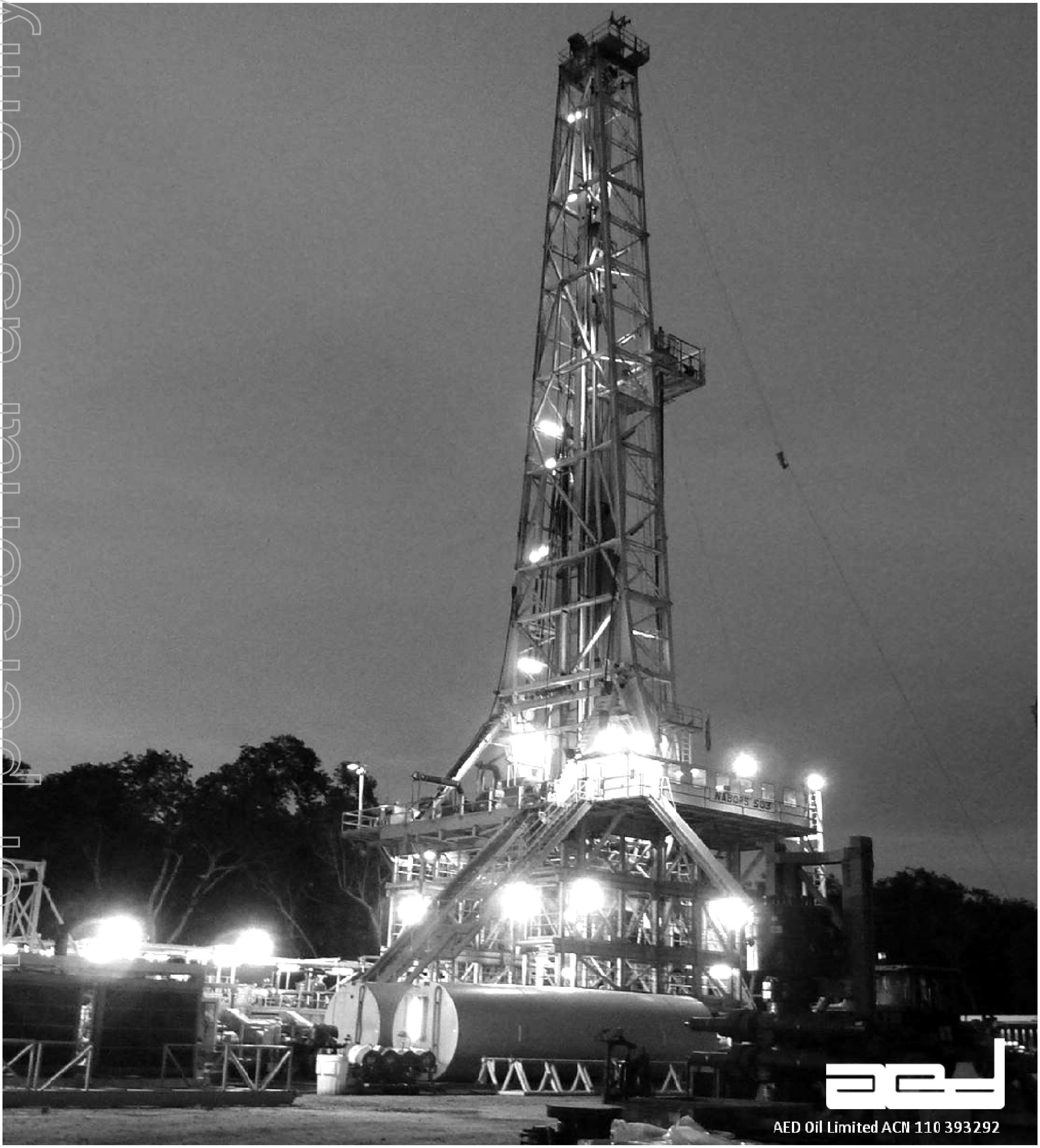
AED Oil Limited

Annual Financial Report 30 June 2010



Contents

Company Details

AED OIL LIMITED
ABN 61 110 393 292

Directors
David Dix B.Ec; LLB; Grad Dip (Tax Law)
George Edward (Barry) McGuiness Diploma of Public Administration
John Branson AM LLB, FAICD
Richard Graham Price B.Eng (Civil) (Hons), MBA
Pedro De Souza BSc (Hons), MSc (resigned 18 September 2010)
John Imle SPE, AAPG (appointed 16 April 2010)
Tim Baldwin B.Bus., MBA (appointed 16 April 2010)

Chief Financial Officer
Richard Little B.Ec, CA

Company Secretary
Trevor Slater B.Bus (Acctng) FCPA FCSA

Registered Office and Head Office
Level 20, 8 Exhibition Street
MELBOURNE VIC 3000
Phone: (03) 9656 7800
Fax: (03) 9654 7006
Email: admin@aedoil.com

Postal Address
PO Box 18199
COLLINS STREET EAST VIC 8003

Website
www.aedoil.com

Share Registry
Link Market Services Limited
Level 1
333 Collins Street
MELBOURNE VIC 3000
Postal address:
PO Box 1736P
MELBOURNE VIC 3001
Australia: Ph: 1300 554 474 or (02) 8280 7111
Overseas: Ph: + 61 (2) 8280 7111
Email: registrars@linkmarketservices.com.au
AED Oil Limited shares are listed on the Australian Securities Exchange (ASX)

Home Stock Exchange
Australian Stock Exchange Limited
Rialto Towers, Level 45, 525 Collins Street
MELBOURNE VIC 3000

Solicitors
Corrs Chambers Westgarth
600 Bourke Street
MELBOURNE VIC 3000

Auditors
Ernst & Young
8 Exhibition Street
MELBOURNE VIC 3000

Bankers
Commonwealth Bank of Australia
Level 14, 385 Bourke Street
MELBOURNE VIC 3000

Your directors present their report on the results of AED Oil Limited ("**Group**", "**Company**" or "**AED**") for the year ended 30 June 2010.

1. DIRECTORS

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

Names, Qualifications, Experience and Special Responsibilities

David Dix
B.Ec; LLB; Grad Dip (Tax Law)
Executive Chairman & CEO
Appointed 6 August 2004

David Dix jointly formed AED Oil Limited in August 2004. He has a background in economics, law and taxation and has extensive experience in the resources industry. He has held various positions with Shell Australia Limited and worked for 16 years in corporate advisory at UBS AG and Macquarie Bank. At UBS AG, David was employed as Head of Resources for Asia Pacific and Head of Mining in London. During the past three years David has served as a director of the following public or listed companies:

- Aquarius Platinum Limited*
- Quadrem Limited*
- Troy Resources NL*

** denotes current directorship*

Pedro De Souza
BSc (Hons), MSc, CEng, MRINA
Managing Director
Appointed 30 June 2009 and resigned 18 September 2010

Pedro De Souza has extensive international experience in the business and technical leadership and management of multibillion dollar oil and gas assets. Pedro's career has spanned many oil and gas developments around the world, from the North Sea with the British National Oil Corporation, through various developments with Britoil Plc, SBM Inc and Bechtel. His extensive career with BHP Petroleum and BHP Billiton Petroleum included developments in the Timor Sea, Western Australia, Bass Strait, Papua New Guinea, Vietnam, Pakistan, the Zone of Cooperation between Australia and Indonesia (ZOCA), Algeria, Trinidad and the US Gulf of Mexico, amongst others. Pedro's last positions with BHP Billiton Petroleum were Vice President Global Engineering and Construction (most recent, based in Houston, Texas), Vice President in charge of ZOCA and of all new developments in the Australia/Asia Region and Vice President Papua New Guinea. Pedro holds a Bachelor of Science (Honours) degree and a Master of Science degree.

Barry McGuiness
Diploma of Public Administration
Chairman, Audit & Risk Committee
Non Executive Director
Appointed 14 February 2005

Barry McGuiness has extensive corporate and board experience. He has acted as managing director and chief executive officer of Australian National Line, managing partner of the consulting division of Arthur Andersen (now Accenture), a member of the Business Council of Australia and Committee for Melbourne. Barry has previously served as the managing partner of Minter Ellison, Melbourne, and international managing partner and chairman of partners for Minter Ellison Melbourne. Barry was previously the deputy chairman of SPC Limited, chairman of William Buck & Co and director of Vision Systems Limited. He is currently a director of City Wide Services Pty Limited and Applied International, chairman of Woleco Hotel Supplies (Singapore). During the past three years Barry has served as a director of the following public or listed companies:

- Vision Systems Limited

1. DIRECTORS (cont.)

John Branson AM
LLB, FAICD
Chairman, Nomination & Remuneration Committee
Non Executive Director
Appointed 14 February 2005

John Branson has a background in law and corporate finance and has over 30 years experience in the professional services and resources industries. He is a former chairman of Australian Zircon NL, former senior partner of Fisher Jeffries, he has held various positions at McGuigan Simeon Wines Limited, Pipeline Authority of South Australia and South Australian TAB. Currently, John is the Chairman of Stuart Petroleum Limited and a director of the Bank SA Advisory Board and Hytorc (South Pacific) Pty Ltd. During the past three years John has served as a director of the following public or listed companies:

- Stuart Petroleum Limited*
- Australia Zircon NL

** denotes current directorship*

Richard Price
B.Eng (Civil) (Hons), MBA
Non Executive Director
Appointed 14 May 2007

Richard Price has had extensive experience in the provision of strategic, corporate and financial advice to major public companies over the last 20 years. Richard is an executive director within Macquarie Bank's Investment Banking Group, with particular expertise in the resources and energy sectors. He has an honours degree in Civil Engineering and a Masters of Business Administration, both from the University of Melbourne. Prior to entering investment banking, Richard practised as a consulting Civil Engineer with Camp Scott Furphy, and is actively involved in the philanthropic sector, including his role as chairman of The Song Room. During the last 3 years Richard has been a director at:

- Macquarie Bank's Investment Banking Group*

* denotes current Directorship

John Imle
SPE, AAPG
Non Executive Director
Appointed 16 April 2010

John Imle, trained as a Petroleum Engineer and has over 45 years experience in the global oil and gas industry, with particular emphasis on oil, gas and geothermal exploration, development and infrastructure projects. John is currently Chief Executive Officer of Nations Petroleum Company Ltd (Nations), a Private Canadian registered company. John was practicing as an energy advisor based in London and California prior to joining Nations. John served as president of Vanco Energy Company from 2005-2007 where he focused on several deepwater exploration projects offshore Africa and Ukraine. Previously, he was president and vice chairman of the international energy company, Unocal Corporation. For much of his time at Unocal, John was responsible for the company's worldwide oil, gas and geothermal operations. He sponsored and oversaw major successful projects in Indonesia, Thailand, Vietnam, Bangladesh, India, China and Myanmar. John is a member of SPE, AAPG, a former director of the American Petroleum Institute and National Ocean Industries Association and was a cofounder of the Business Humanitarian Forum, a Geneva based organisation fostering cooperation between business and humanitarian groups.

Tim Baldwin
B.Bus., MBA
Non Executive Director
Appointed 16 April 2010

Tim Baldwin has extensive experience in the oil and gas industry having been with BP between 1995 and 2008. In this time he worked across the energy value chain in commercial roles focused on exploration and production, LNG, shipping as well as a number of the downstream businesses. His commercial roles included strategic planning, investment appraisal and corporate finance and he has a deep understanding of risk management techniques used within the energy trading markets. Tim has been based in Hong Kong since 2005, but also worked in BP's head offices in London and Singapore.

1. DIRECTORS (cont.)

He has more than 15 years of experience in Asia. In 2008 he joined the Asia Resources Fund and has been responsible for developing and managing oil and gas investment opportunities since then.

Trevor Slater
B.Bus. (Acctg) FCPA FCSA
Company Secretary/ Country Manager Brunei

Trevor Slater has over 30 years experience in the resources, construction, IT and services industries. He has held senior finance positions within public listed entities for over 18 years. Prior to joining AED, Trevor held senior finance positions with Ballarat Goldfields NL, Coal Corporation of Victoria , North Limited (King Island), Bestobell Limited and the Ballarat School of Mines and Industries. Trevor was one of the initial employees engaged in the listing of AED.

2. DIRECTORS' MEETINGS

The number of meetings of directors (including meetings of committees of directors) held during the year and the number of meetings attended by each director (while they were a director or committee member) was as follows:

	Directors Meetings		Audit and Risk		Remuneration and Nomination	
Director	**Held**	**Attended**	**Held**	**Attended**	**Held**	**Attended**
David Dix	13	13	-	-	-	-
Pedro De Souza (resigned 18 September 2010)	13	13	-	-	-	-
Barry McGuiness	13	13	7	6	3	3
John Branson	13	13	7	7	3	3
Richard Price	13	13	7	6	3	3
John Imle (appointed 16 April 2010)	1	1	-	-	-	-
Tim Baldwin (appointed 16 April 2010)	1	1	-	-	-	-

During the period there were a number of matters which were confirmed by circular resolutions of directors.

3. COMMITTEE MEMBERSHIP

As at the date of this report, the Company had an Audit and Risk Committee and a Nomination and Remuneration Committee of the Board.

