



KRATOS ENERGY LIMITED

ABN 28 125 901 868

**FINANCIAL REPORT
FOR THE YEAR ENDED
30 JUNE 2009**

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Corporate Directory

This Annual Report covers Kratos Energy Limited as an individual entity. The Company's functional and presentation currency is AUD (\$).

A description of the Company's operations and principal activity is included in the review of operations and activities in the Director's report on pages 5 to 9. The Directors' Report is not part of the Financial Report.

Directors

Mr Robert E. T. Towner
Mr Christopher P. Moyes
Mr Matthew R. Sheldrick
Mr Paul D. Patterson

Auditors

BDO Kendalls Audit & Assurance (WA) Pty
Ltd
128 Hay Street
Subiaco WA 6008

Company Secretary

Ms Narelle Warren

Registered Office

Level 11
225 St Georges Terrace
Perth WA 6000
T: +61 8 9322 3888
F: +61 8 9321 9555

Bankers

National Australia Bank
1232 Hay Street
West Perth WA 6005

Share Registry

Security Transfers Registrars Pty Limited
770 Canning Highway
Applecross WA 6153
T: +61 8 9315 0933
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Solicitors

Price Sierakowski
Level 24 St Martins Tower
44 St Georges Terrace
Perth WA 6000

Website

www.kratosenergy.com

Letter to Shareholders

Dear Shareholder

On behalf of the Board of Directors of Kratos Energy Limited ("Kratos Energy" or "Company"), we are pleased to present the Annual Report for the year ended 30 June 2009.

During the year, the Directors have actively reviewed a large number of potential investment opportunities in the oil and gas sector. However, due to the volatility in financial markets and a lower oil price, it was difficult to commit to these opportunities because of the uncertainty in attracting ongoing investment funding. In addition, the Directors recognised a diminished investor interest in US based oil and gas projects during this period. As a result the Directors have re-assessed their geographical focus and more recently have focused their review of projects on opportunities located in the Asia-Pacific region.

The Directors are encouraged by the recent improvement in market sentiment for oil and gas projects and capital raising activity in the sector generally. We are hopeful of concluding a transaction by early 2010 which will provide a return for shareholders.

The Directors have focused on preserving the cash reserves of the Company (currently \$1.4m) and this will bode well for the future acquisition and development of oil and gas project(s). Currently the Company's overheads are and will continue to be minimal, until such time as potential projects have been secured and additional funds are raised.

Thank you for your interest and support in the Company and we look forward to keeping you updated on the Company's anticipated developments in the future.

Yours sincerely



Robert Towner
Chairman

Directors' Report

Your Directors present their report on the Company for the financial year ended 30 June 2009.

Directors

The names of the Directors in office during the year and until the date of this report are as follows. All Directors were in office for the entire period unless otherwise stated.

Mr Robert Towner
Chairman
Appointed 15 June 2007

Robert Towner has over 15 years experience in financial markets, in the capacity of private client advisor and, secondly, providing corporate advice to small and mid capitalisation companies.

Robert is a director and Authorised Representative of Cornerstone Corporate Pty Ltd (AFSL 332426). He is the Executive Director and founder of ASX-listed bioMD Limited, a company developing bioimplants for the soft tissue repair industry.

An interest of 6,700,001 ordinary shares of Kratos Energy Limited is held.

Mr Christopher Moyes
Director
Appointed 15 June 2007

Christopher Moyes holds a Bachelor of Science (1968) in Geology and Biology from Western Australia and earned a MSc in petroleum engineering from the Royal School of Mines, Imperial College, London University in 1974.

Chris has advised and managed the placement of funds in exploration and production ventures in the U.S. and internationally, and the evaluation of production in properties for acquisition and investment opportunities. He advises on new company issues, including support in the international markets for capital and identified and acquired assets for these companies, and developed technical and contractual aspects of public documents.

For 24 years, Chris has managed the ongoing development of a group of companies under Moyes & Co. Inc. which includes comprehensive analysis on industry activity, purchase, sale and merger transactions, financial commitments, exploration, farm-outs and relinquishment of obligations. The database is integral to the Company's core business in the identification of opportunities and provision of Fair Market Values and financing.

Chris has 40 years experience in the energy sector and has published a number of papers on petroleum legislation, exploration and project financing, and provides advice and management of client and joint venture operations, investment programs, technical and business aspects of exploration and production contracts, joint venture and farm-in arrangements.

He is a current member of the SPE for which group he was the founding Singapore member, the AAPG and the Association of International Petroleum Negotiators.

Chris is an SPE Distinguished Lecturer on International Petroleum Finance, 1996-1997 and has made presentations in several countries addressing International Petroleum Finance, the source and cost of capital.

An interest of 13,371,751 ordinary shares of Kratos Energy Limited is held.

Directors' Report (continued)

Mr Paul Dee Patterson
Director
Appointed 21 February 2008

Dee Patterson has over 25 years experience in the oil and gas industry and holds a Bachelor of Science in Engineering (1981) from the University of Texas at Arlington and an MBA in Corporate Finance (1994) from the University of Dallas and is a registered Professional Engineer.

