsidiary. Specifically in relation to a change in the ownership interest of a subsidiary (that does not result in loss of control) – such a transaction will be accounted for as an equity transaction.	1 July 2009	The adoption of this standard will not impact the financial position or performance of the company. The company will establish a policy should the company acquire a subsidiary.	1 July 2009
AASB 2008-3	Amendments to Australian Accounting Standards arising from AASB 3 and AASB 127.	Amending standard issued as a consequence of revisions to AASB 3 <i>Business Combinations</i> and AASB 127 <i>Consolidated and Separate Financial Statements</i> . Refer above.	1 July 2009	Refer to AASB 3 above.	1 July 2009
AASB 2008-5	Amendments to Australian Accounting Standards arising from the Annual Improvements Project.	The improvements project annually provides a mechanism for making non-urgent, but necessary, changes to IFRSs. IASB has separated the changes into 2 parts: Part I changes the IASB identified resulting in accounting changes; Part II either terminology or editorial amendments that the IASB believes will have minimal impact. This was the first omnibus of amendments issued by the IASB arising from the Annual Improvements Project. Going forward, such improvements will be issued annually to remove inconsistencies and clarify wording in the standards. AASB issued these amendments in two separate amending standards; one, the accounting changes effective from 1 Jan 09 the other changes to AASB 5, which will be applicable from 1 July 2009 [refer below AASB 2008-6].	1 January 2009	The potential impact of this Standard on the Company's financial report is yet to be fully assessed.	1 July 2009

Financial Report for the Year Ended 30 June 2009

Notes to the Financial Statements (continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) Statement of Compliance (continued)

AASB 2008-6	Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project.	This was the second omnibus of amendments issued by the IASB arising from the Annual Improvements Project. Refer to AASB 2008-5 above for more details.	1 July 2009	The potential impact of this Standard on the Company's financial report is yet to be fully assessed.	1 July 2009
AASB 2008-7	Amendments to Australian Accounting Standards – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate.	The main amendments of relevance to Australian entities are those made to AASB 127 deleting the “cost method” and requiring all dividends from a subsidiary, jointly controlled entity or associate to be recognised in profit or loss in an entity's separate financial statements (i.e. Parent company accounts). The distinction between pre- and post-acquisition profits is no longer required. However, the payment of such dividends requires the entity to consider whether there is an indicator of impairment. AASB 127 has also been amended to effectively allow the cost of an investment in a subsidiary, in limited reorganisations, to be based on the previous carrying amount of the subsidiary (that is, share of equity) rather than its fair value.	1 January 2009	The company has no subsidiaries, associates or joint ventures and as such these amendments are not expected to have any impact on the company's financial report.	1 July 2009
AASB 2009-2	Amendments to Australian Accounting Standards – Improving Disclosures about Financial Instruments [AASB 4, AASB 7, AASB 1023 & AASB 1038].	The main amendment to AASB 7 requires fair value measurements to be disclosed by the source of inputs, using the following three-level hierarchy: - quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1); - inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices) (Level 2); and - inputs for the asset or liability that are not based on observable market data (unobservable inputs) (Level 3). These amendments arise from the issuance of <i>Improving Disclosures about Financial Instruments (Amendments to IFRS 7)</i> by the IASB in March 2009. The amendments to AASB 4, AASB 1023 and AASB 1038 comprise editorial changes resulting from the amendments to AASB 7.	Annual reporting periods beginning on or after 1 January 2009 that end on or after 30 April 2009.	The amendments are expected to only affect the Company's disclosure in the financial report, so will have no direct impact on the amounts included in the Company's financial statements.	1 July 2009

Financial Report for the Year Ended 30 June 2009

Notes to the Financial Statements (continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) Statement of Compliance (continued)

<p>AASB 2009-5</p>	<p>Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project [AASB 5, 8, 101, 107, 117, 118, 136 & 139].</p>	<p>The amendments to some Standards result in accounting changes for presentation, recognition or measurement, while some changes that relate to terminology and editorial changes are expected to have no or minimal effect on accounting. The main amendment of relevance is that made to AASB 117 by removing the specific guidance on classifying land as a lease so that only the general guidance remains. Assessing land leases based on the general criteria may result in more land leases being classified as finance leases and if so, the type of asset which is to be recorded (intangible v property, plant and equipment) needs to be determined. These amendments arise from the issuance of the IASB's <i>Improvements to IFRSs</i>. The AASB has issued the amendments to IFRS 2, IAS 38, IFRIC 9 as AASB 2009-4.</p>	<p>1 January 2010</p>	<p>The potential impact of these amendments on the Company's financial report is yet to be fully assessed.</p>	<p>1 July 2010</p>
<p>AASB 2009-7</p>	<p>Amendments to Australian Accounting Standards AASB 5, 7, 107, 112, 136 & 139 and Interpretation 17</p>	<p>These comprise editorial amendments and are expected to have no major impact on the requirements of the amended pronouncements.</p>	<p>1 July 2009</p>	<p>These amendments are not expected to have any major impact on the Company's financial report.</p>	<p>1 July 2009</p>
<p>Amendments to International Financial Reporting Standards</p>	<p>Amendments to IFRS 2.</p>	<p>The amendments clarify the accounting for Company cash-settled share-based payment transactions, in particular: - the scope of AASB 2; and - the interaction between IFRS 2 and other standards. An entity that receives goods or services in a share-based payment arrangement must account for those goods or services no matter which entity in the Company settles the transaction, and no matter whether the transaction is settled in shares or cash. A "Company" has the same meaning as in IAS 27 <i>Consolidated and Separate Financial Statements</i>, that is, it includes only a Parent and its subsidiaries. The amendments also incorporate guidance previously included in IFRIC 8 <i>Scope of IFRS 2</i> and IFRIC 11 <i>IFRS 2—Company and Treasury Share Transactions</i>. As a result, IFRIC 8 and IFRIC 11 have been withdrawn.</p>	<p>1 January 2010</p>	<p>The Company does not have cash-settled share-based payment transactions, and as such these amendments are not expected to have any impact on the company's financial report.</p>	<p>1 July 2010</p>

BLACK FIRE ENERGY LIMITED ABN 29 122 921 813

Financial Report for the Year Ended 30 June 2009

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Segment Reporting

A business segment is a distinguishable component of the entity that is engaged in providing products or services that are subject to risks and returns that are different to those of other operating business segments. A geographical segment is a distinguishable component of the entity that is engaged in providing products or services within a particular economic environment and is subject to risks and returns that are different than those of segments operating in other economic environments.