Members acting on the committees of the Board during the year were:

Audit and Risk	Nomination and Remuneration
Barry McGuiness *	Barry McGuiness
John Branson	John Branson *
Richard Price	Richard Price

***** Designates the chairman of the committee.

4. INTEREST IN THE SHARES AND OPTIONS OF THE COMPANY AND RELATED BODIES CORPORATE

As at the date of this report, the interests of the Directors or their related companies in the Shares and Options of the Company were:

Director	Ordinary Shares	Options Over Ordinary Shares
David Dix	37,908,613	-
Pedro De Souza (resigned 18 September 2010)	30,000	500,000
John Branson	270,000	-
Barry McGuiness	290,000	-
Richard Price	1,680,051	-
John Imle	-	-
Tim Baldwin	-	-

5. NATURE OF OPERATIONS AND PRINCIPAL ACTIVITIES

The principal activities of the Group during the period were the activities associated with the planning, exploration and appraisal of the Puffin Field in Australia, Block L in Brunei, and Rombebai and South Madura in Indonesia.

6. OPERATING AND FINANCIAL REVIEW

It has been a successful year for AED, as we progress toward our goal of becoming a leading regional oil and gas company with a diversified asset portfolio of exploration and producing fields in domestic and international territories. AED's strategy is to identify, explore, develop and commercialise high-impact oil and gas opportunities in the Asia Pacific region. Implementation of our strategy commenced by diversifying our asset base from the Puffin and Talbot Fields by investment into South East Asia.

Fitting with the strategy, we have been pleased with the advancement of our initial two well Phase 1 Exploration Program for Block L, Brunei and the planning for opportunities in Rombebai and South Madura. During the financial year AED has continued to build, strengthen and increase the value of your company with the successful implementation of the above corporate strategies by:

- **Diversification** – the diversification of its interests through investments in the Asia Pacific region with the acquisition of highly promising assets – 50% interest in Brunei (Block L), 100% interest in Rombebai Contract Area, and the 60% interest in South Madura Contract Area.
- **Capital management** – the Statement of Financial Position has been strengthened with the restructuring of the existing convertible notes and by successfully obtaining two new financing facilities.
- **Puffin Field** – suspension of operations on Puffin and undertaking a detailed geophysical and geological analysis on the Puffin Field with the view to establishing a new Field Development Plan for the Puffin and Talbot fields.

SOUTH EAST ASIA

During the year AED expanded its operations into South East Asia with the acquisition of a 50% operating interest in the Brunei (Block L) oil and gas permit and in Indonesia with a 100% interest in the Rombebai Contract Area and a 60% interest in South Madura Contract Area.

Brunei – Block L

AED became the Operator of this concession in March 2010 and immediately undertook a two well drilling program to test significant oil and gas targets identified by the recently completed 3D seismic study.

6. OPERATING AND FINANCIAL REVIEW (cont.)

The Lukut-1 well targeted shallow water delta front sands (approximately 2000m) in the Belait formation. This formation is highly productive in the nearby Seria and Champion Fields, with both fields producing over 1 billion barrels of oil since discovery. Drilling of this well successfully identified 10 potential hydrocarbon zones and drill-stem testing of these zones will be performed.

The Lempuyang prospect is a large amplitude supported horst trap, with the Lempuyang-1 well targeting deeper sediments interpreted to be a top set deltaic package which is well defined on the recently acquired Tutong 3D seismic survey in Block L. Drilling is continuing on this well, with initial hydrocarbons intersected. Testing of the well will be performed.

Subsequent to year end, AED announced that it and its joint venture partners in Block L have elected to proceed with the Phase 2 exploration program for Block L. Phase 2 consists of a two year exploration period commencing on 28 August 2010. During Phase 2, the Block L Joint Venture will at a minimum:

- acquire and process at least 500 kilometres of onshore 2D seismic data and 500 kilometres of offshore 2D seismic data;
- acquire and process at least 150 square kilometres of offshore 3D seismic data or its dollar equivalent amount of 2D seismic data; and
- drill two onshore exploration wells, each to a minimum depth of 2,000 metres.

The decision to proceed to Phase 2 reflects AED's optimism in the prospectivity of its Brunei acreage. AED's optimism is based upon the encouraging drilling results at the Lukut-1 well and the Lempuyang-1 well; the acquisition, processing and study of further geological and geophysical data on Block L; AED's continuing views as to the general attractiveness of Brunei; and in particular, Block L, as an oil and gas exploration region. Block L's attractiveness as an oil and gas exploration region is based upon:

- Brunei's position as a historically proven oil rich province and as Asia's current third largest oil and gas producer;
- On-shore acreage in Brunei, such as Block L, remains significantly underexplored with minimal exploration activity over the past 20 years and minimal application of recent technological advancements in both drilling techniques and seismic analysis;
- Low drilling costs given the predominately on-shore location of Block L and ready access to technical services and experienced contractors in Brunei; and
- Excellent access to existing oil and gas infrastructure, which means the path to commercialisation for any discoveries will be relatively short and inexpensive.

Indonesia

AED currently has two major projects in Indonesia, Rombebai and South Madura.

Rombebai is a unique and exciting prospect which could hold a world-scale multi-trillion cubic feet (TCF) prospective resource. The Company is targeting a prospective resource in excess of seven TCF gas-in-place, with potential upside of over double this estimate.

The prospect has an excellent path to market with the potential to become a major liquefied natural gas development. New seismic data and interpretation work has identified the significantly increased prospectivity of the Gesa structure which is located onshore and close to the coast.

AED has commenced a formal search for a partner to participate in the Gesa-focused exploration drilling program and is also reviewing other financing alternatives. AED has appointed Macquarie Capital Advisers to assist in finding an appropriate farm-in partner for this project.

At South Madura the Gigir East-1 well was drilled in July 2010. The Gigir East-1 well was a commitment well under the terms of the Production Sharing Agreement for South Madura and was exploring a small gas target. The well was drilled to the objective targets and wireline logs were run, which provided valuable data for future appraisal but did not discover any hydrocarbons. The well was plugged and abandoned and the rig was released on 22 August 2010. It is expected that the well cost will come in under the approved budgeted expenditure of US$3.6 million (100% share).

The Joint Venture will now integrate the well results into the regional geological data and then assess future drilling targets in the South Madura contract area.

6. OPERATING AND FINANCIAL REVIEW (cont.)

AUSTRALIA

Puffin Field

As previously advised, production on the Puffin Field was suspended in May 2009 due to a number of operational and safety issues associated with the Puffin production facility, the Front Puffin FPSO (Floating, Production, Storage and Offtake) culminating in the termination of that contract with Puffin FPSO.

While this was a disappointing outcome, the Group has continued to place emphasis on its health, safety and environmental responsibilities. The Puffin Joint Venture has begun a process of dispute resolution and confidential arbitration with Puffin FPSO, under which Puffin FPSO has claimed certain amounts from the Puffin Joint Venture and the Puffin Joint Venture has claimed and may claim certain additional amounts from Puffin FPSO.

The successful exploitation of the Puffin Field will be dependent upon developing solutions that provide both flexibility and low cost. Alternatives are presently being worked up by the Joint Venture and will progressively be evaluated. The Preliminary Field Development Plan is important in the context of deriving the quantum of economical recoverable reserves.

To this end, AED together with our joint venture partner, East Puffin Pty Ltd, has completed a 3D seismic shoot for the Puffin field and the reprocessing of the existing 3D Seismic coverage which was originally shot by BHP Billiton as part of the Onnia 3D Survey. The Onnia 3D seismic data covers the Puffin Horst and AC/L6.

In addition the new 3D seismic shoot has covered all acreage on AC/P22 which will facilitate the further assessment of exploration leads on prospects particularly the potential for further hydrocarbons identified by the drilling of Great Auk and subsequent modelling.

While we continue to evaluate this seismic detail, we are encouraged to believe that the Puffin and Talbot fields could provide a very exciting future for your Company. This work will assist with the defining of the future development plan of the Puffin Field.

Statement of Financial Position Restructure

During the year AED was repaid the A$35 million deposit in relation to the Longtom Gas Project transaction that did not proceed, and commenced its investment into the South East Asia region through the agreements that AED reached with Nations Petroleum to acquire its 50% interest in Brunei (Block L) and a 100% interest in Rombebai Contract Area and a 60% interest in South Madura Contract Area.

AED continued to restructure its 2007 6.5% convertible notes and these have all now been exchanged or redeemed. AED then entered into the following new financing facilities and is well positioned with longer term finance in place to fund its expansion into South East Asia and its continued work on the Puffin Field:

1. Newly listed 9% US$21.2 million convertible note which has a longer final redemption and conversion date of July 2012. Subsequent to year end the conversion price of the convertible note was reset to A$0.61 a share;
2. The issue to Asia Resources Fund of new 6% convertible notes to the value of US$20 million. The conversion price of the US$20 million 6% convertible notes was set at a 15% premium to the VWAP of AED's share price from 1 February 2010 to 18 March 2010, resulting in a conversion price of A$0.668 and a maturity date of 19 March 2014; and
3. The establishment of a new A$20 million general purpose secured loan facility with Deutsche Bank AG.

6. OPERATING AND FINANCIAL REVIEW (cont.)

Financial Results

Comparison to Prior Financial Year

The focus this year has been the implementation of the strategy to become a global diversified oil and gas company with the expansion into Brunei and South East Asia. With the cessation of production on the Puffin Field, the operational focus for financial year for the Company has been one of maintaining and decommissioning the Puffin Field while work on the future development plan for the Puffin Field is completed.

Financial results for year	**2010 A$'M**	2009 A$'M
Operating sales revenue at spot oil prices	**0.3**	27.6
Gross operating loss	**-**	(50.7)
Puffin field joint venture maintenance and decommissioning costs	**(4.6)**	-
Development costs expensed	**-**	(33.1)
Asset write-downs	**(0.7)**	(38.0)
Asset impairment write-downs	**-**	(50.6)
Net loss after tax	**(12.0)**	(103.6)

With the cessation of production on the Puffin Field, there were minimal operating costs for the year.

Other revenue and other income/(losses) of $2.7 million (2009: $36.7 million) relate to foreign exchange gains/(losses), interest received, rental recovery and terminal fees recovered. The significant change was due to incurring a small foreign exchange loss this year of A$0.8 million compared to the large favourable exchange gains earned on the cash held in US Dollars last year of $24.6 million and lower levels of interest revenue realised on lower cash balances.

The Company has incurred costs of $4.6 million in relation to the Puffin Field joint venture maintenance of the field and decommissioning costs. No further asset write-downs or impairment were considered necessary this year.

There was a fair value gain of $3.2 million on derivatives on the valuation of the convertible notes this year. The prior year's expense of $10.4 million represented a fair value loss on the valuation of the convertible notes.

Total borrowing costs for the period were $7.9 million (2009: $10.0 million), representing interest on the Convertible Note and the unwinding of the discount associated with the rehabilitation provision. The decrease is due to the Statement of Financial Position restructure and reduction in debt.

The income tax benefit of $2.9 million is from the recognition of the tax effect of the current losses to the extent that it offsets the deferred tax liability. The prior year tax benefit of $58.0 million is from the recognition of the tax effect of the 2008/2009 year net loss.

Statement of Financial Position

The major changes in the Statement of Financial Position items that occurred during this year were:

- The investment into Brunei and Indonesia;
- The payment of creditors for drilling activities which occurred in the prior year;
- The receipt of the refund of the Longtom deposit of A$35 million; and
- The restructure of the Convertible Notes and new financing facilities put in place.

6. OPERATING AND FINANCIAL REVIEW (cont.)

The original 2007 6.5% Notes have all now been either exchanged for the new longer dated 9% Notes or redeemed for cash. In addition, the successful issue of new 6% Notes with a face value of US$20 million was raised which increased the company's cash reserves and will be utilised in the funding of the expansion into Brunei and Indonesia.

The company's outstanding convertible notes profile is as set out below:

	Face value (USD)	First redeemable	Due
9% convertible notes	$21,217,500	23 February 2011	10 July 2012
6% convertible notes	$20,000,000	19 March 2013	19 March 2014

Cash Flows

The net cash out flows in the year predominately related to the payment of creditors for activities which occurred in the prior period and the restructure of the Company's convertible notes. Major cash outflows for the year therefore comprised:

Operating

- A$17.1 million was paid in relation to FPSO field maintenance, decommissioning costs and corporate costs;
- A$6.7 million GST refund received previous payments from the FPSO Timecharter Contract;
- A$3.5 million interest received including interest from the Longtom deposit; and
- A$4.7 million interest costs were paid on the convertible notes.

Investing

- A$16.0 million exploration and evaluation capital expenditure related to creditor payments from the prior year's drilling activity on the Puffin Field in relation to the Great-Auk 1 exploration well and Puffin-13 (Puffin SW), and continuing geological and geophysical studies on the review of Reserves and Resources;
- A$35.0 million refund received in relation to Longtom Gas Project deposit;
- A$7.5 million in relation to the investment acquisitions of the 50% interest in Brunei Block L, the 100% interest in Rombebai and the 60% interest in South Madura in South East Asia;
- A$5.2 million exploration and evaluation capital expenditure relating to the expansion into Brunei and Indonesia; and
- A$23.5 million in restricted cash representing (a) a deposit of A$14.2 million into court as part of the dispute process with Puffin FPSO. This deposit is expected to be released and returned to the Company shortly, upon finalisation of certain GST matters; (b) a deposit in escrow of A$1.2 million as part of a dispute with an installation contractor. This amount has since been repaid to the company; and (c) A$8.0 million deposit as a cash backed guarantee for the drilling campaign in Brunei. The guarantee has since expired and the funds returned to company.

