Thalassa Energy Ltd

Financial Statements

Period since incorporation on 26 September 2007 to 31 December 2008

Registered Number: 1433759

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Directors, Secretary and Advisers

Directors	C Duncan Soukup, *Executive Chairman* Graham Cole FCA, FSI, *Non-executive Director* James H Grossman, *Non-executive Director* David M Thomas, *Non-executive Director*
Registered Office	Folio Chambers Road Town, Tortola British Virgin Islands
Company Secretary	Christopher J Langrick ACA
Nominated Adviser	Dowgate Capital Advisers Limited 46 Worship Street London EC2A 2EA
Broker	Ocean Equities Limited 3 Copthall Avenue London EC2R 7BH
Solicitors to the Company (as to English Law)	Pinsent Masons LLP CityPoint One Ropemaker Street London EC2Y 9AH
Solicitors to the Company (as to BVI Law)	Conyers Dill & Pearman Romasco Place, Wickhams Cay 1 PO Box 3140 Road Town, Tortola British Virgin Islands VG1110
Auditors	Moore Stephens LLP St Paul's House Warwick Lane London EC4M 7BP
Registrars	Capita Registrars (Jersey) Limited 12 Castle Street St Helier Jersey JE2 3RT
Company website	www.thalassaenergyltd.com

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Chairman's Statement

Overview:

I am pleased to report that the equipment that we have purchased for the assembly of the Portable Modular Source System ("PMSS™") came in under budget, which has allowed us to acquire certain additional health and safety equipment and spares. The PMSS™ is now in storage pending deployment.

The collapse in oil prices from $147 to a recent low of $35 per barrel (currently approximately $48 per barrel) and the impact on oil producing companies to stay all new projects whilst they review current expenditure means that there is a lack of visibility on life of field seismic projects that we would normally expect to compete for. As a result, management, in conjunction with the Company's Operations Manager (WGP) are reviewing operations.

I would like to thank the Board and certain of our suppliers and service providers for their part in the cost cutting exercise that we have recently undertaken. Unfortunately, some of our trading partners were unwilling to share the burden of the recession and in these cases we have terminated relations.

Financial Review:

The financial information presented by the Group covers the period since incorporation (26 September 2007) to 31 December 2008. As such, no comparative information is available. The financial information presented by the Group has been prepared in accordance with applicable International Financial Reporting Standards ("IFRS") as adopted by the European Union.

On 22 July 2008, in my capacity as sole shareholder I advanced a loan to the Group to fund costs of incorporation, capital expenditure and placing fees amounting to US$2,300,927. This was settled by my subscription of 2,300,927, US$1.00 ordinary shares.

On 29 July 2008, the Company successfully completed the placing of 6,189,073 ordinary shares on the Alternative Investment Market ("AIM") at US$1.00 per share (£0.502 per share). The placing resulted in gross proceeds of US$6,189,073, which after the deduction of direct transaction fees of US$864,301 that had not been paid as part of my loan as detailed above, resulted in net cash proceeds of US$5,324,772.

The Group has now completed the assembly of the PMSS™ and has paid for all of the equipment. The total cost of the equipment is US$5,756,948.

The PMSS™ is now in storage awaiting deployment.

Group results for the period to 31 December 2008 show a loss of US$273,559. Basic and diluted loss per share was US$0.10. The loss for the period includes a US$115,625 gain on a foreign exchange transaction.

Net assets at 31 December 2008 amounted to US$6,922,449, resulting in a net asset value per share of US$0.81 (£0.56 at 31 December 2008).

The Group has recently undertaken a cost cutting exercise which should result in substantial cost savings in 2009.

I would also like to mention that I have waived fees owed to my management company totalling $235,952 at 31 December 2008 and that the Company's operations manager, WGP have also agreed to waive their 2008 fees amounting to US$36,566.

Outlook for 2009:

Given the current economic crisis, the Board does not feel it appropriate to make any forecasts or assumption regarding the deployment of the PMSS™ unit.