Dee joined Moyes & Co. in 2000 as Managing Director, where he has been an integral part of Moyes & Co. Prior to joining Moyes & Co. he spent 18 years with ARCO Oil and Gas, Vastar Resources and ARCO International where he had responsibilities as a Reservoir and Operations Engineer, was involved in M&A, exploration prospect evaluation and was advisor on the Tangguh LNG project and held positions of increasing responsibility in their commercial and finance organisations.

He is an active member in SPE, the Society of Petroleum Evaluation Engineers (SPEE) and the Association of International Petroleum Negotiators. He has made numerous presentations and has authored papers on commercial and finance issues on the oil and gas industry.

An interest of 2,075,000 ordinary shares of Kratos Energy Limited is held.

Mr Matthew Sheldrick
Director
Appointed 7 August 2007

Matthew Sheldrick holds a Bachelor of Commerce from the University of Western Australia and is a Chartered Accountant. He spent 10 years in the securities industry, advising both domestic and international institutional clients on Australian equities. Matthew is currently CEO of ASX-listed Black Fire Energy Ltd. Prior to this appointment, Matthew was a founder and CEO of ASX listed Gawler Resources Ltd (which has since merged with Elixir Petroleum Ltd) and Eureka Energy Ltd, both of which have emerging US oil and gas production interests.

An interest includes 2,050,000 ordinary shares of Kratos Energy Limited.

Company Secretary

The following person held the position of Company Secretary at the end of the financial year:

Ms Narelle Warren
Company Secretary

Ms Warren qualified as a Chartered Accountant with a Bachelor of Laws and Bachelor of Commerce. Ms Warren has over 8 years experience as a Company Secretary and Financial officer of both private and publicly listed companies.

Ms Warren also works as a Consultant on a project basis specialising in the co-ordination and management of capital raisings, associated due diligence procedures as well as the provision of company secretarial and financial management services.

Prior to working as a self-employed consultant, Narelle was employed by a corporate advisory group in Perth, HSBC in London and KPMG Perth.

Directors' Report (continued)

Principal Activity

The principal activity of the economic entity during the year was the identification of investment opportunities in the oil and gas sector.

No significant change in the nature of this activity occurred during the year.

Operating Results

The result of the Company for the year ended 30 June 2009 was a loss of \$39,024 (2008: \$23,790). The net loss of the Company predominantly related to recognising the share-based payments expense, administration and compliance costs of a public company, including travel to review projects, audit and tax compliance.

Dividends Paid or Recommended

No dividend has been paid or recommended by the Directors since the commencement of the year.

Review of Operations

The Company was established to seek out and evaluate potential investment opportunities in the oil and gas sector. The Company intends to utilise the extensive experience and networks of Moyes & Co. in the identification and subsequent investment in oil and gas projects globally.

During the financial year the Company successfully raised a further \$1.3 million via the issue of 13 million shares at \$0.10 each. The Company is pleased to have raised adequate funds to enable the Company to identify and secure project(s) in the global oil and gas sector. Once the Company has secured appropriate projects it intends to progress towards an Initial Public Offering (IPO) to raise additional capital to support the development of these projects. The timing of the proposed IPO will be dependent on the capital requirements of potential project(s) and market conditions.

As at the date of this report the Company has cash reserves of approximately \$1.4 million and is reviewing a number of potential project(s) in the oil and gas sector in various geographical locations.

Financial Position

Liquidity and Capital Resources

The cash flow statement shows that cash and cash equivalents as at 30 June 2009 was \$1,408,319.

This movement in cash reserves is mainly due to the following:

- \$1,000,000 received pursuant to the Prospectus lodged in June 2008; and
- \$300,000 received pursuant to a Placement on 22 July 2008.

Directors' Report (continued)

Shares Issued During the Year

A Prospectus issued to investors resulting in the issue of 10 million shares at a price of \$0.10 each contributing \$1,000,000.

A Placement to a sophisticated investor resulting in the issue of 3 million shares at a price of \$0.10 each contributing \$300,000.

Significant Changes in State Of Affairs

No significant changes in the economic entity's state of affairs occurred during the year.

After Balance Date Events

The financial report was authorised for issue on 9 October 2009 by the Board of Directors.

No other significant events occurred after balance date which may affect either the Company's operations or results of those operations or the Company's state of affairs.

Future Developments, Prospects and Business Strategies

The Directors are hopeful the 2009/2010 year will see the Company secure projects in the oil and gas sector and successfully raise additional capital to develop the project via a listing on the ASX.

Environmental Issues

The Directors are mindful of the regulatory regime in relation to the impact of the organisational activities on the environment.

There have been no known breaches by the Company during the financial year.

Meetings of Directors

During the year, 6 meetings of Directors were held. Attendances by each Director during the year were as follows:

Director	Board Meetings	
	Number eligible to attend	Number attended
Mr Robert Towner	6	6
Mr Chris Moyes	6	6
Mr Paul Dee Patterson	6	6
Mr Matthew Sheldrick	6	6

Directors' Report (continued)

Shares under Option

There are 1,000,000 shares under option exercisable at \$0.05 on or before 30 June 2012.