Financing

- US$72.3million of AED's 6.5% convertible notes were exchanged for a cash payment of A$56.4 million, the issue of 1,770,275 new AED shares and the issue of a new US$21.2 million 9% convertible note; and
- US$20.0 million 6% convertible notes were issued raising a net A$20.0 million after transactions costs.

At 30 June 2010, AED had a cash and cash equivalents and other financial assets balance of A$64.6 million.

7. SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

As noted in the Review of Operations and in this Financial Report the Group's state of affairs has changed and strengthened by the diversification of interests with acquisitions in Brunei and Indonesia and capital management initiatives including the refinancing of convertible notes and new financing facilities obtained. Also in the prior year, on 8 May 2009 the Puffin Joint Venture suspended production at the Puffin Oil Field as a result of material breaches of contract by Puffin FPSO Limited ("the Contractor") and the contract for the provision of the Front Puffin FPSO vessel (the "Timecharter Contract") was terminated in July 2009.

8. SIGNIFICANT EVENTS AFTER THE BALANCE DATE

AED South East Asia Limited (a wholly owned subsidiary of AED), and its joint venture partners in Block L, Brunei Darussalam, (together the "**Block L JV**") have elected to proceed with the Phase 2 exploration program for Block L, Brunei Darussalam. Phase 2 consists of a two year exploration period commencing on 28 August 2010 and the minimum work obligations are:

1. acquire and process at least 500 kilometres of onshore 2D seismic data and 500 kilometres of offshore 2D seismic data;
2. acquire and process at least 150 square kilometres of offshore 3D seismic data or the dollar equivalent amount of 2D seismic data; and
3. drill two onshore exploration wells, each to a minimum depth of 2,000 metres.

The Block L JV is obligated to expend a minimum of US $16 million during Phase 2 (100%; AED's share being US$ 8 million).

The new 9% US$21.2 million convertible note, subsequent to year end, had its conversion price reset to A$0.61.

There has not been any other matter or circumstances occurring subsequent to the end of the financial year that has significantly affected, or may significantly affect, the operations of the consolidated entity, the results of those operations, or the state of affairs of the consolidated entity in future financial years.

9. FUTURE DEVELOPMENTS

Further information on future developments in the operations and the expected results of operations have not been included in this report because the directors believe it would be likely to result in unreasonable prejudice to the consolidated entity.

10. DIVIDENDS

No dividends were paid or proposed to members in respect of the financial year ended 30 June 2010 (2009: Nil).

On 5 September 2008, the directors paid a fully franked special dividend of 20 cents per share ($30.9 million) to the holders of fully paid ordinary shares in respect of the financial year ended 30 June 2008.

11. EARNINGS PER SHARE

	2010	2009
	Cents	Cents
Basic earnings/(loss) per share	(6.9)	(66.9)
Diluted earnings/(loss) per share	(6.9)	(66.9)

12. EMPLOYEES

The Group employed 34 employees (29 staff and 5 non-executive directors) as at 30 June 2010 (2009: 13 employees; 10 staff and 3 non-executive directors).

13. ENVIRONMENTAL REGULATION

The Company is subject to environmental regulation. The directors are satisfied that environmental regulations have been complied with. During the year no fines were imposed, no prosecutions were instituted and no notice of non compliance was received from a regulatory body.

14. PROCEEDINGS ON BEHALF OF THE 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.

15. INSURANCE OF OFFICERS

During the financial year the Company has paid a premium of $108,604 to insure individual directors and officers against damages, out of court settlements or legal costs arising from any wrongful act committed by them in their capacity as a director or officer, other than conduct involving a wilful breach of duty in relation to the Company.

16. UNISSUED SHARES

At the date of this report, there were 1,535,000 unissued ordinary shares under options (1,535,000 at the reporting date). Refer to Note 22 of the financial statements for further details of the options outstanding. Option holders do not have any right, by virtue of the option, to participate in any share issue of the Company or any related body corporate or in the interest issue of any other registered scheme.

17. SHARES ISSUED AS A RESULT OF THE EXERCISE OF OPTIONS

During the financial year, no options (2009: 265,000) were exercised to acquire fully paid ordinary shares in the Company. Since the end of the year, no options have been exercised.

18. ROUNDING

The Company is a company of the kind referred to in ASIC Class Order 98/0100, dated 10 July 1998, and in accordance with that Class Order amounts in the directors' report and the financial report have been rounded to the nearest thousand dollars, unless otherwise indicated.

19. REMUNERATION REPORT (AUDITED)

This Remuneration Report outlines the director and executive remuneration arrangements of the Company and the Group in accordance with the requirements of the *Corporations Act 2001* and its regulations. For the purposes of this report Key Management Personnel (**KMP**) of the Group are defined as those persons having authority and responsibility for planning, directing and controlling the major activities of the Company and the Group, directly or indirectly, including any director (whether executive or otherwise) of the parent Company, and includes the five executives in the parent and the group receiving the highest remuneration.

For the purposes of this report, the term 'executive' encompasses the executive chairman, the managing director, senior executives and the company secretary of the parent and the group.

Details of key management personnel (including the five highest executives of the Company and the Group)

Directors		**Executives**	
David Dix	Executive Chairman	Richard Little	Chief Financial Officer and Country Manager Indonesia
Pedro De Souza	Managing Director (resigned 18 September 2010)	Trevor Slater	Company Secretary and Country Manager Brunei
Barry McGuiness	Non-Executive Director	John Fear	Chief Operating Officer (resigned 31 March 2010)
John Branson	Non-Executive Director		
Richard Price	Non-Executive Director		
John Imle	Non-Executive Director (appointed 16 April 2010)		
Tim Baldwin	Non-Executive Director (appointed 16 April 2010)		

19. REMUNERATION REPORT (AUDITED) (cont.)

Remuneration Philosophy

The objective of the Group's executive reward framework is to ensure reward for performance. Employment contracts with executive directors and senior management do not include a specified term. This objective must embody the principle that remuneration is both competitive and appropriate for the results delivered. The framework aligns executive reward with the achievement of strategic objectives and the creation of value for shareholders. The Board endeavours to ensure that executive reward satisfies the following key criteria:

- competitive and reasonable;
- acceptability to shareholders;
- performance linkage/alignment of executive compensation;
- transparency; and
- capital management.

The Board recognises that the attraction and retention of high calibre executives is critical to generating shareholder value.

Nomination and Remuneration Committee

The purpose of the nomination and remuneration committee is to make recommendations to the Board regarding the appointment, retirement and remuneration of senior executives, non executive and executive directors and advising on general personnel issues, including recruitment and termination policies, succession planning and salary packages. The committee also monitors the education and performance of directors.

Remuneration Structure

The structure of non-executive director and of executive remuneration is separate and distinct.

Non-Executive Directors Remuneration

Objective

The Board seeks to set aggregate remuneration at a level which provides the Company with the ability to attract and retain directors of the highest calibre, whilst incurring a cost which is acceptable to shareholders.

Structure

Non-executive directors are entitled to remuneration for their services as determined by the Company in general meeting (the current limit is $500,000 plus superannuation) to be apportioned among them in such a manner as the directors agree, and, in default of agreement, equally. Options may be issued based on individual performance, on the recommendation of the Nomination and Remuneration Committee at the discretion of the Board and subject to shareholder approval.

If a non executive director performs services, which in the opinion of the directors are outside the scope of the ordinary duties of a director, the Company may remunerate that director by payment of a fixed sum determined by the directors in addition to or instead of the remuneration referred to above. However, no payment can be made if the effect would be to exceed the maximum aggregate amount payable to non executive directors. A director is entitled to be paid travelling and other expenses properly incurred by them in attending directors or general meetings of the Company or otherwise with the business of the Company or Group.

Executive Remuneration

Objective

The Group aims to reward executives with a level and mix of remuneration commensurate with their position and responsibilities within the Group and so as to:

- align the interests of executives with those of shareholders; and
- ensure total remuneration is competitive by market standards.

19. REMUNERATION REPORT (AUDITED) (cont.)

Structure

The Group has entered into employment contracts with executive directors and senior management. In specified circumstances justifying summary dismissal, the Group may terminate the agreement immediately without notice. In all circumstances, the Group may terminate the agreement by giving the employee three months notice or payment in lieu of notice. The employee may terminate the agreement by giving the Group three months notice in writing. On termination by notice by the Group, any options that have vested, or that will vest during the notice period, will be released.

Options that have not yet vested will be forfeited. In addition to annual salary, each employee is entitled to superannuation and to be reimbursed for reasonable expenses incurred related to the performance of their duties. Each executive is required to continuously monitor their affairs so that there is no conflict between their interests and those of the Group. The executive service agreements do not, however, prevent the employee from serving as a company officer of other companies, including those disclosed in their respective agreements or otherwise with prior written consent of the Group. The agreements contain acknowledgements by the executives that any intellectual property developed by them in connection with the agreement and which may otherwise be owned by them belongs to the Group.

Remuneration consists of the following key elements:

- Fixed Remuneration; and
- Variable Remuneration – Short Term Incentive (STI).

Fixed Remuneration

Objective

Fixed remuneration is reviewed annually by the nomination and remuneration committee. The process consists of a review of the performance of the executive using a formal staff appraisal. Reference is made by the committee to the Group's performance, individual performance relevant comparative remuneration, and where appropriate independent external advice.

Structure

Executives receive their fixed remuneration in the form of cash salary.

Variable Remuneration – Short Term Incentives (STI)

Objective

The objective of the STI program is to link the achievement of the Group's performance with the remuneration received by the executives charged with meeting those targets.

Structure

Actual short term incentives are granted to executives in the form of cash bonus and Company share options as a part of the Company's share option scheme, at the discretion of the Nomination and Remuneration Committee. Due to the small number of staff, the grading of performance is on an individual basis.

Hedging of equity awards

The Group requires executives to not enter into arrangements to protect the value of unvested LTI awards that would materially affect the executive exposure to risk in relation to the unvested LTI. Adherence to this policy is monitored by the Board on an annual basis.

Options

There were no options granted during the year ended 30 June 2010. Options granted during the year ended 30 June 2009 are subject to time based and other specific vesting conditions that are measured by reference to the Group's share price performance. The Group's average share price for the year ended 30 June 2010 was $0.62 (2009: $1.22, 2008: $5.09, 2007: $4.22, 2006: $0.97).

19. REMUNERATION REPORT (AUDITED) (cont.)

Table 1: Remuneration of Key Management Personnel

		Short-Term				Post Employment		Long-Term	Share-Based Payment	Totals		
		Salary & Fees $	Cash Bonus $	Non Monetary Benefits $	Other $	Super $	Retirement Benefits $	Long Service Leave[6] $	Options[1] $	Total $	Option Related %	Performance Related %
Executive Directors												
David Dix	**2010**	**532,400**	**-**	**-**	**-**	**50,000[5]**	**-**	**11,401**	**-**	**593,801**	**0%**	**0%**
Chairman and CEO	2009	520,000	50,000	-	-	68,400	-	8,551	-	646,951	0%	8%
Pedro De Souza[4]	**2010**	**442,800**	**-**	**-**	**-**	**50,000[5]**	**-**	**-**	**93,806**	**586,606**	**16%**	**16%**
Managing Director	2009	-	-	-	-	-	-	-	-	-	-	-
Non-Executive Directors												
Barry McGuiness	**2010**	**90,000**	**-**	**-**	**-**	**10,800**	**-**	**-**	-	**100,800**	**0%**	**0%**
Non-Executive Director	2009	90,000	-	-	-	10,800	-	-	-	100,800	0%	0%
John Branson	**2010**	**90,000**	**-**	**-**	**-**	**10,800**	**-**	**-**	**-**	**100,800**	**0%**	**0%**
Non-Executive Director	2009	90,000	-	-	-	10,800	-	-	-	100,800	0%	0%
Richard Price	**2010**	**90,000**	**-**	**-**	**-**	**10,800**	**-**	**-**	**-**	**100,800**	**0%**	**0%**
Non-Executive Director	2009	90,000	50,000	-	-	16,800	-	-	-	156,800	0%	32%
John Imle[2]	**2010**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Non-Executive Director	2009	-	-	-	-	-	-	-	-	-	-	-
Tim Baldwin[2]	**2010**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Non-Executive Director	2009	-	-	-	-	-	-	-	-	-	-	-
Executives												
John Fear[3]	**2010**	**317,764**	**-**	**-**	**-**	**36,000**	**-**	**-**	**-**	**353,764**	**0%**	**0%**
Chief Operating Officer	2009	380,000	30,000	-	-	49,200	-	2,083	-	461,283	0%	7%
Richard Little	**2010**	**370,800**	**-**	**-**	**-**	**32,400[5]**	**-**	**3,946**	**46,902**	**454,048**	**10%**	**10%**
Chief Financial Officer	2009	330,000	50,000	-	-	45,600	-	1,809	-	427,409	0%	12%
Trevor Slater	**2010**	**315,000**	**-**	**-**	**-**	**37,800**	**-**	**6,906**	**46,902**	**406,608**	**12%**	**12%**
Company Secretary	2009	300,000	50,000	-	-	42,000	-	4,933	-	396,933	0%	0%
Total	**2010**	**2,248,764**	**-**	**-**	**-**	**238,600**	**-**	**22,253**	**187,610**	**2,697,227**	**7%**	**7%**
Total	2009	1,800,000	230,000	-	-	243,600	-	17,376	-	2,290,976	0%	10%

(1) This value relates to the expensing of options over their vesting period in accordance with the accounting standards. Further details of the options issued are contained in Table 2 in Note 29 to the Financial Statements.
(2) Appointed a Director on 16 April 2010. The Company and the Directors have agreed that the Director will not be paid Director's fees and will only be reimbursed for costs and expenses incurred in carrying out their role as Directors of the Company.
(3) John Fear was appointed Chief Operating Officer on 25 July 2008 and resigned on 31 March 2010.
(4) Pedro De Souza was appointed on 30 June 2009 and resigned on 18 September 2010.
(5) Where the Company superannuation paid of 12% exceeds the concessional limits, these employees have elected to take the excess as salary.
(6) This amount represents a provision movement not amounts paid.