The current economic crisis looks to be worse than expected and recovery may take longer than people anticipate. Whilst this situation has definite negative short term implications, there is no doubt that crisis also represents opportunity and with this in mind your Board is looking at all alternatives to grow shareholder value, including but not limited to the acquisition, integration or development of businesses which the directors consider to have potential for capital growth or any other strategic initiatives.

I would remind shareholders that Thalassa Energy Ltd was set up as a general holding company with one current subsidiary in energy, Thalassa Energy Services Ltd. In order to better reflect the Company's standing as a holding company, it is the intention of the Board to change the name of the company to Thalassa Holdings Ltd.

The Board is also proposing changes to the Company's Memorandum and Articles of Association and a resolution to approve these is being put to shareholders at the Annual General Meeting. The changes that are intended to simplify and conform them to the Memorandum and Articles of Association of Thalassa Energy Services Ltd, although some provisions have remained from the existing articles relating to items such as shareholder meetings and other provisions which are recommended under the AIM Rules. Copies of the proposed new Memorandum and Articles of Association are available on request.

The Board has also sought to clarify the strategy set out in the Admission Document dated 23 July 2008 by including a resolution to be put to the shareholders at the Annual General Meeting which provides that the strategy of the Company will include activities unrelated to the energy industry.

C. Duncan Soukup
Chairman

3 April 2009

Directors' Report

The Directors present their report and the audited financial statements for the period ended 31 December 2008.

Business review and Principal activities
The Company was established as a holding company, and currently has one operating subsidiary, Thalassa Energy Services Ltd. ("TESL"), which was established to acquire marine seismic equipment, specifically a Portable Modular Source System ("PMSS^{TM}). The PMSS^{TM} is equipment which can be installed on a vessel in order to provide the seismic (sound) source to allow E&P companies to perform reservoir monitoring.

During the period the PMSS^{TM} was under construction. The assembly of the PMSS^{TM} is now complete and the equipment is in storage pending deployment.

Results and dividends
The Group made a loss for the period ended 31 December 2008 of US$273,559. The Directors do not recommend the payment of a dividend.

Directors and Directors' Interests
The Directors of the Company who held office during the period and to date, including details of their interest in the share capital of the Company are as follows:

Name	Date Appointed	Shares held
Executive Director		
C.D. Soukup	26 September 2007	2,839,821
Non-Executive Directors		
G. Cole	2 April 2008	39,870
J.H. Grossman	2 April 2008	25,000
D.T.Thomas	2 April 2008	-

Each of the non-executive Directors received US$10,000 in the period.

Substantial Shareholdings
As of 31 December 2008, the Company had been advised of the following substantial shareholders:

Name	Holding	%
C.Duncan Soukup	2,839,821	33.4
ROY Nominees Limited	2,000,000	23.5
Lynchwood Nominees Limited	1,428,210	16.8
Securities Services Nominees Limited	1,000,000	11.8
Strand Nominees Limited	500,000	5.9
Vidacos Nominees Limited	300,000	3.5

Related Party Transactions
Details of all related party transactions are set out in note 8 to the financial statements.

Future Prospects
Given the current economic crisis, the Board does not feel it appropriate to make any forecasts or assumption regarding the deployment of the PMSS^{TM} unit.

Financial risks
Details of the financial risks and strategy of the group are set out in note 16.

AGM
The Annual General Meeting will be held at 10:00AM on 23 April 2009. A notice of the meeting is attached to this Annual Report.

Auditors

A resolution to reappoint Moore Stephens LLP as the Company's auditors will be submitted to the shareholders at the Annual General Meeting.

Approved by the Board and signed on its behalf by

C. Duncan Soukup
Chairman

Directors’ Statement of Responsibilities

The directors have elected to prepare the financial statements for the Group in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Group, for safeguarding the assets and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

International Accounting Standard 1 requires that financial statements present fairly for each financial year the Group’s financial position, financial performance and cash flows. This requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the International Accounting Standards Board’s ‘Framework for the preparation and presentation of financial statements’. In virtually all circumstances, a fair presentation will be achieved by compliance with all applicable International Financial Reporting Standards. A fair presentation also requires the directors to:

- select and apply appropriate accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information; and
- provide additional disclosures when compliance with the specific requirements in IFRSs is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity’s financial position and financial performance.