Proceedings on Behalf of Company

No person has applied for Leave of Court to bring proceedings on behalf of the Company or intervene in any proceedings to which the Company is a party for the purpose of taking responsibility on behalf of the Company for all or any part of those proceedings.

The Company was not a party to any such proceedings during the year.

Indemnity of Officers and Auditors

During the financial year, the Company did not pay a premium in respect of a contract insuring the Directors and officers of the Company against a liability incurred by such Directors and officers to the extent permitted by the Corporations Act 2001. The Company has not otherwise, during or since the end of the year, indemnified or agreed to indemnify an officer or an auditor of the company, or of any related body corporate against a liability incurred by such an officer or auditor.

Auditor's Independence Declaration

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out on page 10.

Signed in accordance with a resolution of the Board of Directors.



Robert Towner
Chairman

Perth, Western Australia, 9 October 2009



9 October 2009

The Directors
Kratos Energy Limited
Level 11
225 St Georges Terrace
Perth WA 6000

Dear Sirs

DECLARATION OF INDEPENDENCE BY PETER TOLL TO THE DIRECTORS OF KRATOS ENERGY LIMITED

As lead auditor of Kratos Energy Limited for the year ended 30 June 2009, I declare that, to the best of my knowledge and belief, there have been no contraventions of:

- the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
- any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Kratos Energy Limited.

Peter Toll
Director

BDO Kendalls

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

Income Statement

For the financial year ended 30 June 2009

	Note	2009 \$	2008 \$
Finance Income	4	63,395	2,733
Revenue from continuing operations		<u>63,395</u>	<u>2,733</u>
Share-based payment expenses		(37,705)	-
Corporate and administrative expenses		(64,714)	(26,523)
Loss before income tax		<u>(39,024)</u>	<u>(23,790)</u>
Income tax expense	5	-	-
Loss attributable to members of the parent		<u><u>(39,024)</u></u>	<u><u>(23,790)</u></u>

The above Income Statement should be read in conjunction with the accompanying notes.

Balance Sheet

As at 30 June 2009

	Note	2009 \$	2008 \$
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	8	1,408,319	199,368
Trade and other receivables	9	1,796	2,094
Other current assets	10	-	16,414
TOTAL CURRENT ASSETS		<u>1,410,115</u>	<u>217,886</u>
TOTAL ASSETS		<u>1,410,115</u>	<u>217,886</u>
CURRENT LIABILITIES			
Trade and other payables	11	17,571	85,599
TOTAL CURRENT LIABILITIES		<u>17,571</u>	<u>85,599</u>
TOTAL LIABILITIES		<u>17,571</u>	<u>85,599</u>
NET ASSETS		<u>1,392,544</u>	<u>132,277</u>
EQUITY			
Issued capital	12	1,417,653	156,067
Reserves	13	37,705	-
Accumulated losses	13	(62,814)	(23,790)
TOTAL EQUITY		<u>1,392,544</u>	<u>132,277</u>

The above Balance Sheet should be read in conjunction with the accompanying notes.

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

	Issued Capital	Accumulated Losses	Other Reserves	Total Equity
	\$	\$	\$	\$
At 30 June 2008	156,067	(23,790)	-	132,277
Net income/(expense) recognised directly in equity	-	-	-	-
Loss for the year	-	(39,024)	-	(39,024)
Total recognised income and expense for the year	-	(39,024)	-	(39,024)
Share-based payment expense	-	-	37,705	37,705
Issue of share capital, net of transaction costs	1,261,586	-	-	1,261,586
At 30 June 2009	1,417,653	(62,814)	37,705	1,392,544

	Issued Capital	Accumulated Losses	Other Reserves	Total Equity
	\$	\$	\$	\$
At incorporation	-	-	-	-
Net income/(expense) recognised directly in equity	-	-	-	-
Loss for the period	-	(23,790)	-	(23,790)
Total recognised income and expense for the period	-	(23,790)	-	(23,790)
Issue of share capital, net of transaction costs	156,067	-	-	156,067
At 30 June 2008	156,067	(23,790)	-	132,277

The above Statement of Changes in Equity should be read in conjunction with the accompanying notes.

Cash Flow Statement

For the Financial Year ended 30 June 2009

	Note	2009 \$	2008 \$
CASH FLOWS FROM OPERATING ACTIVITIES			
Payments to suppliers and employees		(61,444)	(14,018)
Interest received		63,395	2,733
Net cash inflow /(outflow) from operating activities	8	1,951	(11,285)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares		1,229,000	150,002
Payment of incorporation costs		-	(1,435)
Payment of allocated capital raising costs		(22,000)	-
Proceeds from unallocated capital raising		-	71,000
Payment of unallocated capital raising costs		-	(8,914)
Net cash inflow from financing activities		1,207,000	210,653
Net increase in cash and cash equivalents held		1,208,951	199,368
Cash and cash equivalents at beginning of the period		199,368	-
Cash and cash equivalents at end of financial period	8	1,408,319	199,368

The accompanying notes form part of these financial statements.