19. REMUNERATION REPORT (AUDITED) (cont.)

Compensation Options: Granted and Vested (Consolidated)

During the year no options (2009: 1,530,000) were granted as equity compensation benefits under the short term incentive plan to key management personnel.

Options granted as part of remuneration

No options were granted during the period.

John Fear had 400,000 options lapse with a nil intrinsic value.

Trevor Slater had 500,000 options lapse with a nil intrinsic value.

Shares issued on Exercise of Compensation Options

No shares were issued on the Exercising of Compensation Options for year ended 30 June 2010.

20. AUDITOR INDEPENDENCE AND NON-AUDIT SERVICES

The directors received the following declaration from the auditor of AED Oil Limited.

ERNST & YOUNG

Ernst & Young Building
8 Exhibition Street
Melbourne VIC 3000 Australia
GPO Box 67 Melbourne VIC 3001

Tel: +61 3 9288 8000
Fax: +61 3 8650 7777
www.ey.com/au

Auditor's Independence Declaration to the Directors of AED Oil Limited

In relation to our audit of the financial report of AED Oil Limited for the financial year ended 30 June 2010, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the *Corporations Act 2001* or any applicable code of professional conduct.

Ernst & Young

Ernst & Young

Michael Collins
Partner
23 September 2010

20. AUDITOR INDEPENDENCE AND NON-AUDIT SERVICES (cont.)

Non-Audit Services

The following non-audit services were provided by the Company's auditor, Ernst & Young. The directors are satisfied that the provision of non-audit services is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001. The nature and scope of each type of non-audit service provided means that auditor independence was not compromised.

Ernst & Young received or are due to receive the following amounts for the provision of non-audit services:

Taxation Services (related to R&D tax review)	**$87,520**
Assurance related and due diligence services (related to issue of convertible notes)	**$44,805**

Signed in accordance with a resolution of the directors:

David Russell Dix
Director

Melbourne 23 September 2010

The Board of Directors of AED Oil Limited is committed to ensuring that the Company is properly managed to protect and enhance shareholders' interests. Accordingly, the Board has adopted corporate governance policies and practices designed to promote responsible management and conduct of the Company.

AED Oil Limited's Corporate Governance Statement is structured with reference to the Australian Securities Exchange's (**ASX**) Corporate Governance Council's second edition Principles and Recommendations *(ASX Principles and Recommendations).*

Set out below are the corporate governance practices of the Company.

Principle 1 – Lay solid foundations for management and oversight

The Company has established the functions reserved to the Board. The responsibilities and functions reserved to the Board include, as stated in the Board Charter:

- providing strategic guidance to the Company including contributing to the development of, and approving, the corporate strategy;
- reviewing and approving business plans, the annual budget and financial plans including available resources and major capital expenditure initiatives;
- overseeing and monitoring organisational performance and the achievement of the Company's strategic goals and objectives;
- monitoring progress of major capital expenditures;
- monitoring financial performance including approval of the annual and half-year financial reports and liaison with the Company's auditors;
- appointment, performance assessment and, if necessary, the removal of the Managing Director;
- ratifying the appointment and/or removal and contributing to the performance assessment for the members of the senior executive team including the Managing Director and Company Secretary;
- ensuring there are effective management processes in place and approving major corporate initiatives;
- enhancing and protecting the reputation of the organisation;
- approving remuneration of senior executives and employees;
- approval of delegation of authority to management; and
- approval and compliance with policies including quality, health, safety, security and environment (**QHSE**).

The Chairman is responsible for leading the Board, ensuring Directors are properly briefed in all matters relevant to their roles and responsibilities, facilitating Board discussion and managing the Board's relationship with the Company's senior executives.

The Company has established the functions delegated to senior executives. It is the role of senior executives to manage the Company in accordance with the direction and delegations of the Board and the responsibility of the Board to oversee the activities of management in carrying out these delegated duties.

The Board's responsibilities and the functions delegated to the Managing Director and senior executive team are set out in the Board Charter which is available on the Company's website under "Corporate Governance".

Principle 2 – Structure the Board to add value

The Board Charter outlines the requirements in relation to the size, composition and independence of the Board and the expectations of Directors. It also sets out the role and responsibilities of the Board Committees and the division of responsibilities between the Executive Chairman and the Managing Director.

The *ASX Principles and Recommendations* state that:

- the majority of a company's board should be independent directors (that is non-executive directors who meet the criteria specified in the ASX Principles and Recommendations); and
- the Chairman should be an independent director.

Directors of the Company are considered to be independent when they are independent of management and free from any business or other relationship that could materially interfere with – or could reasonably be perceived to materially interfere with – the exercise of their unfettered and independent judgement.

In the context of director independence, 'materiality' is considered from both the Company and individual director perspective. The determination of materiality requires consideration of both quantitative and qualitative elements. An item is presumed to be quantitatively immaterial if it is equal to or less than 5% of the appropriate base amount. It is presumed to be material (unless there is qualitative evidence to the contrary) if it is equal to or greater than 10% of the appropriate base amount. Qualitative factors considered include whether a relationship is strategically important, the competitive landscape, the nature of the relationship and the contractual or other arrangements governing it and other factors that point to the actual ability of the Director in question to shape the direction of the Company's loyalty.

The Board currently comprises seven Directors at the date of this report.

The Board Charter of AED Oil requires a majority of the board to be independent non executive directors. Four of the seven directors at the date of this report are independent non executive directors.

The Board considers that a majority of the current Directors, namely Barry McGuiness, John Branson, Richard Price and Tim Baldwin, satisfy the criteria for independence specified in the *ASX Principles and Recommendations*. Mr David Dix, as Executive Chairman, and Mr Pedro De Souza, as Managing Director, are not considered independent as they are employed by the Company in executive positions. Mr John Imle is not considered independent as he is also the Chief Executive Officer of Nations Petroleum Company Ltd, a substantial shareholder of AED Oil Limited. Mr David Dix is the Chief Executive Officer and the Chairman of the Company however the company considers that this structure is appropriate for the Company's requirements at this time due to David's level of experience.

As Mr. Dix is an Executive Chairman, the Board does not currently comply with the recommendation that the chairman of the Board be an independent director. The Board supports having Mr. Dix as Executive Chairman because he founded the Company, all Shareholders have invested in the knowledge of his role, and he has a thorough knowledge of the Company's operations. Recognising that an Executive Chairman is not able to provide an independent review of the performance of management, the Board has:

- appointed a majority of independent Directors;
- appointed only Non-Executive, independent Directors to the Audit and Risk Management Committee and Nomination and Remuneration Committee; and
- established clear protocols for handling conflicts of interest.

The Board schedules meetings to occur in each calendar month, and holds as many additional meetings as the operations of the Company may require. The number of meetings of the Company's Board and Directors attendance at those meetings is disclosed in the Director's Report section of this Annual Report.

Directors have the right in connection with their duties and responsibilities, to seek independent professional advice at the Company's expense. Prior written approval from the Chairman is required, but this will not be unreasonably withheld.

The term of office held by each Director, and the skills, experience and expertise of each Director in office at the date of this Annual Report, is detailed in the Director's Report section of this Annual Report.

Nomination and Remuneration Committee

The Board's policy for the nomination and appointment of directors is to ensure the Board has an effective composition, size and commitment to adequately discharge its responsibilities and duties. The Board has established a Nomination and Remuneration Committee. The purpose of the Nomination and Remuneration Committee is to make recommendations to the Board regarding the appointment, retirement and remuneration of Non-Executive Directors, Executive Directors and senior executives. The Committee's purpose is to also advise on general personnel issues, including recruitment and termination policies, succession planning, salary packaging and monitoring and the education and performance of Directors. The procedure for the selection and appointment of new directors and re-election of incumbent directors can be located in the Remuneration and Nomination Committee Charter.

The Committee's Charter, in line with the *ASX Principles and Recommendations*, provides that the Committee must comprise at least three Directors, its members must be Non-Executive Directors with a majority being independent Directors. The Chairman of the Committee must be an independent Director and may not be the Chairman of the Board except in limited circumstances.

The current committee members are Barry McGuiness, John Branson and Richard Price. John Branson, an independent Director, is the Chairman of the Committee. As such, the current composition of the Committee is in compliance with the *ASX Principles and Recommendations (Recommendations 2.4 and 8.1)*.

The Remuneration and Nomination Committee's responsibilities are set out in the Charter which is available on the Company's website under "Corporate Governance".

Details of the members of the Nomination and Remuneration Committee and their attendance at Committee Meetings are set out in the Director's Report section of this Annual Report.

Performance

The performance of the Board, Committees and key executives is reviewed regularly against both measurable and qualitative indicators. During the reporting period, the Nomination and Remuneration Committee conducted performance evaluations that involved an assessment of each Board member's and senior executive's performance against specific and measurable qualitative and quantitative performance criteria. The performance criteria against which Directors and senior executives are assessed are aligned with the financial and non-financial objectives of the Company. Directors whose performance is consistently deemed unsatisfactory may be asked to retire from the Board and/or Committee(s).

Principle 3: Promote Ethical and Responsible Decision Making

In accordance with the *Corporations Act 2001* and the Company's Constitution, Directors must keep the Board advised, on an ongoing basis, of any interest that could potentially conflict with the interests of the Company.
All Directors and employees are expected to act with the utmost integrity and objectivity, striving at all times to enhance the reputation, performance and integrity of the Company.

Directors' Code of Conduct

The Board has adopted a Directors' Code of Conduct (**"Directors' Code"**). The Directors' Code sets out the practices necessary for Directors to take into account their legal obligation and the reasonable expectation of stakeholders. The Directors' Code addresses the general principles covered under the Corporations Act 2001 and the *ASX Principles and Recommendations*.

Corporate Code of Conduct

The Board has also established the Corporate Code of Conduct (**"Corporate Code"**) that expresses certain basic principles that the Company, their employees and external consultants should follow in all dealings related to the Company. The Corporate Code reflects the requirements for:

- commitment to shareholders;
- compliance with relevant laws;
- environment protection;
- whistleblower protection;
- occupational health and safety;
- confidentiality;
- conflicts of interest; and
- general conduct.

As explained in the Corporate Code, the "whistleblower" protection extends to the Company's employees if the discloser has reasonable grounds to suspect that the information indicates that the contravention has or may have occurred and must have made this disclosure to an officer of the Company.

A copy of the Directors Code of Conduct and Corporate Code of Conduct is available on the Company's website under "Corporate Governance".

Share Trading Policy

The Company has established a policy for dealing in securities which:

(a) prohibit certain dealing in securities; and
(b) establish a best practice procedure in relation to dealing in securities by Directors, senior executives, management and other employees.

Subject to the overriding restriction that no person may deal in Shares while they are in possession of materially price sensitive information, Directors, management and other employees will only be permitted to deal in securities during certain window periods, such as following the release of Company's financial results, quarterly reports and the annual general meeting. Outside these periods, Directors, senior executives, management and other employees must receive clearance for any proposed dealing in securities, which must only be given in specified circumstances.

The Company's trading policy is discussed with each new employee as part of their induction. The holding of Company securities by Directors, senior executives, management and employees is reported to the Board at each meeting.

A copy of the Share Trading Policy is available on the Company's website under "Corporate Governance".

Principle 4: Safeguard integrity in financial reporting

Audit and Risk Management Committee

The Board has established an Audit and Risk Management Committee to assist the Board. The responsibilities of the Committee are set out in a formal Charter approved by the Board. This Charter is available on the Company's website under "Corporate Governance".

The Committee Charter provides that the Committee's role is to review the appropriateness of the Company's accounting and risk management systems, procedures and controls, identifying, prioritising and monitoring regulatory and statutory compliance and conducting reviews of the internal and external audit function. The Committee also reviews and implements processes to identify measure and manage material business risks. The Committee meets regularly and makes appropriate recommendations to the Board as required.

The *ASX Principles and Recommendations* provide that the Audit Committee of an ASX listed company should have at least three members and only consist of non-executive directors with a majority of the committee comprising independent directors. The chairman of the committee must also be an independent director and should not be the chairman of the Board.

The current Committee members are Barry McGuiness, John Branson, and Richard Price who are independent Non-Executive Directors. Barry McGuiness, an independent Director, is the Chairman of the Committee. As such, the current composition of the Committee is in compliance with the *ASX Principles and Recommendations*.

The Company's auditor, Ernst & Young, is invited to participate in the Committee meetings as required.

After completion of the half-yearly review and the annual statutory audit, a meeting takes place between the external auditors, the Board and management of the Company. Audit recommendations, internal control matters and any other matter arising from the audit are reviewed and discussed. Recommendations from the auditors are considered, and if deemed appropriate implemented.

If necessary, the Directors also meet separately with the auditors to discuss any matters raised by them in relation to the management of the Company.