All of the current Directors have taken all the steps that they ought to have taken to make themselves aware to any information needed by the Group's auditors for the purposes of their audit and to establish that the auditors are aware of that information. The Directors are not aware of any relevant audit information of which the auditors are unaware.

The financial statements are published on the Group's website. The maintenance and integrity of the Group's website is the responsibility of the Directors. The Directors' responsibility also extends to the ongoing integrity of the financial statements contained therein.

Consolidated Income Statement

from the period since incorporation on 26 September 2007 to 31 December 2008

	Note	2008 $
Continuing operations		
Revenue		-
Cost of sales		(22,970)
Gross profit		**(22,970)**
Administrative expenses		(286,457)
Other gains and losses - foreign currency gains		24,019
Operating loss	3	**(285,408)**
Interest income	4	33,670
Interest expense	5	(21,821)
Loss before tax		**(273,559)**
Tax		-
Loss for the financial period		**(273,559)**
Loss per share		
Basic	6	**(0.10)**
Diluted	6	**(0.10)**

The notes on pages 10 to 18 form an integral part of this consolidated financial information.

Consolidated Balance Sheet

as at 31 December 2008

	Note	2008 $
Assets		
Non-current assets		
Tangible fixed assets	9	5,756,948
Available for sale investments	10	34,395
Total non-current assets		**5,791,343**
Current assets		
Trade and other receivables	11	87,459
Cash and cash equivalents	12	1,159,536
Total current assets		**1,246,995**
Liabilities		
Current liabilities		
Trade and other payables	13	115,889
Total current liabilities		**115,889**
Net current assets		**1,131,106**
Net assets		**6,922,449**
Shareholders Equity		
Share capital	14	85,000
Share premium	14	7,116,651
Other reserves		(5,643)
Retained earnings / (losses)		(273,559)
Total shareholders equity		**6,922,449**

The notes on pages 10 to 18 form an integral part of this consolidated financial information.

These financial statements were approved and authorised by the board on 19 February 2009.

Signed on behalf of the board by:

C. Duncan Soukup
Chairman

Consolidated Statement of Cash Flows

from the period since incorporation on 26 September 2007 to 31 December 2008

	2008 $
Cash flows from operating activities	
Operating loss for the period	**(285,408)**
Increase in trade and other receivables	(87,459)
Increase in trade and other payables	115,889
Unrealised foreign currency loss	8,412
Cash used by operations	**(248,566)**
Interest paid	(21,821)
Net cash flow from operating activities	**(270,387)**
Cash flows from investing activities	
Acquisition of plant and equipment	(5,756,948)
Acquisition of investments	(48,450)
Interest received	33,670
Net cash flow from investing activities	**(5,771,728)**
Cash flows from financing activities	
Issue of ordinary share capital	8,490,100
Listing costs	(1,288,449)
Net cash flow from financing activities	**7,201,651**
Net increase in cash and cash equivalents	1,159,536
Cash and cash equivalents at the start of the period	-
Cash and cash equivalents at the end of the period	**1,159,536**

The notes on pages 10 to 18 form an integral part of this consolidated financial information.

Consolidated Statement of Changes in Equity

from the period since incorporation on 26 September 2007 to 31 December 2008

	Share Capital	Share Premium	Other Reserves	Retained earning / (losses)	Total Equity
	$	**$**	**$**	**$**	**$**
On incorporation	100	-	-	-	100
Issue of share capital	84,900	8,405,100	-	-	8,490,000
Deductible costs of share issues	-	(1,288,449)	-	-	(1,288,449)
Revaluation of available for sale investments	-	-	(5,643)	-	(5,643)
Total recognised income and expense for the period	-	-	-	(273,559)	(273,559)
Balance as at 31 December 2008	**85,000**	**7,116,651**	**(5,643)**	**(273,559)**	**6,922,449**

The notes on pages 10 to 18 form an integral part of this consolidated financial information.