(d) Cash and cash equivalents

Cash and cash equivalents in the balance sheet comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

For the purposes of the Cash Flow Statement, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts. Bank overdrafts are included within interest-bearing loans and borrowings in current liabilities on the balance sheet.

(e) Trade and other receivables

Trade receivables, which generally have 30-60 day terms, are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less an allowance for impairment.

Collectability of trade receivables is reviewed on an ongoing basis. Individual debts that are known to be uncollectible are written off when identified. An impairment allowance is recognised when there is objective evidence that the Company will not be able to collect the receivable. Financial difficulties of the debtor, default payments or debts more than 60 days overdue are considered objective evidence of impairment. The amount of the impairment loss is the receivable carrying amount compared to the present value of estimated future cash flows, discounted at the original effective interest rate.

(f) Investments and Other Financial Assets

Classification

The Company classifies its financial assets in the following categories:

- (i) Financial assets at fair value through profit or loss;
- (ii) Loans and receivables;
- (iii) Available for sale financial assets; and
- (iv) Held to maturity investments.

The classification depends on the purpose for which the investments were acquired. Management determines the classifications of investments at initial recognition and re-evaluates this designation at each reporting date, although there are restrictions on reclassifying to other categories.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling it in the short term. Assets in this category are classified as current assets.

Loans and receivables

Loans and receivables are non derivative financial assets with fixed or determinable payments that are not quoted in the active market. They are included in current assets, except for those with maturities greater than 12 months after the reporting date which are classified as non current assets.

Available for sale financial assets

Available for sale financial assets, comprising principally marketable equity securities, are non derivatives that are either designated in this category or not classified in any of the other categories. They are included in the non current assets unless management intends to dispose of the investment within 12 months of the reporting date. Investments are designated as available for sale if they do not have fixed maturities and fixed or determinable payments and management intends to hold them for the medium to long term.

Financial Report for the Year Ended 30 June 2009

Notes to the Financial Statements (continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(f) Investments and Other Financial Assets (continued)

Classification (continued)

Held to maturity investments

Held to maturity investments are non derivative financial assets with fixed or determinable payments and fixed maturities that the Company's management has the positive intention and ability to hold to maturity. If the Company were to sell other than an insignificant amount of held to maturity financial assets, the whole category would be tainted and reclassified as available for sale. Held to maturity financial assets are included in non current assets, except for those with maturities less than 12 months from the reporting date, which are classified as current assets.

Reclassification

The Company may choose to reclassify a non derivative trading financial asset out of the held for trading category if the financial asset is no longer held for the purpose of selling it in the near term. Financial assets other than loans and receivables are permitted to be reclassified out of the held for trading category only in rare circumstances arising from a single event that is unusual and highly unlikely to recur in the near term. In addition, the Company may choose to reclassify financial assets that would meet the definition of loans and receivables out of the held for trading or available for sale categories if the Company has the intention and ability to hold these financial assets for the foreseeable future or until maturity at the date of reclassification.

Reclassifications are made at fair value as of the reclassification date. Fair value becomes the new cost or amortised cost as applicable, and no reversals of fair value gains or losses recorded before reclassification date are subsequently made. Effective interest rates for financial assets reclassified to loans and receivables and held to maturity categories are determined at the reclassification date. Further increases in estimates of cash flows adjust effective interest rates retrospectively.

Recognition and de-recognition

Purchases and sales of financial assets are recognised on trade date, the date on which the Company commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss, are initially recognised at fair value and transaction costs are expensed in the income statement. Financial assets are de-recognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Company has transferred substantially all the risks and rewards of ownership.

When securities classified as available for sale are sold, the accumulated fair value adjustments recognised in equity are included in the income statement as gains and losses from investment securities.

Subsequent measurement

Loans and receivables and held to maturity investments are carried at amortised cost using the effective interest method.

Available for sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Gains or losses arising from changes in the fair value of the financial assets at fair value through profit or loss category are presented in the income statement within other income or other expenses in the period in which they arise. Gains or losses arising from changes in the fair value of available for sale financial assets are recognised as a separate component of equity until the asset is derecognized or determined to be impaired, at which time the cumulative gain or loss previously reported in equity is recognized in profit or loss. Dividend income from financial assets at fair value through profit or loss is recognised in the income statement as part of revenue from continuing operations when the Company's right to receive payments is established.

Impairment

The Company assesses at each balance date whether there is objective evidence that a financial assets or group of financial assets is impaired. In the case of equity securities classified as available for sale, a significant or prolonged decline in the fair value of a security below its cost is considered as an indicator that the securities are impaired. If any such evidence exists for available for sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments classified as available for sale are not reversed through the income statement.

Financial Report for the Year Ended 30 June 2009

Notes to the Financial Statements (continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(f) Investments and Other Financial Assets (continued)

Impairment (continued)

If there is evidence of impairment for any of the Company's financial assets carried at amortised cost, the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, excluding future credit losses that have not been incurred. The cash flows are discounted at the financial asset's original effective interest rate. The loss is recognised in the income statement.

(g) Impairment of non-financial assets

Non-financial assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

Black Fire Energy Limited conducts an annual internal review of asset values, which is used as a source of information to assess for any indicators of impairment. External factors, such as changes in expected future processes, technology and economic conditions, are also monitored to assess for indicators of impairment. If any indication of impairment exists, an estimate of the asset's recoverable amount is calculated.