The directors review the performance of the external auditors on an annual basis and meet with them at least twice during the year. Ernst & Young was appointed in 2004 and rotates audit partners on a periodic basis.

An analysis of fees paid to the external auditors, including a breakdown of fees for non- audit services, is provided in the notes of the financial statements. It is the policy of the external auditors to provide an annual declaration of their independence to the Board.

Details of the members of the Audit and Risk Management Committee and their attendance at Committee Meetings are set out in the Director's Report section of this Annual Report.

Principle 5: Make timely and balanced disclosure

The Company has adopted a Market Disclosure Protocol to guide the accountability at a senior executive level for compliance with the ASX Listing Rules. The Company Secretary has been nominated as the person responsible for communications with the ASX. This role includes responsibility for ensuring compliance with the continuous disclosure requirements of the ASX Listing Rules and overseeing and co-coordinating information disclosure to the ASX, analysts, brokers, shareholders, the media and the public.

All material information concerning the Company, including its financial situation, performance, ownership and governance are posted on the Company's website to ensure all investors have equal and timely access.

To ensure that all Company announcements are factual, clear and balanced approval is required from a Director. Subject to availability this is normally the Chairman.

A copy of the Market Disclosure Protocol is available on the Company's website under "Corporate Governance".

Principle 6: Respect the rights of shareholders

The Company has established a Shareholder Communications Policy. The Board recognises its responsibility to ensure that its shareholders are informed of all major developments affecting the Company. All shareholders receive a copy of the Company's Annual Report and both the annual and half yearly reports are posted on the Company's website. Quarterly reports are prepared in accordance with ASX Listing Rules and posted on the Company's website. Regular updates on operations are made via ASX releases.

All information disclosed to the ASX is posted on the Company's website as soon as possible after it is disclosed to the ASX. When analysts are briefed on aspects of the Company's operation, the material used in the presentation is released to the ASX and posted on the Company's website.

The external auditor is requested to attend the annual general meeting and be available to answer shareholder questions about the conduct of the preparation and content of the audit report.

A copy of the Shareholder Communications Policy is available on the Company's website under "Corporate Governance".

Principle 7: Recognise and manage risk

A key element of the Quality, Health, Safety, Security and Environment Policy and procedures is risk management. The policy covers the Company's day-to-day internal operations and acknowledges that safety and emergency management is an integral part of risk management. The company's summary of risk management policies is available on the Company's website under "Corporate Governance".

The Board is responsible for approval of acquisition and disposal of exploration and development interests. The Board is also responsible for overseeing identification and development of strategies to mitigate price risk, including hedging and also asset protection and potential liabilities via insurance.

The Company has in place internal control processes, and undertakes such modifications as are necessary to ensure reasonable levels of control are maintained.

Authorisation of equity raisings, entering into debt facilities and major capital expenditure or commitments requires Board approval. All routine operating expenditures are the responsibility of management in accordance with programmes and budgets approved by the Board.

In relation to its responsibilities the Board considers the following:

- review of internal controls and recommendations of enhancements;
- monitoring of compliance with the *Corporations Act 2001*, ASX, Australian Taxation Office and Australian Securities Investments Commission requirements;
- improving the quality of the management and accounting information; and
- follow-up and rectification by management of deficiencies or breakdown in controls or procedures.

The Company has established a delegation of authority under which the Board delegates authority to senior executives as appropriate.

The management of the Company has designed and implemented the risk management and internal control systems to manage the Company's material business risks. Management has reported to the Board that the Company's management of its material business risks have been effective in identifying the material business risks and in making stakeholders aware of inherent risks.

Attestations by Chief Executive Officer and Chief Financial Officer

In accordance with Recommendation 7.3 of the *ASX Principles and Recommendations*, the Executive Chairman/Chief Executive Officer and Chief Financial Officer have stated in writing to the board:

"That:

- the statement given in accordance with section 295A of the Corporations Act 2001, is founded on a sound system of risk management and internal compliance and control which, in all material respects, implements the policies adopted by the Board of Directors; and
- the Company's risk management and internal compliance and control systems are operating efficiently and effectively in all material respects in relation to financial reporting risks."

Principle 8: Remunerate fairly and responsibly

The Company has established a Nomination and Remuneration Committee undertaking the functions to develop and maintain appropriate remuneration policies. The names of the members of the Committee and their attendance at meetings are set out in the Director's Report section of this Annual Report.

The objective of the Company's executive reward framework is to ensure reward for performance is competitive and appropriate for the results delivered. The framework aligns executive reward with the achievement of strategic objectives and the creation of value for shareholders. The Board endeavours to ensure that executive reward satisfies the following key criteria for good reward governance practices:

- competitive and reasonable;
- acceptability to shareholders;
- performance linkage/alignment of executive compensation;
- transparency; and
- capital management.

The Board recognises that the attraction and retention of high calibre executives is critical to generating shareholder value.

Non-Executive Directors

Fees and payments to Non-Executive Directors reflect the demands that are made on, and the responsibilities of, the Directors. The Board reviews Non-Executive Director's fees and payments annually and any increase over the Non-Executive Director aggregate fee pool limit is subject to shareholder approval.

The Company does not have any scheme for retirement benefits in place, other than superannuation, for Non-Executive Directors. Superannuation payments are in accordance with the requirements of the Superannuation Guarantee legislation.

Executive Directors and Senior Executives

Each member of the executive team signed a formal employment contract at the time of their appointment covering a range of matters including their rights, responsibilities and any entitlements on termination. The standard contract refers to a specific formal job description.

Further information to Directors' and senior executives' remuneration is set out in the Directors Report and Notes to the financial statements.

The Board has awarded options to key executives at its discretion in establishing the terms of their employment contracts.
The Company has established an employee option plan with Directors' entitlements under the plan being subject to shareholders' approval.

No employee of the Company is permitted to enter into transactions with securities (or any derivative thereof) which limit the economic risk of any unvested entitlements awarded under any equity-based remuneration scheme, or otherwise awarded, or which will be offered by the Company in the future.

Statement of Comprehensive Income

	Note	CONSOLIDATED 2010 $'000	2009 $'000
Revenue	5(a)	**341**	27,600
Operating costs	5(i)	**(330)**	(71,149)
Royalty		**(10)**	(869)
Depreciation and amortisation		**-**	(6,282)
Total cost of sales		**(340)**	(78,300)
Gross operating profit/(loss)		**1**	(50,700)
Other revenue	5(b)	**3,523**	12,038
Other income/(losses)	5(c)	**(825)**	24,632
Administrative and other expenses	5(d)	**(2,845)**	(2,961)
Employee benefit expense	5(e)	**(3,552)**	(3,784)
Share-based payments expense		**(240)**	1,204
Development costs expensed	16	**-**	(33,064)
Asset write-downs	15	**(676)**	(38,020)
Puffin joint venture field maintenance and decommissioning costs	5(j)	**(4,648)**	-
Impairment write-down	16	**-**	(50,562)
Investment review costs	5(f)	**(950)**	-
Fair value change on financial instruments	5(g)	**3,238**	(10,425)
Finance costs	5(h)	**(7,924)**	(9,972)
Loss before income tax		**(14,898)**	(161,614)
Income tax benefit	6	**2,915**	57,986
Net loss for the period		**(11,983)**	(103,628)
Other Comprehensive Income			
Foreign currency translation		**2,355**	-
Other Comprehensive Income for the period, net of tax		**2,355**	-
Total comprehensive loss for the period		**(9,628)**	(103,628)
Loss per share			
Basic (cents per share)	7	**(6.9)**	(66.9)
Diluted (cents per share)	7	**(6.9)**	(66.9)

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

Statement of Financial Position

	Note	CONSOLIDATED 2010 $'000	2009 $'000
Assets			
Current Assets			
Cash and cash equivalents	9	**23,991**	88,646
Other financial assets	10	**40,605**	17,066
Trade and other receivables	11	**5,462**	2,035
Inventories and equipment held for sale	12	**-**	13,770
Prepayments	13	**298**	42,970
Total Current Assets		**70,356**	164,487
Non-Current Assets			
Plant and equipment	14	**186**	224
Deferred exploration and evaluation costs	15	**221,977**	167,340
Total Non-Current Assets		**222,163**	167,564
TOTAL ASSETS		**292,519**	332,051
Liabilities			
Current Liabilities			
Trade and other payables	19	**14,420**	27,410
Interest-bearing loans and borrowings	20	**22,343**	78,358
Provisions	21	**281**	237
Current tax liability	6	**-**	22
Total Current Liabilities		**37,044**	106,027
Non-Current Liabilities			
Interest-bearing loans and borrowings	20	**18,303**	-
Provisions	21	**40,631**	39,891
Deferred tax liabilities	6	**-**	3,019
Total Non-Current Liabilities		**58,934**	42,910
TOTAL LIABILITIES		**95,978**	148,937
NET ASSETS		**196,541**	183,114
Equity			
Contributed equity	22	**119,590**	96,775
Retained earnings	23	**73,552**	83,167
Reserves	24	**3,399**	3,172
TOTAL EQUITY		**196,541**	183,114

The above Statement of Financial Position should be read in conjunction with the accompanying notes.

For The Year Ended 30 June 2010

	Contributed Equity $'000	Retained Earnings $'000	Employee Equity Reserve $'000	Foreign Currency Translation Reserve	Total $'000
CONSOLIDATED					
At 1 July 2008	89,732	216,554	5,656	-	311,942
Loss for the period	-	(103,628)	-	-	(103,628)
Total comprehensive loss for the period	-	(103,628)	-	-	(103,628)
Transactions with owners in their capacity as owners					
Dividends paid	-	(30,958)	-	-	(30,958)
Cost of share based payments	-	-	(1,204)	-	(1,204)
Transfer from employee equity reserves	81	1,199	(1,280)	-	-
Options exercised during the year	225	-	-	-	225
Convertible note restructure issue of shares	7,051	-	-	-	7,051
Convertible note restructure issue of share costs	(314)	-	-	-	(314)
At 30 June 2009	96,775	83,167	3,172	-	183,114
At 1 July 2009	96,775	83,167	3,172	-	183,114
Loss for the period	-	(11,983)	-	-	(11,983)
Other comprehensive income	-	-	-	2,355	2,355
Total comprehensive profit/(loss) for the period	-	(11,983)	-	2,355	(9,628)
Transactions with owners in their capacity as owners					
Cost of share based payments	-	-	240	-	240
Transfer from employee equity reserves	-	2,368	(2,368)	-	-
Shares issued for acquisitions	21,600	-	-	-	21,600
Convertible note restructure issue of shares	1,215	-	-	-	1,215
At 30 June 2010	119,590	73,552	1,044	2,355	196,541

Statement of Cash Flows

For The Year Ended 30 June 2010

	Note	CONSOLIDATED 2010 $'000	 2009 $'000
Cash flows from operating activities			
Receipts from customers		**345**	28,940
Settlement of oil commodity swaps		**-**	(12,623)
Payments to suppliers and employees		**(17,082)**	(74,549)
GST refund arising out of the Timecharter Contract		**6,689**	-
Interest received		**3,454**	11,188
Interest paid		**(4,702)**	(7,774)
Tax paid		**(126)**	(35,381)
Net cash used in operating activities	9(b)	**(11,422)**	(90,199)
Cash flows from investing activities			
Purchase of plant and equipment		**(134)**	(43)
Payments for exploration, evaluation and development costs		**(21,266)**	(107,386)
Purchase of other financial assets		**(23,538)**	(17,066)
Deposit on Longtom Gas Project and transaction costs		**35,000**	(35,182)
Investment review costs		**(950)**	-
Acquisition of investments		**(7,461)**	-
Transaction costs paid on sale of assets		**-**	(7,176)
Net cash provided used in investing activities		**(18,349)**	(166,853)
Cash flows from financing activities			
Proceeds from issue of shares		**-**	225
Proceeds from Deutsche Bank facility		**2,000**	-
Repayment of Deutsche Bank facility		**(2,000)**	-
Proceeds from new 6% convertible note issue		**20,799**	-
Repayment of 2007 6.5% convertible note issue		**(56,401)**	(8,020)
Borrowing costs		**(839)**	-
Repayment from joint venture operator		**-**	4,677
Dividends paid	8	**-**	(30,958)
Net cash used in financing activities		**(36,441)**	(34,076)
Net decrease in cash and cash equivalents		**(66,212)**	(291,128)
Net foreign exchange differences		**1,557**	31,766
Cash and cash equivalents at beginning of year		**88,646**	348,008
Cash and cash equivalents at end of year	9(a)	**23,991**	88,646

The above Statement of Cash Flows should be read in conjunction with the accompanying notes.

1. Corporate Information

The financial report of AED Oil Limited (the Group) for the year ended 30 June 2010 was authorised for issue in accordance with a resolution of the directors.

AED Oil Limited is a company limited by shares incorporated in Australia whose shares are publicly traded on the Australian Securities Exchange.

2. Summary of Significant Accounting Policies

a. Basis of Preparation

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

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

The financial report has been prepared on a historical cost basis, except for derivatives and other financial instruments which have been measured at fair value.

The financial report is presented in Australian dollars and all values are rounded to the nearest thousand dollars ($'000) unless otherwise stated.

b. Adoption of New Accounting Standards

Australian Accounting Standards and interpretations that have recently been issued and amended but not yet effective have not been adopted by the Group for the annual reporting period ended 30 June 2010. These are outlined in Note 2(y) below.