Notes to the Consolidated Financial Statements

from the period since incorporation on 26 September 2007 to 31 December 2008

1. General information

Thalassa Energy Ltd (the "Company") is a British Virgin Island ("BVI") International Business Company ("IBC"), incorporated and registered in the BVI on 26 September 2007. The ordinary shares of the Company are listed on the London Stock Exchange Alternative Investment Market ("AIM").

The Company was established as a holding company, and currently has one wholly owned operating subsidiary, Thalassa Energy Services Ltd ("TESL") (together with Thalassa Energy Ltd, the "Group"). TESL was established to acquire marine seismic equipment, specifically a Portable Modular Source System ("PMSS™"). The PMSS™ is equipment which can be installed on a vessel in order to provide the seismic (sound) source to allow exploration and production companies to perform reservoir monitoring.

As the Company was incorporated on 26 September 2007, no comparative information is available for the period to 31 December 2008.

2. Accounting policies

The Group prepares its accounts in accordance with applicable International Financial Reporting Standards ("IFRS") as adopted by the European Union. The consolidated financial statements have been prepared on the historical cost basis except for available for sale investments that have been measured at fair value.

The principal accounting policies are summarised below. They have been applied consistently throughout the period covered by these financial statements.

2.1. Recent accounting and financial reporting pronouncements

The following standards, revisions and interpretations were in issue, but not in force at 31 December 2008:

IAS 1 (revised)	Presentation of Financial Statements
IAS 23 (revised)	Borrowing Costs
IAS 27 (revised)	Consolidated and Separate Financial Statements
IAS 39 (revised)	Financial Instruments: Recognition and Measurement
IFRS 2 (revised)	Share based payment: Vesting conditions and cancellations
IFRS 8 (new)	Operating segments

The IASB finalised its annual improvements project for 2007 in May 2008. The 2007 project makes changes to a wide range of existing standards which will come into force for accounting periods starting on or after 1 January 2009.

IAS 1, which requires the information in financial statements to be aggregated on the basis of shared characteristics and also includes the introduction of a statement of comprehensive income. This will enable readers to analyse changes in a company's equity resulting from transactions with owners in their capacity as owners (such as dividends and share repurchases) separately from 'non-owner' changes (such as transactions with third parties).

The planned changes are not expected to have an impact on the reported results of the Group.

2.2. Going concern

The financial statements have been prepared on the going concern basis as management consider that the Group has sufficient cash to fund its current commitments for the foreseeable future. Although the Group is not currently generating income from the use of the PMSS™, cash balances at 31 December 2008 stood at US$1.1 million and management have taken significant steps to reduce the operating costs of the group.

2.3. Basis of consolidation

The consolidated accounts include the assets, liabilities and results of the Company together with its wholly owned subsidiary Thalassa Energy Services Ltd from the date of its formation. All significant intercompany transactions and balances within the group are eliminated in the preparation of the consolidated financial information.

2.4. Judgement and estimates

The preparation of financial statements in conformity with IFRS requires the Directors to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The key judgement area relates to the carrying value of the plant and equipment. The carrying value of the PMSS™ may significantly differ from its market value. It is affected by management's assessment of its fair value and indicators of impairment. If the carrying value of the PMSS™ exceeds the recoverable amount then an impairment charge is recognised.

2.5. Tangible Fixed assets

Tangible fixed assets are stated at cost less depreciation and any provision for impairment. Cost includes the purchase price, including import duties, non-refundable purchase taxes and directly attributable costs incurred in bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended. Cost also includes capitalised interest on borrowings, applied only during the period of construction.

Depreciation is provided at rates calculated to write off the cost of the tangible fixed assets over their estimated useful economic life, less estimated residual values, once the equipment is deployed and is in use, as follows:

- Plant and equipment: 5 to 15 years

2.6. Impairment of assets

An assessment is made at each balance sheet date of whether there is any indication of impairment of any asset, or whether there is any indication that an impairment loss previously recognised for an asset in a prior period may no longer exist or may have decreased. If any such indication exists, the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's value in use or its net selling price.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. An impairment loss is charged to the income statement in the period in which it arises. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount of an asset, however not to an amount higher than the carrying amount that would have been determined (net of any depreciation / amortisation), had no impairment loss been recognised for the asset in a prior period. A reversal of an impairment loss is credited to the income statement in the period in which it arises.