An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. Recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows that are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are tested for possible reversal of the impairment whenever events or changes in circumstances indicate that the impairment may have reversed.

(h) Trade and other payables

Trade and other payables are carried at amortised cost. They represent liabilities for goods and services provided to the Company prior to the end of the financial period that are unpaid and arise when the Company becomes obliged to make future payments in respect of the purchase of these goods and services. The amounts are unsecured and are usually paid within 30 days of recognition.

(i) Contributed Equity

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

(j) Revenue

Revenue is recognised and measured at the fair value of the consideration received or receivable to the extent it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured.

Interest revenue is recognised using the effective interest method.

(k) Income Tax and Other Taxes

Income tax

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities based on the current period's taxable income. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the balance sheet date.

Deferred income tax is provided on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognised for all taxable temporary differences; except:

- when the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and that, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; or

Financial Report for the Year Ended 30 June 2009

Notes to the Financial Statements (continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

- when the taxable temporary difference is associated with investments in subsidiaries, associates or interests in joint ventures, and the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry-forward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; or
- when the deductible temporary difference is associated with investments in subsidiaries, associates or interests in joint ventures, in which case a deferred tax asset is only recognised to the extent that it is probable that the temporary difference will reverse in the foreseeable future and taxable profit will be available against which the temporary difference can be utilised.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

Unrecognised deferred income tax assets are reassessed at each balance sheet date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or liability is settled, based on tax rates (and tax laws) that have been substantively enacted at the balance sheet date.

Income taxes relating to items recognised directly in equity are recognised in equity and not in profit or loss.

Deferred tax assets and deferred tax liabilities are offset only if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to the same taxable entity and the same taxation authority.

Other taxes

Revenues, expenses and assets are recognised net of the amount of GST except:

- when the GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- receivables and payables, which are stated with the amount of GST included.

The net amount of GST recoverable from or payable to, the taxation authority is included as part of receivables or payables in the balance sheet.

Other taxes (continued)

Cash flows are included in the Cash Flow Statement on a gross basis and the GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the taxation authority is classified as part of operating cash flows.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the taxation authority.

Financial Report for the Year Ended 30 June 2009

Notes to the Financial Statements (continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(l) Earnings per share

Basic earnings per share

Basic EPS is calculated as the net profit attributable to equity holders, excluding any costs of servicing equity (other than dividends), divided by the weighted average number of ordinary shares outstanding during the financial year, adjusted for any bonus elements in ordinary shares issued during the year.

Diluted earnings per share

Diluted EPS adjusts the figures used in the determination of basic EPS to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

(m) Exploration and Evaluation Expenditure

Expenditure on exploration and evaluation is incurred either to maintain an interest or in earning an interest and is accounted for in accordance with the 'area of interest' method. Exploration and evaluation expenditure is capitalised provided the rights to tenure of the area of interest is current and either:

- the exploration and evaluation activities are expected to be recouped through successful development and exploitation of the area of interest or, alternatively, by its sale; or
- exploration and evaluation activities in the area of interest have not at the reporting date reached a stage that permits a reasonable assessment of the existence or otherwise of economically recoverable reserves, and active significant operations in, or relating to, the area of interest are continuing.

When the technical feasibility and commercial viability of extracting a mineral resource have been demonstrated then any capitalised exploration and evaluation expenditure is reclassified as capitalised development expenditure.

Prior to reclassification, capitalised exploration and evaluation expenditure is assessed for impairment.

Costs related to the acquisition of properties that contain mineral resources are allocated separately to specific areas of interest. These costs are capitalised until the viability of the area of interest is determined.

Impairment

The carrying value of capitalised exploration and evaluation expenditure is assessed for impairment at the cash generating unit level whenever facts and circumstances suggest that the carrying amount of the asset may exceed its recoverable amount.

An impairment exists when the carrying amount of an asset or cash-generating unit exceeds its estimated recoverable amount.

The asset or cash-generating unit is then written down to its recoverable amount. Any impairment losses are recognized in the income statement.

(n) Provisions and Employee Benefits

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

When the Company expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is present in the income statement net of any reimbursement.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the balance sheet date. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects the time value of money and the risks specific to the liability. The increase in the provision resulting from the passage of time is recognized in finance costs.

Liabilities arising in respect of wages and salaries, annual leave and any other employee benefits expected to be settled within twelve months of the reporting date are recognised in respect of the employees' services up to the reporting date. They are measured at the amounts expected to be paid when the liabilities are settled. Expenses

BLACK FIRE ENERGY LIMITED ABN 29 122 921 813

Financial Report for the Year Ended 30 June 2009

Notes to the Financial Statements (continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

for non-accumulating sick leave are recognised when the leave is taken and are measured at the rates paid or payable.

All other employee benefit liabilities are measured at the present value of the estimated future cash outflow to be made in respect of services provided by employees up to the reporting date. In determining the present value of future cash outflows, the market yield as at the reporting date on national government bonds, which have terms to maturity approximating the terms of the related liability, are used.

3. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Company's principal financial instruments comprise receivables, financial assets held for trading, payables and cash.

The Company manages its exposure to key financial risks in accordance with the financial risk management policy. The objective of the policy is to support the delivery of financial targets whilst protecting future financial security. The purpose is to manage the interest rate risk arising from the Company's operations and its sources of finance.

The main risks arising from the Company's financial instruments are price risk, interest rate risk, credit risk and liquidity risk.

The Company uses different methods to measure and manage different types of risks to which it is exposed, these include monitoring levels of exposure to interest rate risk and assessments of market forecasts for interest rates. Ageing analyses and monitoring of specific credit allowances are undertaken to manage credit risk, liquidity risk is monitored through the development of future rolling cash flow forecasts.

Primary responsibility for identification and control of financial risks rests with the Board of Directors. The Board reviews and agrees policies for managing each of the risks identified including the setting of limits for interest rate risk, credit allowances and future cash flow forecast projections.