Notes to the Financial Statements

1. Corporate Information

The financial report of Kratos Energy Limited for the financial year ended 30 June 2009 was authorised for issue in accordance with a resolution of the Directors on 9 October 2009. The financial report includes the financial statements and notes of Kratos Energy Limited.

Kratos Energy Limited is a company limited by shares incorporated in Australia.

2. Statement of Significant Accounting Policies

Basis of Preparation

The financial report is a general purpose financial report, which has been prepared in accordance with Australian Accounting Standards the requirements of the Corporations Act 2001, Australian Accounting Interpretations and other authoritative pronouncements of the Australian Accounting Standards Board.

The financial report is presented in Australian dollars.

Compliance with IFRS

The financial report of Kratos Energy Limited an individual parent entity complies with Australian Accounting Standards, which includes Australian equivalents to International Financial Reporting Standards (AIFRS), in their entirety. Compliance with AIFRS ensures that the financial report also complies with International Financial Reporting Standards (IFRS) in their entirety.

Historical cost convention

The financial report has been prepared on an accruals basis and is based on historical costs.

Accounting Policies

(a) Trade and Other Receivables

Trade receivables, which generally have 30-90 day terms, are recognised and carried at original invoice amount less an allowance for any uncollectible amounts.

An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off when identified.

(b) Cash and Cash Equivalents

Cash and short-term deposits in the balance sheet comprise cash at bank and on hand and short-term deposits with an original maturity of three months or less.

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.

Notes to the Financial Statements (continued)

2. Statement of Significant Accounting Policies (cont'd)

(c) Revenue

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

Interest

Revenue is recognised as the interest accrues (using the effective interest method, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument) to the net carrying amount of the financial asset.

(d) Income Tax

The income tax expense (revenue) for the period comprises current income tax (income) and deferred tax expense (income).

Current income tax expense charged to the profit or loss is the tax payable on taxable income calculated using applicable income tax rates enacted, or substantially enacted, as at reporting date. Current tax liabilities (assets) are therefore measured at the amounts expected to be paid to (recovered from) the relevant tax authority.

Deferred tax is accounted for using the balance sheet liability method in respect of all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for the financial reporting purposes.

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

- except where the deferred income tax liability 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; and

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 assets and unused tax losses can be utilised:

- except where the deferred income tax asset relating to the deductible temporary differences 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.

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

Income taxes relating to items recognised directly in equity are recognised in equity and not in the income statement.

Notes to the Financial Statements (continued)

2. Statement of Significant Accounting Policies (cont'd)

(e) Other Taxes

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

- where 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 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.

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 are classified as operating cash flows.

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

(f) Trade and other Payables

Trade and other payables represent liabilities for goods and services provided to the company prior to the year end and which are unpaid. These amounts are unsecured and have 30-60 day payment terms.

(g) Contributed Equity

Ordinary shares are classified as equity.

Costs directly attributable to the issue of new shares or options are shown as a deduction from the equity proceeds, net of any income tax benefit. Costs directly attributable to the issue of new shares are included as part of the purchase consideration.

(h) Financial Instruments

Recognition

Financial instruments are initially measured at cost on trade date, which includes transaction costs, when the related contractual rights or obligations exist. Subsequent to initial recognition these instruments are measured as set out below:

Loans and receivables

Loans and receivables are non-derivative financial instruments with fixed or determinable payments that are not quoted in an active market and are stated at amortised cost using the effective interest rate method.

Notes to the Financial Statements (continued)

2. Statement of Significant Accounting Policies (cont'd)

(i) Fair Value

Fair values may be used for financial asset and liability measurement as well as for sundry disclosures.

The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values due to their short-term nature. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the group for similar financial instruments.

(j) Share-based Payment Transactions

The Company may provide compensation to advisers of the Company in the form of share-based payment transactions, whereby advisers render services in exchange for shares or rights over shares ('equity-settled transactions').

The cost of these equity-settled transactions with advisers is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using a black scholes model further details are given in note 18.

In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares of Kratos Energy Limited (market conditions).

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award (vesting date).

The cumulative expense recognised for equity-settled transactions at each reporting date until vesting date reflects (i) the extent to which the vesting period has expired and (ii) the number of awards that, in the opinion of the Directors of the Group, will ultimately vest. This opinion is formed based on the best available information at balance date. No adjustment is made for the likelihood of market performance conditions being met as the effect of these conditions is included in the determination of fair value at grant date.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified. In addition, an expense is recognised for any increase in the value of the transaction as a result of the modification, as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new award are treated as if they were a modification of the original award, as described in the previous paragraph.

Notes to the Financial Statements (continued)

2. Statement of Significant Accounting Policies (cont'd)

(k) Critical Accounting Estimates and Judgements required

The directors evaluate estimates and judgments incorporated into the financial report based on historical knowledge and best available current information. Estimates assume a reasonable expectation of future events and are based on current trends and economic data, obtained both externally and within the Group.

Share-based payment transactions

The Group measures the cost of equity-settled transactions with employees and directors by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined using the Black Scholes model. Should the assumptions used in these calculations differ, the amounts recognised could significantly change. Details of estimates used can be found in Note 18.

(l) Comparative information

The Company was incorporated on 15 June 2007 and accordingly the comparative period is from incorporation date to 30 June 2008.