2.7. Available for sale investments

Available for sale investments are initially measured at cost, including transaction costs. Gains and losses arising from changes in fair value of available for sale investments are recognised directly in equity, until the security is disposed or is deemed to be impaired, at which time the cumulative gain or loss previously recognised in equity is included in the income statement for the period.

2.8. Taxation

Thalassa Energy Ltd is incorporated in the BVI as an International Business Company (IBC) and as such is not subject to tax in the BVI.

2.9. Foreign currency

The individual financial statements of each Group company are maintained in the currency of the primary economic environment in which it operates (its functional currency), which is US dollars. The presentational currency for the consolidated financial statements is also US dollars.

Transactions in currencies other than the entity's functional currency (foreign currencies) are recorded at the rate of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Exchange differences arising are included in the income statement for the period.

2.10. Borrowing costs

Borrowing costs in respect of qualifying assets are capitalised otherwise expensed.

2.11. Financial instruments and risk management

Financial assets and liabilities are recognised on the Group's balance sheet when the Group becomes party to the contractual provisions of the instrument.

Trade receivables are initially measured at fair value and are subsequently measured at amortised cost, do not carry any interest, and are reduced by appropriate provisions for estimated irrecoverable amounts. Such provisions are recognised in the income statement.

Cash and cash equivalents comprise cash in hand and demand deposits and other short-term highly liquid investments with maturities of three months or less that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

Trade payables are not interest-bearing and are initially valued at their fair value and are subsequently measured at amortised cost.

Equity instruments are recorded at fair value, being the proceeds received, net of direct issue costs.

Derivative financial instruments. The Group has entered one forward exchange contract during the period to manage its exposure to foreign exchange risk. Further details of the forward exchange contract are disclosed in note 12.

2.12. Share Based Payments

The share options in Thalassa Energy Ltd, issued to the non-executive directors and the share options in Thalassa Energy Services Ltd issued to the Marketing Consultant and employees of WGP are measured at the intrinsic value at each reporting date.

The intrinsic value is calculated as the difference between the market price of the underlying shares (net asset value per share for the options in Thalassa Energy Services Ltd as the underlying shares are unlisted) and the exercise price of the option.

The share options are measured at intrinsic value, initially at the date granted and subsequently at each reporting date until the corresponding options are exercised, forfeited or lapse. The effects of revaluations are recognised in the income statement.

Refer to Note 14 for details of all share-based payments.

3. Operating loss for the year

The operating loss for the year is stated after charging:

	2008
	$
Consultancy fees / staff costs	95,963
Audit fees	26,399

Included within consultancy fees / staff costs is $30,000 in relation to amounts paid for non-executive directors' remuneration.

4. Interest income

	2008
	$
Interest on bank deposits	33,670

5. Interest expense

	2008
	$
Bank interest payable	3,449
Loan interest payable	18,372
	21,821

6. Earnings / (Loss) per share

	2008
The calculation of earnings per share is based on the following profit / (loss) and number of shares:	
Profit / (loss) for the period (US$)	(273,559)
Weighted average number of shares of the Company:	
Basic	2,840,000
Earnings / (loss) per share:	
Basic (US$)	(0.10)
Diluted (US$)	(0.10)

The share options as detailed in note 15 are potentially dilutive in the future.

7. Segment information

Once trading commences, the Group anticipates having only one material reportable business segment.

8. Related party transactions

During the period, the Chairman provided an unsecured loan to fund costs of incorporation, capital expenditure and placing fees to the Company amounting to US$2,300,927 which was settled by the subscription of 2,300,927, US$1.00 ordinary shares.

Also during the period, the Company was invoiced US$320,160 of administrative fees from a company in which the Chairman has a beneficial interest. At 31 December 2008, the amount owed to this company of US$235,952 was waived.