Risk Exposures and Responses

(a) Price Risk

The Company manages price risk by monitoring its investments on a regular basis. The exposure to this risk is not considered to be material.

(b) Credit Risk

The Company's maximum exposure to credit risk at the reporting date in relation to each class of recognised financial asset is the carrying amount of those assets as indicated in the balance sheet.

The Company trades only with recognised, credit worthy third parties. The Company has no significant concentrations of credit risk.

(c) Liquidity Risk

Prudent liquidity risk management implies maintaining sufficient cash to meet commitments as and when they fall due. The Company's objective is to maintain a balance between continuity of funding and flexibility through the use of bank overdrafts and bank loans, if required. At 30 June 2009, 100% of the Company's obligations of \$32,940 (2008:\$65,359) will mature in less than one month.

	2009	2008
	\$	\$
Trade and other payables are expected to be paid as follows:		
Less than 6 months	32,940	65,359
6 months to a year	-	-
1 to 5 years	-	-
Over 5 years	-	-
	<u>32,940</u>	<u>65,359</u>

BLACK FIRE ENERGY LIMITED ABN 29 122 921 813

Financial Report for the Year Ended 30 June 2009

Notes to the Financial Statements (continued)

3. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

(d) Fair Values

All assets and liabilities recognised in the balance sheet, whether they are carried at cost or at fair value, are recognised at amounts that represent a reasonable approximation of fair value unless otherwise stated in the applicable notes.

(e) Interest Rate Risk

The Company's exposure to market interest rates relates primarily to the interest rate received on cash held on short term deposit. The following table sets out the carrying amount, by maturity, of the financial instruments exposed to interest rate risk.

Financial Assets	2009	2008
	\$	\$
Cash and cash equivalents	1,878,984	2,738,721
Net exposure	1,878,984	2,738,721

Sensitivity Analysis – Interest Rate Risk

The Company has performed a sensitivity analysis relating to its exposure to interest rate risk at the balance date. This sensitivity analysis demonstrates the effect on the current year results and equity which could result in a change in interest rates.

Interest Rate	Post tax loss Higher/(lower) 2009	Post tax loss Higher/(lower) 2008	Equity Higher/(lower) 2009	Equity Higher/(lower) 2008
	\$	\$	\$	\$
+1.5% (150 basis points) (2008:+1%)	(28,185)	(27,387)	28,185	27,387
-1.5% (150 basis points) (2008:- 1%)	28,185	27,387	(28,185)	(27,387)

The sensitivity in 2009 increased by 0.5% to reflect the increased volatility of interest rates during the year.

4. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts in the financial statements. Management continually evaluates its judgments and estimates in relation to assets, liabilities, contingent liabilities, revenue and expenses.

Management bases its judgments and estimates on historical experience and on other various factors it believes to be reasonable under the circumstances, the result of which form the basis of the carrying values of assets and liabilities that are not readily apparent from other sources.

Management has identified the following critical accounting policy for which significant judgments, estimates and assumptions are made. Actual results may differ from these estimates under different assumptions and conditions and may materially affect financial results or the financial position reported in future periods.

Impairment of non-financial assets

The Company assesses impairment of all assets at each reporting date by evaluating conditions specific to the Company and to the particular asset that may lead to impairment. These include technology, economic and political environments and future expectations. If an impairment trigger exists the recoverable amount of the asset is determined. In this financial period management considered that the indicators of impairment were significant and have tested the assets for impairment.

5. SEGMENT INFORMATION

During the financial year ended 30 June 2009 the Company operated in one geographic segment, Australia, and within one business segment that being oil and gas exploration.

BLACK FIRE ENERGY LIMITED ABN 29 122 921 813**Financial Report for the Year Ended 30 June 2009****Notes to the Financial Statements** (continued)**6. Employee benefits expense**

	Company	Company
	2009	2008
	\$	\$
Salaries	170,833	150,000
Superannuation	15,375	13,500
Corporate management fees	92,000	120,000
	<hr/> 278,208	<hr/> 283,500

6(a) EXPENSES**Expenses from continuing operations**

Loss before income tax includes the following specific expenses:

Administration expenditure

Bank fees and charges	532	720
Administration and accounting fees	18,750	24,000
Conference and seminar costs	11,856	1,487
Consultants fees	5,488	-
Information technology costs	358	-
Freight	2,389	-
Entertainment	2,150	539
Tax agents fees	4,689	1,591
Travel costs	5,218	9,728
Additional GST paid including general interest charge	-	8,260
Printing and postage	19	1,468
Miscellaneous administration costs	727	779
Total administration expenditure	<hr/> 52,176	<hr/> 48,572

7. INCOME TAX**(a) The components of tax expense comprise:**

Current tax	-	-
Deferred tax	-	-
Under / over provision from previous years	-	-
Income tax expense reported in the income statement	<hr/> -	<hr/> -

BLACK FIRE ENERGY LIMITED ABN 29 122 921 813

Financial Report for the Year Ended 30 June 2009

Notes to the Financial Statements (continued)

7. INCOME TAX (continued)

(b) The prima facie tax benefit on loss from ordinary activities before income tax is reconciled to the income tax as follows:	Company 2009 \$	Company 2008 \$
Loss from continuing operations before income tax expense	(1,229,802)	(842,007)
Prima facie tax benefit on loss from ordinary activities before income tax at 30% (2008: 30%)	(368,941)	(252,602)
Add tax effect of:		
Unrecognised tax assets	205,042	228,107
AICO acquisition costs	163,253	21,333
Other non-allowable items	646	3,162
Income tax expense	<u>-</u>	<u>-</u>

(c) Deferred tax at 30 June relates to the following:	Company 2009 \$	Company 2008 \$
Deferred tax liabilities:		
Exploration expenditure	-	72,274
Deferred tax assets:		
Tax losses	(627,084)	(472,971)
Deductible temporary differences	(48,498)	(69,843)
Net deferred tax asset not recognised	<u>(675,582)</u>	<u>(470,540)</u>

(d) Unrecognised deferred tax assets:		
Carry forward tax losses	627,084	400,697
Deductible temporary differences	48,498	69,843
	<u>675,582</u>	<u>470,540</u>

The tax benefits of the above deferred tax assets will only be obtained if:

- (a) the company derives future assessable income of a nature and of an amount sufficient to enable the benefits to be utilised;
- (b) the company continues to comply with the conditions for deductibility imposed by law; and
- (c) no changes in income tax legislation adversely affect the company in utilising the benefits.