The accounting policies adopted are consistent with those of the previous period except as detailed below. The Group has adopted the following new and amended Australian Accounting Standards and AASB Interpretations as of 1 July 2009.

- AASB 101 *Presentation of Financial Statements (revised 2007)*
- AASB 3 *Business Combinations (revised 2008)*
- AASB 127 *Consolidated and Separate Financial Statements (revised 2008)*
- AASB 7 *Financial Instruments: Disclosures*
- AASB 8 *Operating Segments*
- AASB 123 *Borrowing Costs (revised 2007)*
- AASB 2008-1 *Amendments to Australian Accounting Standard – Share-based Payment: Vesting Conditions and Cancellations [AASB 2]*
- AASB 2008-5 *Amendments to Australian Accounting Standards arising from the Annual Improvements Project*
- AASB 2008-7 *Amendments to Australian Accounting Standards - Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate*
- AASB 2009-2 *Amendments to Australian Accounting Standard – Improving Disclosures about Financial Instruments*
- AASB 2009-6 *Amendments to Australian Accounting Standards*
- AASB 2008-3 *Amendments to Australian Accounting Standards arising from AASB 3 and AASB 127*
- AASB 2008-6 *Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project [AASB 1 & AASB 5]*
- AASB 2009-4 *Amendments to Australian Accounting Standards arising from the Annual Improvements Project*
- AASB 2009-7 *Amendments to Australian Accounting Standards*

2. Summary of Significant Accounting Policies (cont.)

b. Adoption of New Accounting Standards (cont.)

When the adoption of the Standard or Interpretation is deemed to have a material impact on the financial statements or performance of the Group, its impact is described below:

Standard/Interpretation	Application date for Group	Impact on Group financial report
AASB 101 (Revised), AASB 2007-8 and AASB 2007-10 Presentation of Financial Statements and consequential amendments to other Australian Accounting Standards Introduces a statement of comprehensive income. Other revisions include impacts on the presentation of items in the statement of changes in equity, new presentation requirements for restatements or reclassifications of items in the financial statements, changes in the presentation requirements for dividends and changes to the titles of the financial statements.	1 July 2009	These amendments affected the presentation of the Group's financial report. The Group has presented a single statement of comprehensive income.
AASB 3 (Revised) Business Combinations The revised Standard introduces a number of changes to the accounting for business combinations, the most significant of which includes the requirement to have to expense transaction costs and a choice (for each business combination entered into) to measure a non-controlling interest (formerly a minority interest) in the acquiree either at its fair value or at its proportionate interest in the acquiree's net assets. This choice will effectively result in recognising goodwill relating to 100% of the business (applying the fair value option) or recognising goodwill relating to the percentage interest acquired. The changes apply prospectively.	1 July 2009	There were no new business combinations in the financial year and therefore this Standard has had no impact.
AASB 2009-5 Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project The amendments to some Standards result in accounting changes for presentation, recognition or measurement purposes, while some amendments that relate to terminology and editorial changes are expected to have no or minimal effect on accounting for the Group.	1 July 2009	The convertible notes that are convertible into equity instruments of the entity are classified as non-current liabilities.

2. Summary of Significant Accounting Policies (cont.)

b. Adoption of New Accounting Standards (cont.)

AASB 2008-7 Amendments to Australian Accounting Standards – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate The main amendments of relevance to Australian entities are those made to AASB 127 deleting the "cost method" and requiring all dividends from a subsidiary, jointly controlled entity or associate to be recognised in profit or loss in an entity's separate financial statements (i.e. parent company accounts). The distinction between pre- and post-acquisition profits is no longer required. However, the payment of such dividends requires the entity to consider whether there is an indicator of impairment. AASB 127 has also been amended to effectively allow the cost of an investment in a subsidiary, in limited reorganisations, to be based on the previous carrying amount of the subsidiary (that is, share of equity) rather than its fair value.	1 July 2009	The amendments did not have a significant impact on the Group's financial report.
AASB 7 Financial Instruments: Disclosures The amended Standard requires additional disclosures about fair value measurement and liquidity risk. Fair value measurements related to all financial instruments recognised at fair value are to be disclosed by source of inputs using a three level hierarchy, by class. In addition, reconciliation between the beginning and ending balance for level 3 fair value measurement is now required, as well as significant transfers between levels in the fair value hierarchy. The amendments also clarify the requirements for liquidity risk disclosures with respect to derivative transactions and assets used for liquidity management.	1 July 2009	The fair value measurement disclosures are presented in note 28. The liquidity risk disclosures are not significantly impacted by the amendments and are presented in note 28.

c. Basis of Consolidation

The consolidated financial statements comprise the financial statements of AED Oil Limited and its subsidiaries ("the Group"). Subsidiaries are all those entities over which the Group has the power to govern the financial and operating policies so as to obtain benefits from their activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Company controls another entity.

The financial statements of subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies.

Adjustments are made to bring into line any dissimilar accounting policies that may exist.

All intercompany balances and transactions, including unrealised profits arising from intra-group transactions, have been eliminated in full.

2. Summary of Significant Accounting Policies (cont.)

c. Basis of Consolidation (cont.)

Subsidiaries are consolidated from the date on which control is transferred to the Group and cease to be consolidated from the date on which control is transferred out of the Group.

Business combinations are accounted for using the acquisition method. The consideration transferred in a business combination shall be measured at fair value, which shall be calculated at the sum of the acquisition date fair values of the assets transferred by the acquirer, the liabilities incurred by the acquirer to former owners of the acquiree and the equity issued by the acquirer, and the amount of any non-controlling interest in the acquiree. For each business combination, the acquirer measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic conditions, the Group's operating or accounting policies and other pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured at fair value as at the acquisition date through the profit or loss.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability will be recognised in accordance with AASB 139 either in profit or loss or in other comprehensive income. If the contingent consideration is classified as equity, it shall not be remeasured.

d. Interest in jointly controlled assets

The Group has interests in joint ventures that are jointly controlled assets. The Group recognises its interest in the jointly controlled assets by recognising the Group's share of assets, liabilities, revenue and expenses of jointly controlled assets in the appropriate items of the Statement of Comprehensive Income and Statement of Financial Position.

e. Significant accounting judgements, estimates and assumptions

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts in the financial statements. Management continually evaluates its judgements and estimates in relation to assets, liabilities, contingent liabilities, revenue and expense. Management bases its judgements and estimates on historical experience and on other various factors it believes to be reasonable under the circumstances, the result of which form the basis of the carrying values of assets and liabilities that are not readily apparent from other sources.

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

Significant accounting judgements

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

Carrying value of capitalised exploration and evaluation expenditure

The future recoverability of capitalised exploration and evaluation expenditure is dependent on a number of factors. These include the level of reserves and resources, future technological changes, which could impact the cost of development, future legal changes (including changes to environmental restoration obligations) and changes to commodity prices.

To the extent that capitalised exploration and evaluation expenditure is determined not to be recoverable in the future, profits and net assets will be reduced in the period in which this determination is made.

In addition, exploration and evaluation expenditure is capitalised if activities in the area of interest have not yet reached a stage that permits a reasonable assessment of the existence or otherwise of economically recoverable reserves. To the extent it is determined in the future that this capitalised expenditure should be written off, profits and net assets will be reduced in the period in which this determination is made.

2. Summary of Significant Accounting Policies (cont.)

e. Significant accounting judgements, estimates and assumptions (cont.)

Taxation

The Group's accounting policy for taxation requires management's judgement as to the types of arrangements considered to be a tax on income in contrast to an operating cost. Judgement is also required in assessing whether deferred tax assets and certain deferred tax liabilities are recognised on the Statement of Financial Position. Deferred tax assets, including those arising from unrecouped tax losses, capital losses and temporary differences, are recognised only where it is considered more likely than not that they will be recovered, which is dependent on the generation of sufficient future taxable profits.

Assumptions about the generation of future taxable profits depend on management's estimates of future cash flows. These depend on estimates of future production and sales volumes, operating costs, restoration costs, capital expenditure, dividends and other capital management transactions. Judgements are also required about the application of income tax legislation. These judgements and assumptions are subject to risk and uncertainty, hence there is a possibility that changes in circumstances will alter expectations, which may impact the amount of deferred tax assets and deferred tax liabilities recognised on the Statement of Financial Position and the amount of other tax losses and temporary differences not yet recognised. In such circumstances, some or all of the carrying amounts of recognised deferred tax assets and liabilities may require adjustment, resulting in a corresponding credit or charge to the Statement of Comprehensive Income.

Significance of Inputs in Fair Value Hierarchy

In determining whether a financial instrument measured at fair value is grouped in levels 1 to 3 consideration is given to the extent that significant inputs are based on observable market data. An unobservable valuation input is considered significant if stressing the unobservable input to the valuation model would result in a greater than 10% change in the overall fair value of the instrument.

Significant accounting estimates and assumptions

The carrying amounts of certain assets and liabilities are often determined based on estimates and assumptions of future events. The key estimates and assumptions that would have a material impact on to the carrying amounts of certain assets and liabilities within the next annual reporting period are:

Impairment of plant and equipment and evaluation assets

Plant and equipment, exploration and evaluation assets, development assets and production assets are reviewed for impairment if there is any indication that the carrying amount may not be recoverable. Where a review for impairment is conducted, the recoverable amount is assessed by reference to the higher of 'value in use' and 'fair value less costs to sell'.

The carrying value of these assets is dependent on a number of factors. Estimates relating to existing reserves and resources, development and operating costs, commodity prices, foreign exchange rates and discount rates are particularly important in assessing the recoverable amounts of assets on hand.

To the extent that plant and equipment, development and production assets and exploration and evaluation assets are determined not to be recoverable in the future, profits and net assets will be reduced in the period in which this determination is made.

Restoration Provision

Restoration costs that are expected to be incurred are provided for as part of the cost of the preproduction, exploration, evaluation and development costs that give rise to the need for restoration. Accordingly these costs are recognised gradually over the life of the facility as these phases occur. The costs include obligations relating to plug, abandonment and restoration costs. These estimates of the restoration obligations are based on anticipated technology, legal requirements and future costs, which have been discounted to their present value. Any changes in the estimates are accounted for prospectively. In determining the restoration obligations, the Group has assumed no significant changes will occur in the relevant federal and state legislation to such restoration in the future.

Share-based payment transactions

The Group measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined by an external valuer using a binomial option pricing model, using the assumptions detailed in Note 25.

2. Summary of Significant Accounting Policies (cont.)

e. Significant accounting judgements, estimates and assumptions (cont.)

Determination of reserve estimates

Estimates of recoverable quantities of proven and probable reserves reported include judgemental assumptions regarding commodity prices, exchange rates, discount rates and production and transportation costs for future cash flows. It also requires interpretation of complex and difficult geological and geophysical models in order to make an assessment of the size, shape, depth and quality of reservoirs, and their anticipated recoveries. The economic, geological and technical factors used to estimate reserves may change from period to period. Changes in reserves can impact asset carrying values, provision for restoration and the recognition of deferred tax assets, due to changes in expected future cash flows.

Provisions and Contingent Liabilities

In determining whether to recognise a provision in respect of legal and contractual disputes the Group considers whether a potential obligation resulting from a past event is probable or possible. A provision is recognised where a potential obligation arising from a past event is considered probable. Where a potential obligation is considered possible, but not probable, the Group makes contingent liability disclosures.

Where it is not clear whether there is a 'present obligation' a past event is deemed to give rise to a present obligation if, taking account of all available evidence (including for example, the opinion of experts), 'it is more likely than not that a present obligation exists at the end of the reporting period'.

f. Going Concern

As at 30 June 2010, the Group had a net current asset position of $33.312 million.

During the year the Group has restructured its funding arrangements by:

- Redeeming and cancelling all of its 6.5% Convertible Unsecured Notes. This was achieved via an Exchange offer which exchanged outstanding 6.5% convertible Unsecured Notes for cash, shares and the issue of a new US$21,200,000 9% Convertible Unsecured Note (Refer Note 20);
- Entering into a subscription agreement under which a subsidiary of Asia Resources Fund Limited subscribed for US$20,000,000 in new unsecured 6% convertible notes in AED Oil Limited; and
- Entering into a 12 month loan facility of up to A$20,000,000 with Deutsche Bank AG for general corporate purposes. The facility is secured by liquid financial assets held with Deutsche Bank (refer Note 20).

At 30 June 2010 the Group has the following convertible notes on issue, with redemption and maturity profiles as shown:

	Face Value (USD)	Conversion Price	First redeemable(*)	Due
9% Convertible Notes	21,217,500	A$0.61	February 2011	July 2012
6 % Convertible Notes	20,000,000	A$0.668	March 2013	March 2014

*Redeemable at the option of the Noteholder

These restructuring initiatives allowed the Group to proceed with:

- Diversification of the Groups interests with investments in the Asia Pacific Region (Brunei, Rombebai and South Madura)
- a two well drilling program in Brunei;
- a one well drilling program in South Madura; and
- ongoing geological and geophysical assessments of the drilling opportunities in Rombebai and on the Puffin Field.

At the date of this report, the Group has operating and expenditure cash flow commitments in relation to its interest in Brunei, Indonesia and the Puffin field in addition to ongoing corporate and operating expenditure requirements. These commitments are described at Note 27. The Puffin Joint Venture also has potential disputed amounts payable under the terminated Time Charter agreement as described in Note 27.

Subsequent to year-end, the Brunei Joint Venture elected to elect to undertake a further two year exploration program on Block L. These commitments are described at Note 31.