(m) Accounting Standards Issued not yet effective

STANDARDS LIKELY TO HAVE A FINANCIAL IMPACT

AASB reference	Title and Affected Standard(s):	Nature of Change	Application date:	Impact on Initial Application
AASB 2008-1 (issued February 2008)	Amendments to AASB 2 – Share-based Payments – Vesting Conditions and Cancellations	The definition of <i>vesting conditions</i> has changed and the accounting treatment clarified for cancellations to share-based payment arrangements by the counterparty. This is to ensure that conditions other than performance conditions do not result in a 'true up' of the share-based payment expense and are treated in a manner similar to market conditions.	Periods commencing on or after 1 January 2009	To date the entity has not issued any options to employees that include non-vesting conditions and as such there will be no impact on the financial statements when this revised standard is adopted for the first time.

Notes to the Financial Statements (continued)

2. Statement of Significant Accounting Policies (cont'd)

STANDARDS LIKELY TO HAVE A DISCLOSURE IMPACT ONLY

AASB reference	Title and Affected Standard(s):	Nature of Change	Application date:	Impact on Initial Application
AASB 8 (Issued Feb 2007)	Operating Segments	Replaces the disclosure requirements of AASB 114: <i>Segment Reporting</i> .	Periods commencing on or after 1 January 2009	As this is a disclosure standard only, there will be no impact on amounts recognised in the financial statements. However, disclosures required for the operating segments will be significantly different to what is currently reported (business and geographical segment).
AASB 101 (Revised Sep 2007)	Presentation of Financial Statements	Amendments to presentation and naming of the financial statements.	Annual reporting periods commencing on or after 1 January 2009	As this is a disclosure standard only, there will be no impact on amounts recognised in the financial statements. However, there will be various changes to the way financial statements are presented and various changes to names of individual financial statements.
AASB 2009-2 (Issued April 2009)	Amendments to Australian Accounting Standards – Improving Disclosures about Financial Instruments	Requires additional disclosures about financial instrument fair values and liquidity risk.	Periods commencing on or after 1 January 2009	As this is a disclosure standard only, there will be no impact on amounts recognised in the financial statements. However, various additional disclosures will be required about fair values of financial instruments and the entity's liquidity risk. No comparative disclosures are required in the first year that these amendments are applied.

3. Segment Information

The Company is not currently undertaking a business and operates only in Australia at this time.

Notes to the Financial Statements (continued)

4. Revenue and Expenses

	2009	2008
	\$	\$
(a) Finance income		
Bank interest	63,395	2,733
Total finance income	63,395	2,733

5. Income Tax

Income tax expense

	2009	2008
	\$	\$
Accounting loss before income tax	(39,024)	(23,790)
At the statutory income tax rate of 30%	(11,707)	(7,137)
Share issue expenses	(2,388)	(1,184)
Temporary differences not recognised	(900)	2,700
Permanent differences	11,312	-
Deferred tax asset not recognised	3,683	5,621
Income tax expense	-	-
At effective income tax rate of 30%		

Deferred Income Tax

Deferred income tax at 30 June not recognised relates to the following:

	2009	2008
	\$	\$
<i>Deferred income tax assets</i>		
Accruals temporary difference	1,800	2,700
Share issue expenses	8,367	4,155
Tax losses	9,304	5,621
Deferred tax asset not recognised	19,471	12,476

The Company has tax losses arising in Australia of \$31,014 that are available indefinitely for offset against future taxable profits of the companies in which the losses arose, subject to the company satisfying the necessary loss recoupment tests.

Notes to the Financial Statements (continued)

6. Key management personnel

a) Details of Directors

Mr Robert Towner
Mr Christopher Moyes
Mr Paul Dee Patterson
Mr Matthew Sheldrick

There are no other key management personnel other than the Directors of the Company.

b) Remuneration of Directors

	Short-term employee Benefits			Post Employment Benefits		Share-based payment	Total	% Performance Related
	Salary & Fees	Cash Bonus	Non Monetary	Super-annuation Pensions	Retirement Benefits	Options		
Directors	\$	\$	\$	\$	\$	\$	\$	%
30 June 2009								
Robert Towner	-	-	-	-	-	-	-	-
Chris Moyes	-	-	-	-	-	-	-	-
Paul Dee Patterson	-	-	-	-	-	-	-	-
Matthew Sheldrick	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-

	Short-term employee Benefits			Post Employment Benefits		Share-based payment	Total	% Performance Related
	Salary & Fees	Cash Bonus	Non Monetary	Super-annuation Pensions	Retirement Benefits	Options		
Directors	\$	\$	\$	\$	\$	\$	\$	%
30 June 2008								
Robert Towner	-	-	-	-	-	-	-	-
Chris Moyes	-	-	-	-	-	-	-	-
Paul Dee Patterson	-	-	-	-	-	-	-	-
Matthew Sheldrick	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-

c) Option holdings

No Options have been issued to Directors since incorporation.

Notes to the Financial Statements (continued)

d) Shareholdings

The number of shares in the Company held during the financial period by each Director of Kratos Energy Limited, including their personally related parties, is set out below.