The Company has \$2,090,280 (2008:\$1,335,656) in cumulative tax losses and \$161,660 (2008:\$232,810) in unrecognised temporary differences arising in Australia which are available indefinitely to offset against future profits of the Company providing the tests for deductibility against future profits are met.

8. DIVIDENDS

No dividend was paid or declared by the Company in the period since the end of the previous financial year, and up to the date of this report.

The Directors do not recommend that any amount be paid by way of dividend for the financial year ended 30 June 2009. The balance of the Company's franking account is Nil.

9. LOSS PER SHARE	Company 2009 Cents	Company 2008 Cents
(a) Basic Loss Per Share		
Loss from continuing operations attributable to the ordinary equity holders of the Company	<u>(3.48)</u>	<u>(2.72)</u>
(b) Diluted Loss Per Share		
Loss from continuing operations attributable to the ordinary equity holders of the Company	<u>(3.48)</u>	<u>(2.72)</u>

BLACK FIRE ENERGY LIMITED ABN 29 122 921 813

Financial Report for the Year Ended 30 June 2009

Notes to the Financial Statements (continued)

(c) Reconciliation of Loss used in calculating Loss Per Share	Company 2009 \$	Company 2008 \$
<i>Basic loss per share</i>		
Loss from continuing operations attributable to the ordinary equity holders of the Company	(1,229,802)	(842,007)
<i>Diluted loss per share</i>		
Loss from continuing operations attributable to the ordinary equity holders of the Company	(1,229,802)	(842,007)

(d) Weighted Average Number of Shares Used as the Denominator	Company 2009 Number	Company 2008 Number
Weighted average number of ordinary shares used as the denominator in calculating basic and diluted loss per share	35,362,500	30,990,103

Total options number 30,750,000 (2008:30,750,000) are not considered dilutive to the loss per share as the Company is in a loss making position.

10. TRADE AND OTHER RECEIVABLES	Company 2009 \$	Company 2008 \$
Other debtors	2,086	5,057
	2,086	5,057

Trade receivables are non-interest bearing and are generally on 30-60 day terms. A allowance for impairment loss is recognised when there is objective evidence that an individual trade receivable is impaired. Due to the short term nature of these receivables, their carrying value is assumed to approximate their fair value. The maximum exposure to credit risk is the fair value of receivables. Collateral is not held as security, nor is it the Company's policy to transfer (on-sell) receivables to special purpose entities.

11. CURRENT ASSETS – OTHER FINANCIAL ASSETS	Company 2009 \$	Company 2008 \$
Investments in shares in non related entities – held for trading (i)	90,000	-
Cash at bank and in hand (ii)	1,878,984	2,738,721
	1,968,984	2,738,721

(i) The Company holds ordinary shares in an ASX listed entity. The fair value has been determined directly by reference to published price quotations in an active market.

(ii) Cash at bank earns interest at floating rates based on daily bank deposit rates. The cash at bank is bearing floating interest rates between 2.50% and 3.00% (2008: between 6.00% and 7.00%).

BLACK FIRE ENERGY LIMITED ABN 29 122 921 813

Financial Report for the Year Ended 30 June 2009

Notes to the Financial Statements (continued)

12.	NON CURRENT ASSETS	Company 2009 \$	Company 2008 \$
	(a) Exploration and evaluation costs		
	Beginning of the year	240,913	
	Exploration expenditure incurred during the year	163,288	711,588
	Exploration expenditure written off	(404,201)	(470,675)
	Balance at the end of the year	-	240,913
	(b) Deferred acquisition costs		
	Beginning of the year	248,600	-
	Expenditure incurred during the year	169,154	248,600
	Expenditure written off	(417,754)	-
	Balance at the end of the year	-	248,600

12(a) The Lake Macleod Prospect (EP 439) # 1 well was spudded on 30 September 2008 and reached a total depth of 894m on approximately 11 November 2008. Subsequent wire line logs provided no evidence of commercial hydrocarbons. Black Fire was earning a 7.5% interest in EP 439 by contributing 15% to the cost of drilling the Lake Macleod 1 well, however, Black Fire has now provided a written request to the Operator, Rough Range Oil Pty Ltd, to formally withdraw from EP439. This request has been granted and finalised. Accordingly, the associated exploration expenditure has been fully written off.

12(b) Acquisition costs were associated with the proposed acquisition of Ado Ibrahim Mining Company Ltd (**AICO**) of Nigeria and relate primarily to due diligence costs incurred to date. These costs were initially capitalised as it was considered probable that the acquisition would be completed. Shareholders approved the acquisition of AICO on 30 July 2008. A share sale agreement was executed on 6 September 2008. On 29 October 2008, the Company terminated the agreement to acquire AICO, as certain conditions precedent had not been satisfied and as a result the capitalised costs were written off.

13.	TRADE AND OTHER PAYABLES	Company 2009 \$	Company 2008 \$
	Accrued expenditure	22,908	61,423
	Other creditors	10,032	3,936
		32,940	65,359

Due to the short term nature of these payables, their carrying value is assumed to approximate their fair value.