The Group has the ability to fund minimum commitments expected to arise in the coming 12 months provided no significant outflow arise from unexpected outcomes of legal disputes. To fund further exploration and appraisal expenditure beyond those expected to arise in the coming twelve months the Group will require further funding. Commitment to such expenditure will depend upon the size of the economically recoverable resources, the cost of development and the expected oil and gas prices.

2. Summary of Significant Accounting Policies (cont.)

f. Going Concern (cont.)

The Group terminated the FPSO time charter agreement effective on 4 July 2009. The Group is currently involved in a dispute regarding residual amounts payable under the time charter agreement. This matter is also described in Note 27 to the accounts. Whilst this issue remains uncertain, the Directors remain confident of the grounds on which the Time Charter arrangement has been terminated and the position of the Group with respect of other claims made by Puffin FPSO Limited. Whilst these uncertainties exist, the Group remains confident on its ability to appropriately resolve the dispute under the FPSO Charter contract in acceptable timeframes. Further the Group remains confident of its ability to raise additional capital or successfully pursue other capital management alternatives as required.

The accounts have been prepared on a going concern basis and no adjustments have been made relating to the recoverability and classification of recorded asset and liabilities.

g. Revenue Recognition

Revenue is recognised and measured at the fair value of consideration received or receivable to the extent that it is probable that the economic benefits will flow to the group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

Sale of oil

Revenue from the sale of oil is recognised when all significant risks and rewards of ownership have been transferred to the customer, this is typically at the time of offtake from the FPSO. The sales price is determined based on the average monthly Tapis price plus a premium in the month of bill of lading.

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).

h. Borrowing Costs

Borrowing costs are capitalised when they are directly attributable to qualifying assets and expensed when incurred when they are not.

i. Leases

The determination of whether an arrangement is or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

Company as a lessee

Operating lease payments are recognised as an expense in the profit or loss on a straight line basis over the lease term. Operating lease incentives are recognised as a liability when received and subsequently reduced by allocating lease payments between rental expense and reduction of the liability.

The Group does not have any finance leases.

j. Cash and Cash Equivalents

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

For the purposes of the Statement of Cash Flows and cash equivalents consist of cash and cash equivalents as defined above.

k. Inventory and Equipment Held for Sale

Inventory

Stocks of oil products have been valued at the lower of cost and net realisable value. Stocks of oil produced and held prior to offtake are ascribed a value based on their weighted average cost of production.

2. Summary of Significant Accounting Policies (cont.)

k. Inventory and Equipment Held for Sale (cont.)

Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

Equipment Held for Sale

Equipment is classified as held for sale and measured at the lower of their carrying amount and fair value less cost to sell if their carrying amount will be recovered principally through a sale transaction. They are not depreciated or amortised. For equipment to be classified as held for sale, it must be available for immediate sale in its present condition and its sale must be highly probable.

l. Foreign currency translation

Both the functional and presentation currency of AED Oil Limited and its Australian subsidiaries is Australian Dollars ($). The overseas subsidiaries' functional currency is United States Dollars which is translated to the presentation currency.

Transactions in foreign currencies are initially recorded in the functional currency by applying the exchange rates ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the reporting date.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of the initial transaction. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

The results of the overseas subsidiaries are translated into Australian Dollars (presentation currency) as at the date of each transaction. Assets and liabilities are translated at exchange rates prevailing at reporting date.

Exchange variations resulting from the translation are recognised in the foreign currency translation reserve in equity.

On consolidation, exchange differences arising from the translation of the net investment in overseas subsidiaries are taken to the foreign currency translation reserve. If an overseas subsidiary were sold, the proportionate share of exchange differences would be transferred out of equity and recognised in the Statement of Comprehensive Income.

m. Taxes

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the reporting date.

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

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

- when the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and that, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; or
- when the taxable temporary difference is associated with investments in subsidiaries, associates or interests in joint ventures, and the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

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

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

2. Summary of Significant Accounting Policies (cont.)

m. Taxes (cont.)

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

Unrecognised deferred income tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered. Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

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

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

Tax Consolidation Legislation

AED Oil Limited and its wholly owned Australian resident subsidiaries are part of a tax consolidated group under Australian tax law. AED Oil Limited is the head entity of the tax consolidated group. Current tax expense/benefit, deferred tax liabilities and deferred tax assets arising from temporary differences of the members of the tax consolidated group are allocated among the members of the tax consolidated group using a “stand alone taxpayer” approach per Interpretation 1052 Tax Consolidation Accounting and are recognised in the separate financial statements of each entity.

Current tax liabilities and assets and deferred tax assets arising from unused tax losses and tax credits of the members of the tax consolidated group are recognised by AED Oil Limited, as head entity.

AED Oil Limited and other members of the tax consolidated group have entered into a tax funding agreement. Tax contribution amounts payable under the tax funding agreement are recognised as payable to or receivable by AED Oil Limited and each other member of the group. AED Oil Limited and other members of the group have also entered into a tax sharing agreement pursuant to which the other members may be obligated to contribute to the tax liabilities of AED Oil Limited in the event of its default or upon them leaving the group

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 Statement of Financial Position.

Cash flows are included in the Statement of Cash Flows 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.

Petroleum Resource Rent Tax (PRRT) is assessed before company income tax and the amount of PRRT paid is a deduction for the purpose of calculating company income tax. Exploration expenditure incurred in PRRT areas must be offset (to the extent possible) against PRRT liabilities elsewhere in the same group of companies. PRRT is payable when project cash flows become positive, after taking account all allowable exploration, development and operating costs, and after a stipulated return on the project has been achieved. For exploration and project expenditures after 1 July 1990, exploration expenditure has a stipulated return of 15% plus the Australian Government long term bond rate (LTBR), and project expenditure has a stipulated return of 5% plus the LTBR. The PRRT rate is 40%.

2. Summary of Significant Accounting Policies (cont.)

n. Plant and Equipment

Plant and equipment is stated at historical cost less accumulated depreciation and any accumulated impairment in value. Depreciation is calculated on a straight-line basis over the estimated useful life of the asset as follows:

- Office Equipment – over 5 years; and
- Computer Equipment – over 3 years.

Impairment

The carrying values of plant and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable.

For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets or cash-generating units are written down to the recoverable amount.

An item of plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset.

Any gain or loss arising on de-recognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the profit or loss in the period the item is derecognised.

The assets' residual values, useful lives and amortisation methods are reviewed, and adjusted if appropriate, at each financial year end.

o. Exploration and Evaluation Assets

Costs carried forward

Costs arising from exploration and evaluation activities are carried forward provided such costs are expected to be recouped through successful development, or by sale, or where exploration and evaluation activities have not, at reporting date, reached a stage to allow a reasonable assessment regarding the existence of economically recoverable reserves.

p. Assets in Development

Expenditure incurred associated with the development of an area of interest are carried at cost. Upon successful completion of commissioning these costs are reclassified as production assets.

q. Production Assets

The costs of assets in the production phase are separately accounted for, and include past exploration and evaluation costs, preproduction costs, development costs and ongoing costs of continuing to develop reserves for production and to expand or replace plant and equipment.

Depreciation of capitalised costs is calculated on a units of production basis with reference to proved and probable reserves.

r. Recoverable Amount of Assets

At each reporting date, the Group assesses whether there is any indication that an asset may be impaired. Where an indicator of impairment exists, the Group makes a formal estimate of recoverable amount. Where the carrying amount of an asset exceeds its recoverable amount the asset is considered impaired and is written down to its recoverable amount with a charge to the profit or loss.

Recoverable amount is the greater of fair value less costs to sell and value in use. It is determined for an individual asset, unless the asset's value in use cannot be estimated to be close to its fair value less costs to sell and it does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

2. Summary of Significant Accounting Policies (cont.)

s. Provisions

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

When the Group expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the profit or loss net of any reimbursement.

If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

Where discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

t. Employee Benefits

Wages, salaries, annual leave, long service leave and sick leave

Liabilities for wages and salaries, including non-monetary benefits, annual leave, long service leave and accumulating sick leave expected to be settled within 12 months of the reporting date are recognised in other payables or provisions in respect of Employees' services up to the reporting date. They are measured at the amounts expected to be paid when the liabilities are settled. Liabilities for non-accumulating sick leave are recognised when the leave is taken and are measured at the rates paid or payable.

Liabilities recognised in respect of employees benefits which are not expected to be settled within 12 months are measured as the present value of the estimated future cash outflows to be made by the Group in respect of services provided by employees up to reporting date.

Superannuation commitments

The Group contributes to each employee's nominated plan based upon a percentage of each employee's salary. These contributions are recognised as an expense when they are made.

u. Share-Based Payment Transactions

The Group provides benefits to employees (including directors) of the Group in the form of share-based payment transactions, whereby employees render services in exchange for shares or rights over shares ('equity-settled transactions').

There is currently one plan in place to provide this benefit – The Employee Share Option Plan (ESOP), which provides benefits to directors, senior executives and employees.

The cost of these equity-settled transactions with employees 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 binomial model. 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 grant date fair value of the award (ii) the extent to which the vesting period has expired and (iii) 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 reporting 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. The profit or loss charge or credit for a period represents the movement in cumulative expense recognised as at the beginning and end of the period. No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition.

If 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 modification that increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee, 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 is treated as if they were a modification of the original award, as described in the previous paragraph. The dilutive effect, if any, of outstanding options is reflected as additional share dilution in the calculation of diluted earnings per share.

2. Summary of Significant Accounting Policies (cont.)

v. Contributed Equity

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

w. Earnings per Share

Basic earnings per share is calculated as net profit attributable to members of the parent, adjusted to exclude any costs of servicing equity (other than dividends), divided by the weighted average number of ordinary shares, adjusted for any bonus element.

Diluted earnings per share are calculated as net profit or loss attributable to members of the parent, adjusted for:

- Costs of servicing equity (other than dividends);
- The after-tax effect of dividends and interest associated with dilutive potential ordinary shares that have been recognised as expenses;
- Other non-discretionary changes in revenues or expenses during the period that would result from the dilution of potential ordinary shares; and
- Divided by the weighted average number of ordinary shares and dilutive potential ordinary shares, adjusted for any bonus element.

x. Financial Instruments

Trade and Other Receivables

Trade receivables are recognised on trade date, being the date the Group commits to sell goods.

Trade receivables which generally have 30 day terms are recognised and carried at invoice amount less an allowance for any impairment.

Collectability of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off. An allowance for impairment loss is established and recognised as a separate balance from trade receivables, when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. Cash flows relating to short-term receivables are not discounted if the effect of discounting is immaterial.

The amount of the provision is recognised in the profit or loss in other expenses. When a trade receivable for which a provision for impairment had been recognised becomes uncollectible in a subsequent period, it is written off against the provision for impairment account. Subsequent recoveries of amounts previously written off are credited against other expenses in the profit or loss.

In addition, if an allowance for impairment loss is raised in the future, a reconciliation of the movement in the provision is required.

Other financial assets

Other financial assets consist of fixed and floating rate note investments and are measured at fair value with resultant gain or loss being recognised in the profit or loss.

Trade and other payables

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

Interest-bearing loans and borrowings

All loans and borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs.

2. Summary of Significant Accounting Policies (cont.)

x. Financial Instruments (cont.)

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method. Fees paid on the establishment of loan facilities that are yield related are included as part of the carrying amount of the loans and borrowings.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

Borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset (i.e. an asset that necessarily takes a substantial period of time to get ready for its intended use or sale) are capitalised as part of the cost of that asset. All other borrowing costs are expensed in the period they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Financial Liabilities

Financial liabilities are classified as either financial liabilities at fair value through profit or loss ("FVTPL") or other financial liabilities.

- Financial liabilities designated at FVTPL
  A financial liability is designated at FVTPL upon initial recognition if it forms part of a contract containing one or more embedded derivatives, and AASB 139 permits the entire combined contract (asset or liability) to be designated at FVTPL because the embedded derivative does not meet the requirements to be separated from the host contract.

  Financial liabilities at FVTPL are stated at fair value, with any resultant gain or loss recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any interest paid on the financial liability. Fair value is determined in the manner described in Note 28.

- Other Financial Liabilities
  Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs. Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

  The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

  Borrowings are classified as current liabilities unless the group has an unconditional right to defer settlement for at least 12 months after the reporting date.

Derivative financial instruments

Terms embedded in contractual arrangements (options in convertible notes) that meet the definition of a derivative and are assessed as not being closely related to the contractual arrangement that they form part of are classified as derivatives. All derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured to fair value. Derivatives are carried as assets when their fair value is positive and as liabilities when their fair value is negative.

The fair value of the options embedded in convertible notes are calculated using option pricing models referencing share prices and foreign exchange and interest rates.

Any gains or losses arising from changes in the fair value of derivatives are taken directly to profit or loss for the year.

2. Summary of Significant Accounting Policies (cont.)

y. Standards and Interpretations issued not yet effective

At the date of authorisation of the financial report, the Standards and Interpretations listed below were on issue but not yet effective.