Ordinary Shares	Balance at	Granted During	Received During	Other Changes	Balance at End
2009	Start of Period	Period as	Period on Exercise	During the	of Period
Directors	01-07-2008	Compensation	of Options	Period	30-06-2009
Mr Robert Towner	6,500,001	-	-	200,000	6,700,001
Mr Christopher Moyes	13,113,751	-	-	258,000	13,371,751
Mr Paul Dee Patterson	1,950,000	-	-	125,000	2,075,000
Mr Matthew Sheldrick	1,900,000	-	-	150,000	2,050,000

Ordinary Shares	Balance at	Granted During	Received During	Other Changes	Balance at End
2008	Start of Period	Period as	Period on Exercise	During the	of Period
Directors	01-07-2007	Compensation	of Options	Period	30-06-2008
Mr Robert Towner	1	-	-	6,500,000	6,500,001
Mr Christopher Moyes	1	-	-	13,113,750	13,113,751
Mr Paul Dee Patterson	-	-	-	1,950,000	1,950,000
Mr Matthew Sheldrick	-	-	-	1,900,000	1,900,000

All equity transactions with Directors other than those arising from the exercise of remuneration options have been entered into under terms and conditions no more favourable than those the entity would have adopted if dealing at arm's length.

e) Other transactions with Directors

At 30 June 2009 the following amounts were payable to directors or director related entities for reimbursement of expenses.

Director	Entity	\$	Purpose
Robert Towner	Cornerstone Capital Pty Ltd.	5,500	Office, telephone and overhead expense reimbursement
Chris Moyes	Moyes & Co	4,971	Travel reimbursement on review of projects

There have been no other transactions with Directors which require disclosure.

Notes to the Financial Statements (continued)

7. Auditor's Remuneration

	2009	2008
	\$	\$
Amounts received or due and receivable by BDO Kendalls for:		
▪ an audit or review of the financial report of the entity	9,000	9,000
	<u>9,000</u>	<u>9,000</u>

8. Cash and Cash Equivalents

	2009	2008
	\$	\$
Cash at bank and in hand	3,516	9,493
Short-term bank deposits	1,404,803	189,875
	<u>1,408,319</u>	<u>199,368</u>

The effective interest rate on short-term bank deposits are made for varying periods of between one day and one month depending on immediate cash requirements of the Company, and earn interest at the respective short-term deposit rates between 0.01% and 3%. Refer to note 15 for financial risk management disclosures.

The fair value of cash and cash equivalents is \$1,408,319.

Reconciliation of cash

Cash at the end of the financial period as shown in the cashflow statement is reconciled to items in the balance sheet as follows:-

Cash at bank and in hand	3,516	9,493
Short term deposits	1,404,803	189,875
	<u>1,408,319</u>	<u>199,368</u>

Reconciliation from the net loss after tax to the net cash flows used in operations

Net loss	(39,024)	(23,790)
Non-cash transactions in loss		
Share-based payments	37,705	-
Change in assets and liabilities		
(Increase)/decrease in GST receivables	298	(2,094)
Increase in trade and other payables	2,972	14,597
	<u>1,951</u>	<u>(11,285)</u>

Notes to the Financial Statements (continued)

9. Trade and Other Receivables

	Note	2009 \$	2008 \$
CURRENT			
GST receivable		1,796	2,094

10. Other Current Assets

CURRENT			
Deferred capital raising costs		-	16,414

11. Trade and Other Payables

CURRENT			
Trade payables		11,571	5,598
Other payables		6,000	9,000
Unallocated capital raising funds		-	71,000
		17,571	85,599

Trade payables are non-interest bearing and are normally settled on 30-day terms. Other payables are non-interest bearing and have an average term of 3 months. The net of GST payable and GST receivable is remitted to the appropriate tax body on a quarterly basis.

Notes to the Financial Statements (continued)

12. Issued Capital

	2009 #	2009 \$	2008 #	2008 \$
Ordinary Shares				
Issued and fully paid	43,150,002	1,417,653	30,150,002	156,067
Ordinary Shares				
	No.	\$	No.	\$
At the beginning of reporting period	30,150,002	156,067	-	-
Shares issued during the period				
- Ordinary shares issued on 15-06-07 on incorporation	-	-	2	2
- Ordinary shares issued on 18-03-08 to Founders of the Company	-	-	30,000,000	150,000
- Ordinary shares issued on 30-06-08 as payment to advisors in satisfaction of services rendered	-	-	150,000	7,500
- Ordinary shares issued on 15-07-08 pursuant to Prospectus	10,000,000	1,000,000	-	-
- Ordinary shares issued on 22-07-08 pursuant to Placement	3,000,000	300,000	-	-
- Payment of incorporation costs		-		(1,435)
- Payment of capital raising costs		(38,414)		-
Balance	43,150,002	1,417,653	30,150,002	156,067

i. Ordinary shares entitle the holder to participate in dividends and the proposed winding up of the company in proportion to the number and amount paid on the share hold.

ii. Capital management

The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. Given the stage of the company's development there are no formal targets set for return on capital. There were no changes to the company's approach to capital management during the period. The company is not subject to externally imposed capital requirements.