14.	CONTRIBUTED EQUITY	Company 30 June 2009 Number of Shares	Company 30 June 2009 \$	Company 30 June 2008 Number of Shares	Company 30 June 2008 \$
	(a) Issued and paid up capital				
	Ordinary shares fully paid	35,362,500	4,223,366	35,362,500	4,223,366

(b) Movements in ordinary shares on issue

2009		Number of shares	Company \$
	Balance as at 1 July 2008	35,362,500	4,223,366
	Balance as at 30 June 2009	35,362,500	4,223,366

BLACK FIRE ENERGY LIMITED ABN 29 122 921 813

Financial Report for the Year Ended 30 June 2009

Notes to the Financial Statements (continued)

2008	Date	Number of shares	Company \$
Balance as at 1 July 2007		30,750,000	3,571,637
Issued via a placement at 15 cents per share	11/6/2008	4,612,500	691,875
Share issue costs		-	(40,146)
Balance as at 30 June 2008		<u>35,362,500</u>	<u>4,223,366</u>

(c) Share option reserve	Number of options	Company 30 June 2009 \$	Number of options	Company 30 June 2008 \$
Options exercisable at 20 cents	<u>30,750,000</u>	<u>307,500</u>	30,750,000	307,500

(d) Movements in options on issue

2009	Number of options	Company \$
<i>Options reserve</i>		
As at 1 July 2008	30,750,000	307,500
As at 30 June 2009	<u>30,750,000</u>	<u>307,500</u>
	Number of options	Company \$
2008		
<i>Options reserve</i>		
As at 1 July 2007	30,750,000	307,500
As at 30 June 2008	<u>30,750,000</u>	<u>307,500</u>

Share option reserve was used to record the funds received on the issue of options.

15. CASH FLOW STATEMENT

	Company 2009 \$	Company 2008 \$
(a) Reconciliation of the net loss after tax to the net cash flows from operations		
Net loss after tax	(1,229,802)	(842,007)
Gain on sale of financial assets classified as held for trading	11,256	-
Other	(3,765)	(6,177)
Changes in assets and liabilities:		
Decrease (increase) in capitalized farm in costs	240,913	(240,913)
Decrease in deferred acquisition costs	248,600	-
Decrease (increase) in trade and other receivables	2,971	(5,057)
(Decrease) increase in trade and other payables	<u>(32,419)</u>	<u>22,461</u>
Net cash flow used in operating activities	<u>(762,246)</u>	<u>(1,071,693)</u>

BLACK FIRE ENERGY LIMITED ABN 29 122 921 813

Financial Report for the Year Ended 30 June 2009

Notes to the Financial Statements (continued)

16. RELATED PARTY DISCLOSURES

The only related party transactions that occurred during the financial year were with directors of the Company. For Director related party transactions please refer to Note 17 "Director and Executive Disclosures".

17. DIRECTOR AND EXECUTIVE DISCLOSURES

(a) Remuneration Paid to Key Management Personnel	2009	2008
	\$	\$
Short - term employee benefits	262,833	270,000
Post – employment benefits	15,375	13,500
	278,208	283,500

(b) Shareholdings and option holdings of Key Management Personnel

(i) Share holdings

The number of shares in the company held during the financial year by each director of Black Fire Energy Limited, including their personally related parties, is set out below. There were no shares granted during the reporting period as remuneration.

2009	Balance as at 1 July 2008	Granted during the period as compensation	On exercise of share options	Other changes during the period – Acquired during the year *	Balance as at 30 June 2009
DIRECTORS					
Simon Rigby	-	-	-	-	-
Michael Chester	-	-	-	-	-
David Steinepreis	2,032,500	-	-	750,000	2,782,500
Matthew Sheldrick	2,190,000	-	-	20,000	2,210,000
Gary Steinepreis	2,827,500	-	-	250,000	3,077,500
	7,050,000	-	-	1,020,000	8,070,000
2008					
	Balance as at 1 July 2007	Granted during the period as compensation	On exercise of share options	Other changes during the period – Acquired during the year	Balance as at 30 June 2008
DIRECTORS					
David Steinepreis	2,000,000	-	-	32,500	2,032,500
Matthew Sheldrick	2,140,000	-	-	50,000	2,190,000
Gary Steinepreis	2,795,000	-	-	32,500	2,827,500
	6,935,000	-	-	115,000	7,050,000

* Shares were acquired on-market and at market prices.

(ii) Option holdings

The numbers of options over ordinary shares in the company held during the financial year by each director of Black Fire Energy Limited, including their personally related parties, are set out below.

There were no options granted during the reporting period as part of remuneration.

All options are vested and exercisable at the end of the year. The options were issued to directors on the same terms and conditions as all other shareholders.

BLACK FIRE ENERGY LIMITED ABN 29 122 921 813

Financial Report for the Year Ended 30 June 2009

Notes to the Financial Statements (continued)

2009	Balance as at 1 July 2008	Granted during the period as compensation	Exercised during the period	Other changes during the period	Balance as at 30 June 2009	Vested As at 30/6/2009
DIRECTORS						
Simon Rigby	-	-	-	-	-	-
Michael Chester	-	-	-	-	-	-
David Steinepreis	2,000,000	-	-	-	2,000,000	2,000,000
Matthew Sheldrick	2,140,000	-	-	-	2,140,000	2,140,000
Gary Steinepreis	2,795,000	-	-	-	2,795,000	2,795,000
	6,935,000	-	-	-	6,935,000	6,935,000

2008	Balance as at 1 July 2007	Granted during the period as compensation	Exercised during the period	Other changes during the period – Rights issue	Balance as at 30 June 2008	Vested As at 30/6/2008
DIRECTORS						
David Steinepreis	2,000,000	-	-	-	2,000,000	2,000,000
Matthew Sheldrick	2,140,000	-	-	-	2,140,000	2,140,000
Gary Steinepreis	2,795,000	-	-	-	2,795,000	2,795,000
	6,935,000	-	-	-	6,935,000	6,935,000

(c) Other transactions with key management personnel

Ord Street Services, an entity associated with David Steinepreis was paid \$46,000 (2008: \$60,000).

Ord Street Services provided office accommodation and serviced office facilities for the Company based on normal commercial terms and conditions in the amount of \$76,917 (2008: \$83,747).