9. Tangible fixed assets

	Plant and equipment $
Cost	
Additions	5,756,948
Cost at 31 December 2008	**5,756,948**
Depreciation	
Charge for the period	-
Depreciation at 31 December 2008	**-**
Closing net book value at 31 December 2008	**5,756,948**

Included within plant and equipment additions is capitalised interest of US$68,092.

10. Investments

	2008 $
Available for sale investments	
At the beginning of the period	-
Acquisitions	48,450
Revaluation	(5,643)
Exchange difference	(8,412)
Fair value at 31 December 2008	**34,395**

11. Trade and other receivables

	2008
	$
Other debtors	15,378
Prepayments	72,081
Total trade and other receivables	**87,459**

12. Cash and cash equivalents

Included within cash and cash equivalents is US$115,625 relating to the profit from the settlement of a three month forward exchange contract maturing on 9 January 2009. The profit of US$115,625 was secured prior to 31 December 2008 and therefore the amount to be received on 9 January 2009 was known at 31 December 2008.

13. Trade and other payables

	2008
	$
Trade creditors	76,213
Other creditors	1,779
Accruals	37,897
Total trade and other payables	**115,889**

14. Share capital and share premium

	2008
	$
Authorised share capital:	
100,000,000 ordinary shares of $0.01 each	1,000,000
Alloted, isssued and fully paid:	
8,500,000 ordinary shares of $0.01 each	85,000

	Number of shares	Share capital	Share premium
On incorporation	100	100	-
Share reorganisation	9,900	-	-
	10,000	**100**	**-**
Issue of share capital	8,490,000	84,900	8,405,100
Cost of share issues	-	-	(1,288,449)
Balance at 31 December 2008	**8,500,000**	**85,000**	**7,116,651**

On 22 July 2008, a total of 2,300,927 new ordinary shares of the Company were allotted and issued to the sole “Founding” Shareholder by way of capitalisation of monies advanced to the Company at a price of US$1.00 per ordinary share.

On 22 July 2008, 6,189,073 Ordinary Shares were allotted and issued pursuant to the placing on AIM by way of subscription in cash at a price of US$1.00 per ordinary share.

15. Share – based payments

15.1. Founding shareholder options

On 23 July 2008 Duncan Soukup was granted a five year option to subscribe for 2,125,000 shares at US$0.01 per share. These options incur no income statement charge as they were issued in the capacity as a holder of equity shares in the Company and as such are not a share based payment transaction.

Duncan Soukup did not exercise any of his options during the period to 31 December 2008.

15.2. Non-Executive Director share options

On 23 July 2008 each of the Directors (other than the Chairman), was granted a three year option to subscribe for up to 85,000 shares in the Company, at US$1.00 per share. Each option may be exercised in full only if the relevant Director shall have attended each of the four quarterly board meetings to be held following Admission to AIM on 29 July 2008.

Following Admission to AIM on 29 July 2008, the Company held one board meeting, which was attended by all three non-executive directors.

None of the non-executive director share options were exercised during the period to 31 December 2008.

15.3. Marketing consultant share options in Thalassa Energy Services Ltd

On 23 July 2008, Martin Smith (Marketing Consultant) was granted an option to subscribe for up to 350,000 shares in Thalassa Energy Services Ltd at US$1.00 per share. The options become exercisable according to the sales performance of Thalassa Energy Services Ltd in each of the five successive financial years commencing 1 January 2008.

As the sales performance criteria for the period to 31 December 2008 was not met, 70,000 of Martin Smith's share options lapsed during the period to 31 December 2008.

15.4. Share options in Thalassa Energy Services Ltd granted to employees of WGP

On 23 July 2008, certain employees of WGP were granted five year options in respect of a total of up to 100,000 ordinary shares of Thalassa Energy Services Ltd at US$1.00 per share.

None of the WGP employee options were exercised and 2,500 options lapsed, due to a termination of employment, during the period to 31 December 2008.

