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.

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

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.

6. Employee benefits expense

	Company 2009 $	Company 2008 $
Salaries	170,833	150,000
Superannuation	15,375	13,500
Corporate management fees	92,000	120,000
	278,208	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	**52,176**	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	**-**	-

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	**-**	-

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

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 unrecognized 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	**(3.48)**	(2.72)
(b) Diluted Loss Per Share		
Loss from continuing operations attributable to the ordinary equity holders of the Company	**(3.48)**	(2.72)

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

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

(b) Movements in ordinary shares on issue

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

Notes to the Financial Statements (continued)

2008	**Date**	**Number of shares**	**Company $**
Balance as at 1July 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		35,362,500	4,223,366

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

(d) Movements in options on issue

2009	**Number of options**	**Company $**
Options reserve		
As at 1 July 2008	30,750,000	307,500
As at 30 June 2009	**30,750,000**	**307,500**

2008	**Number of options**	**Company $**
Options reserve		
As at 1 July 2007	30,750,000	307,500
As at 30 June 2008	30,750,000	307,500

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	(32,419)	22,461
Net cash flow used in operating activities	**(762,246)**	(1,071,693)

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 **DIRECTORS**	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
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 **DIRECTORS**	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
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.

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

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
	27,240	34,590