Options

i. This includes 1,000,000 options over ordinary shares outstanding at 30 June 2009 (2008: nil). The company granted 1,000,000 options exercisable at 5 cents on or before 30 June 2012 to advisors to subscribe for the company's shares during the year.

Notes to the Financial Statements (continued)

13. Reserves and Accumulated Losses

	2009 \$	2008 \$
Share based payments	37,705	-
Accumulated Losses	(62,814)	(23,790)
Share based payment reserve		
At the beginning of the financial period	-	-
Share-based payments	37,705	-
As at 30 June	37,705	-
Accumulated losses		
At the beginning of the financial period	(23,790)	-
Loss for the period	(39,024)	(23,790)
As at 30 June	(62,814)	(23,790)

Share-based Payment Reserve

The share-based payments reserve is used to record the value of equity benefits which may be provided:

- to advisers and consultants as payments for services.

14. Contingent Liabilities and Contingent Assets

The Directors are not aware of any contingent liabilities or contingent assets which require disclosure as at 30 June 2009.

15. Financial Risk Management

The Company's principal financial instruments comprise cash and short-term deposits.

The main purpose of these financial instruments is to raise finance for the Company's operations.

The Company has various other financial instruments such as trade creditors, which arise directly from its operations.

It is, and has been throughout the period under review, the Company's policy that no trading in financial instruments shall be undertaken.

The main risks arising from the Company's financial instruments are interest rate risk, liquidity risk and credit risk. The Board reviews and agrees policies for managing each of these risks and they are summarised below.

Notes to the Financial Statements (continued)

15. Financial Risk Management (cont'd)

Interest rate risk

The Company's exposure to market risk for changes in interest rates relates primarily to the Company's cash at bank held with variable interest rates.

The Company does not rely on the generation of interest on cash at bank to provide working capital and as a result does not consider this to be material to the Company and have therefore not undertaken any further analysis of exposure.

The following table sets out the carrying amount, by maturity, of the financial instruments that are exposed to interest rate risk:

Year ended 30 June 2009	<1 year	>1 - <2 Years	>2 - <3 Years	>3 - <4 Years	>4 - <5 Years	>5 Years	Balance	Weighted Average Interest Rate
							\$	%

Floating Rate

Financial Assets

Cash and cash equivalents	1,408,319	-	-	-	-	-	1,408,319	3.00
	<u>1,408,319</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,408,319</u>	

Period ended 30 June 2008	<1 year	>1 - <2 Years	>2 - <3 Years	>3 - <4 Years	>4 - <5 Years	>5 Year s	Balance	Weighted Average Interest Rate
							\$	%

Floating Rate

Financial Assets

Cash and cash equivalents	199,368	-	-	-	-	-	199,368	5.12
	<u>199,368</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>199,368</u>	

Interest on financial instruments classified as floating rate is repriced at intervals of less than one year. Interest on financial instruments classified as fixed rate is fixed until maturity of the instrument.

The other financial instruments of the Company that are not included in the above tables are non-interest bearing and are therefore not subject to interest rate risk.

Notes to the Financial Statements (continued)

15. Financial Risk Management (cont'd)

Cash flow sensitivity analysis for variable rate instruments

As at 30 June 2009 a reasonable possible change of 50 basis points on average in interest rates at the reporting date would have increased profit by the amounts shown below.

As at 30 June 2008 a sensitivity analysis has not been disclosed in the current year in relation to the floating interest deposits for the Company, as the results are immaterial to the income statement.

<i>In thousands of AUD</i>	50bp increase
30 June 2009	
Variable rate instruments (Cash and cash equivalents)	7,042
Cash flow sensitivity (net)	7,042

Credit risk

Credit risk is the risk of financial loss to the Company if a counter party to a financial instrument fails to meet its contractual obligations and arises principally from the Company's cash at bank. The carrying amount of financial assets represents the maximum credit exposure.

Financial assets that are neither past due and not impaired are as follows:-

	2009	2008
	\$	\$
Cash and cash equivalents		
'AA' S&P rating	1,408,319	199,368

The credit risk on liquid funds is limited because the counter party is a bank with a high credit rating. Credit risk on liquid funds is managed by only holding cash balances with financial institutions with a high credit rating.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial liabilities as and when they fall due. The Company manages liquidity risk by continually monitoring cash reserves and cashflow forecasts to ensure that financial commitments can be met 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 equity funding.

Maturities of financial liabilities

The table below analyses the entity's financial liabilities into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

Notes to the Financial Statements (continued)

16. Financial Instruments

	Less than 6 months \$	Carrying amount \$
2009		
Trade and other payables	17,571	17,571
2008		
Trade and other payables	14,598	14,598

Fair values

Set out below is a comparison by category of carrying amounts and fair values of all of the Company's financial instruments that are carried in the financial statements at other than fair values.