The rental component of this payment amounted to \$42,000 (2008: \$42,000) and the serviced office costs \$34,917 (2008: \$41,747).

The services are provided on a month to month basis and there is no formal contract in place.

Leisurewest Consulting Pty Limited, as Trustee for the Leisurewest Trust, an entity associated with Gary Steinepreis was paid \$46,000 (2008: \$60,000).

18. EXPENDITURE COMMITMENTS

(a) Expenditure commitments

Commitments contracted for at reporting date but not recognised as liabilities are as follows:

	2009 \$	2008 \$
Within one year	-	-
After one year but not longer than 5 years	-	573,000
	-	573,000

(b) Remuneration commitments

Under the terms and conditions of the agreement entered into by the Company with the Chief Executive Officer, Mathew Sheldrick, the Company has a minimum commitment for a term of three months.

Commitments contracted for at reporting date but not recognised as liabilities are as follows:

	2009 \$	2008 \$
Salary commitment to Chief Executive Officer	-	-
Within one year	37,500	50,000

BLACK FIRE ENERGY LIMITED ABN 29 122 921 813

Financial Report for the Year Ended 30 June 2009

Notes to the Financial Statements (continued)

19. CONTINGENT LIABILITIES

There are no known contingent liabilities as at balance date.

20. SUBSEQUENT EVENTS

In keeping with its previously advised strategy of seeking opportunities in the resources sector, the Board of Black Fire Energy Ltd has agreed (on 9 September 2009) to raise additional capital and augment its management team and Board to assist in the future growth of the company. The Company has also entered into (on 9 September 2009) a Joint Venture over strategic tenements covering the Mystique Gold Project located in the Proterozoic Albany-Fraser (Tropicana) Belt of Western Australia. The Albany-Fraser Belt is host to a number of recent gold discoveries including the +5Moz Tropicana-Havana deposit (Anglogold & Independence Group JV).

Additional capital will be raised by the placement of two tranches of new shares to a range of domestic and offshore institutional and sophisticated investors. The first placement of 5,304,375 ordinary shares was completed on 9 September 2009 raising additional funds of \$318,262.50. The second tranche placement of 45,000,000 ordinary shares requires shareholder approval which will be sought at a meeting of shareholders to be held in October 2009.

Further capital will be raised by a proposed Non-renounceable Entitlement Issue to existing shareholders. This offer will be on the basis of one new share for every two existing shares held. A prospectus will be sent to eligible shareholders advising them of the details of the offer.

The funds raised will be used to continue participation in the Company's existing oil and gas interests as well as to advance exploration at the Mystique Gold Joint Venture. The funds will also be used to assist with the identification and review of additional resource opportunities as they present. The introduction of a number of highly supportive new investors to the company with strong resource sector networks and focus is expected to assist with ongoing identification and funding of these future growth opportunities.

The combination of the placements and Entitlement Issue (if fully subscribed or upon placement of any shortfall) will result in total capital raised of approximately \$4.2 million (before costs). Together with existing cash reserves of approximately \$1.9 million, Black Fire will have total cash reserves of approximately \$6.1 million (before costs).

As part of the expansion of operational activities, the Board and management team has been augmented with the appointment (on 9 September 2009) of Mr Simon Rigby as Managing Director and Mr Mike Chester as a Non-Executive Director. Upon the appointment of the new directors Mr David Steinepreis (Non-Executive Chairman) and Mr Gary Steinepreis (Non-Executive Director) resigned from the Board. Mr Gary Steinepreis also resigned as Company Secretary on 9 September 2009 he was replaced by Mr Matthew Sheldrick on the same date.

Since 30 June 2009 there has been no matter or circumstance that has arisen, (other than that disclosed above), that has significantly affected, or may significantly affect:

1. the Company's operations in future financial years, or
2. the results of those operations in future financial years, or
3. the Company's state of affairs in future financial years.

21. AUDITORS' REMUNERATION

The auditor of Black Fire Energy Limited is Ernst & Young (Australia)

Amounts received or due and for:

Audit or review of the financial report	27,240	34,590
	<hr/>	<hr/>
	27,240	34,590

BLACK FIRE ENERGY LIMITED ABN 29 122 921 813

Financial Report for the Year Ended 30 June 2009

DIRECTORS' DECLARATION

In accordance with a resolution of the directors of Black Fire Energy Limited, I state that:

1. In the opinion of the directors:
 - (a) the financial statements, notes and the additional disclosures included in the directors' report designated as audited, of the Company are in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the Company's financial position as at 30 June 2009 and of its performance for the year ended on that date; and
 - (ii) complying with Accounting Standards and Corporations Regulations 2001; and
 - (b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.
2. This declaration has been made after receiving the declarations required to be made to the directors in accordance with section 295A of the *Corporations Act 2001* for the financial year ending June 2009.

On behalf of the Board

A handwritten signature in black ink that reads "Matthew Sheldrick". The signature is written in a cursive, slightly slanted style.

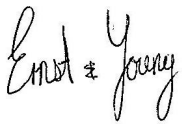
Matthew Sheldrick

Director

15 September 2009

Auditor's Independence Declaration to the Directors of Black Fire Energy Limited

In relation to our audit of the financial report of Black Fire Energy Ltd for the financial year ended 30 June 2009, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the Corporations Act 2001 or any applicable code of professional conduct.

A stylized, handwritten signature of the Ernst & Young firm, written in black ink.

Ernst & Young

A handwritten signature in black ink, appearing to be 'R J Curtin'.

R J Curtin
Partner
Perth
15 September 2009

Independent auditor's report to the members of Black Fire Energy Limited

Report on the Financial Report

We have audited the accompanying financial report of Black Fire Energy Limited which comprises the balance sheet as at 30 June 2009, and the income statement, statement of changes in equity and cash flow statement for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with the Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the 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. In Note 2, the directors also state that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, we consider internal controls relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independence

In conducting our audit we have met the independence requirements of the *Corporations Act 2001*. We have given to the directors of the company a written Auditor's Independence Declaration, a copy of which is included in the directors' report.