15.5. Valuation of share options

Management believe that the fair value of the share options issued in the Company and Thalassa Energy Services Ltd cannot be reliably estimated at the date the options were granted as volatility assumptions based on other listed entities are not appropriate as:

- The Group operates in a niche market
- The Group has no trading history and has no sales orders
- The shares in the Company are currently illiquid
- The current economic environment prevents reliable comparison

The Group has therefore valued the share options issued in the Company and Thalassa Energy Services Ltd using the intrinsic value, i.e. the difference between the market price of the underlying shares (net asset value per share for the options in Thalassa Energy Services Ltd as the underlying shares are unlisted) and the exercise price of the option.

As the exercise price of the share options in the Company at 31 December 2008 was in excess of the market price at 31 December 2008, the charge to the income statement for the period to 31 December 2008 is $Nil. The exercise price of the share options in the Company is US$1.00.

The sterling equivalent of the exercise price at 31 December 2008 was £0.69. The sterling equivalent of the average exercise price from the date the share options were issued to 31 December 2008 was £0.59.

As the exercise price of the share options in Thalassa Energy Services Ltd at 31 December 2008 was in excess of the net asset value per share at 31 December 2008, the charge to the income statement for the period to 31 December 2008 is $Nil.

16. Financial instruments

The Group's financial instruments comprise cash and cash equivalents together with various items such as other debtors and trade creditors etc, that arise directly from its operations.

The main risks arising from the Group's financial instruments are interest rate risk, foreign exchange risk, credit risk and liquidity risk.

Interest rate risk

The Group does not undertake any hedging against interest rate risk. The Group finances its operations from the cash balances on the current and deposit accounts and had no borrowings at 31 December 2008.

Foreign exchange risk

The Group undertakes hedging activities from time to time for foreign exchange risk. During the year the Company entered a forward currency contract of three month duration to hedge the £ against US$. This contract secured a profit to the Company of $115,625.

An increase in foreign exchange rates of 5% at 31 December 2008 would have increased the loss and net assets by US$3,177. A decrease of 5% would have had an equal and opposite impact.

Credit risk

The Group considers the credit ratings of banks in which it holds funds in order to reduce exposure to credit risk.

Liquidity risk

The Group's strategy for managing cash is to maximise interest income whilst ensuring its availability to match the profile of the Group's expenditure. Based on current forecasts the Group has sufficient cash to meet future obligations.

The fair value of the financial assets and liabilities approximates the carrying values disclosed in the financial statements. The Group's capital comprises ordinary share capital, retained earnings and capital reserves, the group has no debt. The Group's objectives when managing capital are to provide an optimum return to shareholders over the short to medium term through capital growth and income whilst ensuring the protection of its assets by minimising risk. The Group seeks to achieve its objectives by having available sufficient cash resources to meet capital expenditure and ongoing commitments. The Group also uses certain derivative financial instruments in order to manage its exposure to various markets and currencies.

At 31 December 2008, the Group had capital of US$6,992,449. The Group does not have any externally imposed capital requirements.

17. Capital commitments

As at 31 December 2008, Thalassa Energy Services Ltd had entered into commitments which had not been invoiced at 31 December 2008 to acquire equipment for the assembly of the PMSS™ amounting to US$15,378.

18. Events after the balance sheet date

Following the successful assembly of the PMSS^{TM}, the equipment is now available for deployment in international offshore waters. Although a contract for the use of the PMSS^{TM} has not yet been secured, management, along with its Operations Manager (WGP) is marketing the PMSS^{TM} to all potential customers.

19. Copies of the consolidated financial statements

The consolidated financial statements are available on the Company's website: www.thalassaenergyltd.com

Notice of the Annual General Meeting

NOTICE IS HEREBY GIVEN that the ANNUAL GENERAL MEETING (the "Meeting") of Thalassa Energy Ltd (the "Company") will be held at Le Cabanon, Pointe des Douaniers 06320 Cap d'Ail on 23 April 2009 at 10:00AM for the purpose of considering and, if thought fit, passing the following simple resolutions:

1. To receive and consider the financial statements for the period since incorporation on 26 September 2007 to 31 December 2008 together with the reports of the directors and the auditors thereon.