	Carrying Amount		Fair Value	
	2009 \$	2008 \$	2009 \$	2008 \$
<i>Financial assets</i>				
Cash and cash equivalents	1,408,319	199,368	1,408,319	199,368
Trade and other receivables	1,796	2,094	1,796	2,094
	<u>1,410,115</u>	<u>201,462</u>	<u>1,410,115</u>	<u>201,462</u>
<i>Financial liabilities</i>				
Trade payables	17,571	14,598	17,571	14,598
	<u>17,571</u>	<u>14,598</u>	<u>17,571</u>	<u>14,598</u>

The carrying value of trade receivables and payables are assumed to approximate their fair values due to their short-term nature.

17. Related Party Disclosure

The Company did not undertake any transactions with Directors or their related entities during the year.

Notes to the Financial Statements (continued)

18. Share-based Payments

Adviser's options

Options issued pursuant to Board approval will vest when the following conditions have been met:

On 28 October 2008, 1,000,000 options with a fair value of \$0.084 each were granted over ordinary shares with an exercise price of \$0.05 each, exercisable upon meeting the vesting conditions and until 30 June 2012.

The fair values of the options are estimated at the date of grant using the black scholes model. The following table gives the assumptions made in determining the fair value of the options granted in the year to 30 June 2009:

	2009
Dividend yield (%)	-
Expected volatility (%)	120
Risk-free interest rate (%)	6.43
Expected life of option (years)	3.67
Option exercise price (\$)	0.05
Share price at grant date (\$)	0.10

The expected life of the options is based on historical data and is not necessarily indicative of exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome. No other features of options granted were incorporated into the measurement of fair value.

The following table illustrates the number (No.) and weighted average exercise prices (WAEP) of share options issued during the year.

	2009	2009	2008	2008
	No.	WAEP	No.	WAEP
Outstanding at the beginning of the year	-	-	-	-
Granted during the year	1,000,000	0.05	-	-
Outstanding at the end of the year	1,000,000	0.05	-	-
Exercisable at the end of the year	-	-	-	-

The outstanding balance as at 30 June 2009 is represented by 1,000,000 options over ordinary shares with an exercise price of \$0.05 each, exercisable upon meeting the conditions and until 30 June 2012.

The weighted average contractual life for the share options outstanding as at 30 June 2009 is 3.67 years.

19. Events after the Balance Sheet Date

The financial report was authorised for issue on 9 October 2009 by the Board of Directors.

There have been no other significant events that have occurred after balance date which may affect either the Company's operations or results of those operations or the Company's state of affairs.

20. Commitments

There are no commitments at year-end.

21. Dividends

There are no dividends paid or payable at year-end.

22. Company Details

The registered office and principal place of business of the Company is:

Level 11, 225 St Georges Terrace
Perth WA 6000
Tel: +61 8 9226 4033
Fax: +61 8 9226 0333

Directors' Declaration

In accordance with a resolution of the Directors of Kratos Energy Limited, I state that:

In the opinion of the Directors:

- (a) the financial statements and notes as set out on pages 11 to 31 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) the Executive Director and Financial Officers have each declared that:
 - (i) the financial records of the Company for the financial year have been properly maintained in accordance with section 286 of the Corporations Act 2001;
 - (ii) the financial statements and notes for the financial year comply with the Accounting Standards; and
 - (iii) the financial statements and notes for the financial year give a true and fair view.
- (c) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

On behalf of the Board



Robert Towner
Chairman

Perth, Western Australia, 9 October 2009



INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF KRATOS ENERGY LIMITED

Report on the Financial Report

We have audited the accompanying financial report of Kratos 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 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, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that compliance with the Australian equivalents to International Financial Reporting Standards ensures that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards.

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 the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control 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 control. 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 complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001* would be in the same terms if it had been given to the directors at the time that this auditor's report was made.

Auditor's Opinion

In our opinion:

- (a) the financial report of Kratos Energy Limited is 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 Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*; and
- (b) the financial report also complies with International Financial Reporting Standards as disclosed in Note 2.

BDO Kendalls Audit & Assurance (WA) Pty Ltd

BDO Kendalls



Peter Toll
Director

Perth, Western Australia
Signed this 9th day of October 2009

Shareholder Information

Twenty Largest Shareholders as at 9 October 2009

Name	No. ordinary shares held	% of issued capital held
Christopher P Moyes	6,689,876	15.50
Francoise Carnal Moyes	6,681,875	15.49
Mandolin Pty Ltd	4,500,000	10.43
Ayman Hariri	3,000,000	6.95
Paul Dee Patterson	2,075,000	4.81
Matthew R Sheldrick	2,050,000	4.75
Marcus Ian Cross	2,010,000	4.66
Chris R K Moore	1,950,000	4.52
Robert Towner	1,100,001	2.55
Sally Towner	1,100,000	2.55
Ucan Nominees Pty Ltd	1,000,000	2.32
Michael Arnett	750,000	1.74
Concept Biotech Pty Ltd	500,000	1.16
Paul Robert Hearne	500,000	1.16
IML Holdings Pty Ltd	350,000	0.81
Samir F & V Bastawros	300,000	0.70
Carter Capital Ltd	300,000	0.70
Lachlan Lewis	300,000	0.70
Chatelle Pty Ltd	250,000	0.58
Gary M & V G Chivers	250,000	0.58