Auditor's Opinion

In our opinion:

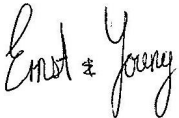
1. the financial report of Black Fire Energy Limited is in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the financial position of Black Fire Energy Limited at 30 June 2009 and of its performance for the year ended on that date; and
 - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*.
2. the financial report also complies with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Report on the Remuneration Report

We have audited the Remuneration Report included in pages 10 - 12 of the directors' report for the year ended 30 June 2009. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Auditor's Opinion

In our opinion the Remuneration Report of Black Fire Energy Limited for the year ended 30 June 2009, complies with section 300A of the *Corporations Act 2001*.



Ernst & Young



R J Curtin
Partner
Perth
15 September 2009

BLACK FIRE ENERGY LIMITED ABN 29 122 921 813

Financial Report for the Year Ended 30 June 2009

Additional ASX Information

SHAREHOLDER INFORMATION

Additional information required by the ASX Listing Rules and not disclosed elsewhere in this report.

This additional information was applicable as at 31 August 2009.

1. DISTRIBUTION OF SECURITY HOLDERS

Analysis of numbers of listed equity security holders by size of holding:

Category	Number of Shareholders	Number of Option holders
1 - 1,000	0	0
1,001 - 5,000	27	10
5,001 - 10,000	55	41
10,001 - 100,000	218	186
100,001 and over	51	52
	351	289

There are 35 shareholders holding less than a marketable parcel of ordinary shares.

There are 219 option holders holding less than a marketable parcel of listed options.

2. STATEMENT OF RESTRICTED SECURITIES

There are no restricted securities as at 30 June 2009.

3. SUBSTANTIAL SHAREHOLDERS

The substantial shareholders of the Company are as follows:

Name	Number of equity securities	%
Ms Jacqueline Mary Steinepreis, Oakhurst Enterprises Pty Ltd & Ascent Capital Holdings Pty Ltd (Gary Christian Steinepreis) & Mr David Steinepreis	5,077,500	14.36
Cleland Projects Pty Ltd <Ct A/C>	3,000,000	8.48
Mr Matthew Richard Sheldrick <Matthew Sheldrick Family A/C> & Shannan Harper & Saltini Pty Ltd	2,210,000	6.25
Equity Trustees Ltd <SGH Tiger A/C>	2,080,000	5.88

5. VOTING RIGHTS

The voting rights attached to each class of equity security are as follows:

Ordinary Shares

Each ordinary share is entitled to one vote when a poll is called otherwise each member present at a meeting or by proxy has one vote on a show of hands.

Options

These securities have no voting rights.

BLACK FIRE ENERGY LIMITED ABN 29 122 921 813**Financial Report for the Year Ended 30 June 2009****Additional ASX Information (continued)****SHAREHOLDER INFORMATION (continued)****STATEMENT OF TOP 20 SHAREHOLDERS**

Name of Holder	Number of Shares Held	Percentage of Capital
Cleland Projects Pty Ltd < CT A/C>	3,000,000	8.48
Equity Trustees Ltd <SGH Tiger A/C>	2,080,000	5.88
Mr Matthew Richard Sheldrick <Matthew Sheldrick Family A/C>	1,940,000	5.49
Mr David Christian Steinepreis	1,500,000	4.24
Ms Jacqueline Mary Steinepreis	1,500,000	4.24
Ringal Investments Pty Ltd	1,305,000	3.69
PIAT Corp Pty Ltd	1,202,140	3.40
ANZ Nominees Limited <Cash Income A/C>	1,077,000	3.05
Dacin Nominees Pty Ltd	1,005,000	2.84
Ms Helen Margaret Hawkins	875,000	2.47
Oakhurst Enterprises Pty Ltd	795,000	2.25
Ms Helen Burgess	617,500	1.75
Ascent Capital Holdings Pty Ltd	532,500	1.51
DAT Investments Pty Ltd <Thompson Super Fund A/C>	500,000	1.41
Mr David Christian Steinepreis	500,000	1.41
ASSF Pty Ltd <Andrew Sassi Super Fund A/C>	400,000	1.13
Chatenois Pty Ltd	400,000	1.13
Mr Laurence Charles Kirk	370,000	1.05
Trenchstones Pty Ltd	350,000	0.99
Mr Paul Robert Hearne < The PRH A/C>	312,500	0.88
	20,261,640	57.30

STATEMENT OF TOP 20 OPTIONHOLDERS

Name of Option Holder	Number of Options Held	Percentage of Capital
Mr Matthew Richard Sheldrick <Matthew Sheldrick Family A/C>	1,940,000	6.31
Jacobs Corporation Pty Ltd	1,640,000	5.33
Mr David Christian Steinepreis	1,500,000	4.88
Ms Jacqueline Mary Steinepreis	1,500,000	4.88
Ringal Investments Pty Ltd	1,305,000	4.24
Mr Paul Anthony Young	995,000	3.24
Ms Helen Margaret Hawkins	875,000	2.85
BGR Capital Pty Ltd	829,199	2.70
Oakhurst Enterprises Pty Ltd	795,000	2.59
Dacin Nominees Pty Ltd	705,000	2.29
Mandolin Pty Ltd <Rett A/C>	700,000	2.28
Trenchstones Pty Ltd	610,000	1.98
Berenes Nominees Pty Ltd	560,000	1.82
Mayburys Pty Ltd	510,000	1.66
Ambergate Nominees Pty Ltd <Ambergate Super Fund A/C>	500,000	1.63
Ascent Capital Holdings Pty Ltd	500,000	1.63
Mr James Anthony Tambakis <The JAT Family No 1 A/C>	400,000	1.30
Mr James Henry Moullin	375,000	1.22
Mr Andrew Crouch & Mrs Nicola Crouch	345,000	1.12
Torwood Resources Limited	325,000	1.06
	16,909,199	54.99