2. To authorise the Directors to appoint auditors of the Company for the year ending 31 December 2009 and to authorise the Directors to determine the auditor's remuneration.

3. To re-elect Graham Cole as a Director of the Company, who is retiring by rotation and offering himself for re-election in accordance with the Company's Articles of Association.

4. To re-elect James Grossman as a Director of the Company, who is retiring by rotation and offering himself for re-election in accordance with the Company's Articles of Association.

5. To re-elect David Thomas as a Director of the Company, who is retiring by rotation and offering himself for re-election in accordance with the Company's Articles of Association.

and for the purpose of considering and, if thought fit, passing the following special resolutions:

6. To approve the amended and restated Memorandum and Articles of Association produced to the meeting and initialled by the Chairman for the purposes of identification as the Memorandum and Articles of Association of the Company in substitution for and to the exclusion of the Company's existing Memorandum and Articles of Association.

7. To approve the amendment to the strategy included within paragraph 4, part I of the Admission Document dated 23 July 2008 from "identify, acquire, integrate and develop complementary businesses, where appropriate" to "identify, acquire, integrate and develop businesses which the Directors consider to have potential for capital growth".

Dated 3 April 2009
By Order of the Board

Notes

1. A member entitled to attend and vote at the meeting is entitled to appoint one or more proxies to attend and vote in his place. A proxy need not also be a Member of the Company

2. To appoint a proxy, you should complete the Form of Proxy enclosed with this Notice of Annual General Meeting. To be valid the Form of Proxy together with the power of attorney or other authority (if any) under which it is signed must be completed and returned by post or by hand to the Company's Registrar, Capita Registrars Limited, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU , not later than 48 hours before the time fixed for the Meeting or any adjourned meeting.

3. In the case of joint holders, if two or more persons hold shares jointly each of them may be present in person or by proxy at the Meeting and may speak as a shareholder; if only one of the joint owners is present in person or by proxy, he may vote on behalf of all joint owners; and if two or more are present in person or by proxy they must vote as one.

4. CREST members who wish to appoint a proxy or proxies by utilising the CREST electronic proxy appointment service may do so for the annual general meeting to be held on the time and date set out at the top of the notice and any adjournment(s) thereof by utilising the procedures described in the CREST Manual. CREST Personal Members or other CREST sponsored members, and those CREST members who have appointed a voting service provider(s), should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf.

5. In order for a proxy appointment made by means of CREST to be valid, the appropriate CREST message (a "CREST Proxy Instruction") must be properly authenticated in accordance with CRESTCo's specifications and must contain the information required for such instructions, as described in the CREST Manual. The message must be transmitted so as to be received by the issuer's agent (ID : RA10) by the latest time(s) for receipt of proxy appointments specified in the notice of meeting. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST Applications Host) from which the issuer's agent is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST.

6. CREST members and, where applicable, their CREST sponsors or voting service providers should note that CRESTCo does not make available special procedures in CREST for any particular messages. Normal system timings and limitations will therefore apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member or sponsored member or has appointed a voting service provider(s), to procure that his CREST sponsor or voting service provider(s) take(s)) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting service providers are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings.

7. The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001.

Independent Auditors' Report on the Financial Statements

We have audited the accompanying financial statements of Thalassa Energy Ltd, which comprise the consolidated balance sheet as at 31 December 2008 and the consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement for the period then ended, and a summary of significant accounting policies and other explanatory notes.

This report is made solely to the members, as a body, in accordance with the terms of our engagement. Our audit work has been undertaken so that we might state to the members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the group and the group's members as a body, for our audit work, for this report, or for the opinions we have formed.

Management's Responsibility for the Financial Statement
Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards as adopted by the European Union. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility
Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

We read other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. The other information comprises only the Chairman's Report and the Directors Report. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, 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 statements 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 entities internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements present fairly in all material respects the financial position of the group as of 31 December 2008 and of its financial performance and its cash flows for the period then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Moore Stephens LLP

Moore Stephens LLP
Chartered Accountants

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London
EC4M 7BP

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