Initial application of the following Standard will not affect any of the amounts recognised in the financial report, but will change the disclosures presently made in relation to the Group and the Company's financial report.		
Standard/Interpretation	**Effective for annual reporting periods beginning on or after**	**Expected to be initially applied in the financial year ending**
AASB 9 Financial Instruments AASB 9 includes requirements for the classification and measurement of financial assets resulting from the first part of Phase 1 of the IASB's project to replace IAS 39 Financial Instruments: Recognition and Measurement (AASB 139 Financial Instruments: Recognition and Measurement). These requirements improve and simplify the approach for classification and measurement of financial assets compared with the requirements of AASB 139. The main changes from AASB 139 are described below. (a) Financial assets are classified based on (1) the objective of the entity's business model for managing the financial assets; (2) the characteristics of the contractual cash flows. This replaces the numerous categories of financial assets in AASB 139, each of which had its own classification criteria. (b) AASB 9 allows an irrevocable election on initial recognition to present gains and losses on investments in equity instruments that are not held for trading in other comprehensive income. Dividends in respect of these investments that are a return on investment can be recognised in profit or loss and there is no impairment or recycling on disposal of the instrument. Financial assets can be designated and measured at fair value through profit or loss at initial recognition if doing so eliminates or significantly reduces a measurement or recognition inconsistency that would arise from measuring assets or liabilities, or recognising the gains and losses on them, on different bases.	1 January 2013	1 July 2013

3. Segment Information

The Group operates in the oil and gas exploration industry, in Australia and South East Asia. The Group determines its operating segments by reference to internal reports that are reviewed and used by the executive management team (the chief operating decision maker) in assessing performance and in determining the allocation of resources. The executive management team currently receive consolidated Statement of Financial Position and Statement of Comprehensive Income information that is prepared in accordance with Australian Accounting Standards therefore there is no additional information to disclose.

The executive team does not currently receive segment Statement of Financial Position and Statement of Comprehensive Income information. The executive team manages each of the Puffin, Brunei Block L, Rombebai and South Madura exploration activities through review and approval of joint venture cash calls, joint venture budgets and other operational information. Information regarding exploration expenditure capitalised for each area is contained in Note 15.

4. Asset Acquisitions

Initial acquisition of AED South East Asia Limited

On 23 December 2009, AED entered into an agreement to acquire, through its wholly owned subsidiary AED Oil Investments Pty Ltd ("**AED Oil Investments**"), Nations Petroleum Company Limited's wholly owned subsidiary, Nations Petroleum (SE Asia) Limited (now known as AED South East Asia Limited), which holds a 50% joint venture and operator interest in the Production Sharing Agreement for Block L, Brunei Darussalam. On 11 March 2010, AED completed the transaction. The Block L, Brunei Joint Venture comprises AED South East Asia Limited (50%), Kulczyk Oil Brunei Limited (40%), and QAF Brunei Sdn Bhd (10%).

The consideration transferred was US$3,000,000 cash and the issue of 24 million fully paid ordinary shares of AED Oil Limited valued at A$0.60. Nations have entered into an agreement not to transfer or otherwise deal with or create security interests over those shares for 12 months. The shares will cease to be subject to escrow on and from 12 March 2011. If AED Investments has a valid claim under the Sale and Purchase Agreement (including for breach of warranty or under an indemnity) which is not satisfied by Nations, a number of the 24 million AED shares (valued according to agreed VWAP) equivalent to the amount of the claim, may be bought back for nominal aggregate consideration of $1 by AED Oil Limited.

The Group has recognised the fair values of the identifiable assets and liabilities of AED South East Asia Limited based upon the best information available as of the reporting date. The asset acquisition accounting is as follows:

4. Asset Acquisitions (cont.)

	Fair Value at acquisition date $'000	Carrying Value $'000
Current Assets		
Cash and cash equivalents	22	22
Trade and other receivables	469	469
Total Current Assets	491	491
Non Current Assets		
Deferred Exploration and Evaluation Expenditure	19,670	30,419
Total Non Current Assets	19,670	30,419
Total Assets	20,161	30,910
Current Liabilities		
Trade & Other Creditors Payable	(490)	(490)
Total Current Liabilities	(490)	(490)
Total Liabilities	(490)	(490)
Net Assets	19,671	30,420
Acquisition date fair value of consideration transferred:		
Shares issued, at fair value	14,400	
Cash paid	3,249	
Consideration transferred	17,649	
The cash outflow on acquisition is as follows:		
Net cash acquired with the subsidiary	22	
Cash paid	(3,249)	
Direct and agreed costs relating to the acquisition	(2,022)	
Net consolidated cash outflow	(5,249)	

South Madura Joint Venture

On 5 February 2010, AED entered into an agreement to acquire, through its wholly owned subsidiary AED Oil Investments, Nations Petroleum Company Limited's wholly owned subsidiary, Nations Petroleum (South Madura) BV (now known as AED South Madura BV), which holds a 60% joint venture and non-operator interest in the Production Sharing Contract for South Madura, Indonesia.

On 4 March 2010, AED completed the transaction. The South Madura Joint Venture comprises AED South Madura BV (60%), South Madura Exploration Company (a subsidiary of Cooper Energy Limited) (30%), and PT Eksindo South Madura (10%).

The consideration transferred was US$750,000 cash and the issue of 6 million fully paid ordinary shares of AED Oil Limited valued at A$0.60. Nations have entered into an agreement not to transfer or otherwise deal with or create security interests over those shares for 12 months. The shares will cease to be subject to escrow on and from 15 November 2011. If AED Investments has a valid claim under the Sale and Purchase Agreement (including for breach of warranty or under an indemnity) which is not satisfied by Nations, a number of the 6 million AED shares (valued according to agreed VWAP) equivalent to the amount of the claim, may be bought back for nominal aggregate consideration of $1 by AED Oil Limited.

4. Asset Acquisitions (cont.)

The Group has recognised the fair values of the identifiable assets and liabilities of AED South Madura BV based upon the best information available as of the reporting date. The asset acquisition accounting is as follows:

	Fair Value at acquisition date $'000	Carrying Value $'000
Current Assets		
Cash and cash equivalents	295	295
Total Current Assets	295	295
Non Current Assets		
Deferred Exploration and Evaluation Expenditure	5,331	112
Total Non Current Assets	5,331	112
Total Assets	5,626	407
Current Liabilities		
Trade & Other Creditors Payable	(606)	(606)
Total Current Liabilities	(606)	(606)
Total Liabilities	(606)	(606)
Net Assets	5,020	(199)
Acquisition date fair value of consideration transferred:		
Shares issued, at fair value	3,600	
Cash paid	812	
Consideration transferred	4,412	
The cash outflow on acquisition is as follows:		
Net cash acquired with the subsidiary	295	
Cash paid	(812)	
Direct and agreed costs relating to the acquisition	(608)	
Net consolidated cash outflow	(1,125)	

Rombebai Production Sharing Contract

On 5 February 2010, AED entered into an agreement to acquire, through its wholly owned subsidiary AED Oil Investments Pty Ltd, Nations Petroleum Company Limited's wholly owned subsidiary, Nations Petroleum (Rombebai) BV (now known as AED Rombebai BV), which holds a 100% operator interest in the Production Sharing Contract for Rombebai, Indonesia.

On 4 March 2010, AED completed the transaction.

The consideration transferred was US$750,000 cash and the issue of 6 million fully paid ordinary shares of AED Oil Limited valued at A$0.60. Nations have entered into an agreement not to transfer or otherwise deal with or create security interests over those shares for 12 months. The shares will cease to be subject to escrow on and from 15 November 2011. If AED Investments has a valid claim under the Sale and Purchase Agreement (including for breach of warranty or under an indemnity) which is not satisfied by Nations, a number of the 6 million AED shares (valued according to agreed VWAP) equivalent to the amount of the claim, may be bought back for nominal aggregate consideration of $1 by AED Oil Limited.

4. Asset Acquisitions (cont.)

The Group has recognised the fair values of the identifiable assets and liabilities of AED Rombebai BV based upon the best information available as of the reporting date. The asset acquisition accounting is as follows:

	Fair Value at acquisition date $'000	Carrying Value $'000
Current Assets		
Cash and cash equivalents	20	20
Trade and other receivables	121	121
Total Current Assets	141	141
Non Current Assets		
Deferred Exploration and Evaluation Expenditure	4,741	1,644
Other Non-Current Assets	15	15
Total Non Current Assets	4,756	1,659
Total Assets	4,897	1,800
Current Liabilities		
Trade & Other Creditors Payable	(218)	(218)
Total Current Liabilities	(218)	(218)
Total Liabilities	(218)	(218)
Net Assets	4,679	1,582
Acquisition date fair value of consideration transferred:		
Shares issued, at fair value	3,600	
Cash paid	812	
Consideration transferred	4,412	
The cash outflow on acquisition is as follows:		
Net cash acquired with the subsidiary	20	
Cash paid	(812)	
Direct and agreed costs relating to the acquisition	(267)	
Net consolidated cash outflow	(1,059)	

5. Revenues and Expenses

Revenue and Expenses	CONSOLIDATED 2010 $'000	2009 $'000
(a) Revenue		
Revenue from the sale of oil	**341**	27,600
(b) Other revenue		
Interest	**3,240**	11,403
Rental revenue	**2**	153
AED Services margin	**4**	457
Other	**277**	25
	3,523	12,038
(c) Other income/(losses)		
Net foreign exchange gains/(losses)	**(825)**	24,632
(d) Administrative and other expenses		
Travel	**149**	167
Legal and professional services	**645**	208
Audit, accounting and consulting	**937**	715
Office rent	**168**	447
Insurance	**113**	99
Compliance costs	**260**	231
Depreciation	**172**	171
Other expenses from ordinary activities	**401**	923
	2,845	2,961
(e) Employee benefits expense		
Wages and salaries	**3,230**	3,417
Superannuation	**322**	363
Termination benefits	**-**	4
	3,552	3,784
(f) Investment review costs		
Costs of reviewing prospective acquisition projects	**950**	-
	950	-
(g) Fair value change on financial instruments		
Fair value (gains)/losses on convertible notes (Note 20)	**(3,238)**	10,425
	(3,238)	10,425

5. Revenues and Expenses (cont.)

	2010 $'000	2009 $'000
(h) Finance costs		
Interest on convertible notes	**5,277**	7,797
Unwind of discount – rehabilitation provision	**1,808**	2,175
Borrowing costs	**839**	-
	7,924	9,972
(i) Operating costs		
Fixed FPSO operating lease rental	**330**	38,486
Variable operating costs	**-**	28,898
Joint venture costs	**-**	3,765
	330	71,149
(j) Puffin joint venture field maintenance and decommissioning costs		
Field maintenance, decommissioning, arbitration and legal costs	**9,502**	-
GST refund arising out of the Puffin FPSO Timecharter Contract	**(6,689)**	-
Joint venture administration costs	**1,835**	-
	4,648	-

6. Income Tax

The major components of income tax benefit are:

	CONSOLIDATED	
	2010 $'000	2009 $'000
Income Tax		
Current income tax		
Current income expense	**-**	35
Adjustment in respect of current income tax of previous years	**104**	(15,277)
	104	(15,242)
Deferred income tax		
Relating to origination and reversal of temporary differences	**(3,536)**	(50,372)
Adjustment in respect of prior year	**517**	7,628
	(3,019)	(42,744)
Income tax expense/(benefit) reported in profit or loss	**(2,915)**	(57,986)
Statement of changes in equity		
Deferred income tax related to items charged or credited directly to equity	-	-
Income tax expense/(benefit) reported in equity	**-**	-

A reconciliation between tax expense and the product of accounting profit/(loss) before income tax multiplied by the Company's applicable income tax rate is as follows:

Accounting profit/(loss) before income tax	**(14,898)**	(161,614)
Tax (benefit)/loss at the applicable statutory income tax rate	**(4,469)**	(48,484)
Research and development deduction	**-**	(420)
Non-deductible employee option expense	**72**	(356)
Other non-deductible expenses	**8**	182
Foreign tax rate adjustment	**-**	(75)
Investment allowance	**-**	(1,184)
Adjustment in respect of previous years	**622**	(7,649)
Income tax expense recognised in equity	**-**	-
Income tax benefit not recognised	**852**	-
Income tax benefit reported in the consolidated profit or loss	**(2,915)**	(57,986)

The tax rate used in the above reconciliation is the corporate tax rate of 30% payable by Australian corporate entities on taxable profits under Australian tax law. There has been no change in the corporate tax rate when compared with the previous reporting period.

6. Income Tax (cont.)

	CONSOLIDATED	
	2010 $'000	2009 $'000
Deferred income tax		
Deferred income tax at 30 June relates to the following:		
Deferred tax liabilities		
Capitalised exploration and evaluation costs	**(40,679)**	(38,153)
Convertible notes	**(1,821)**	(3,971)
Other assets	**(9,124)**	(10,810)
Unrealised foreign exchange differences	**(220)**	-
	(51,844)	(52,934)
Set-off of deferred tax asset	**51,844**	49,915
Net deferred tax liabilities	**-**	(3,019)
Deferred tax assets		
Losses available for offset against future taxable income	**38,912**	35,592
Other provisions and accruals	**12,932**	12,078
Unrealised foreign exchange differences	**-**	2,245
	51,844	49,915
Set-off of deferred tax assets	**(51,844)**	(49,915)
Net deferred tax assets	**-**	-

6. Income Tax (cont.)

Recognised deferred tax assets and liabilities	CONSOLIDATED Current Income Tax $'000	Deferred Income Tax $'000
2010		
Opening balance	(22)	(3,019)
Charged to Statement of Comprehensive Income	(104)	3,019
Losses used	126	-
Closing balance	-	-
Tax expense/(benefit) in profit or loss		(2,915)
Amounts recognised in the Statement of Financial Position:		
Deferred tax asset		51,844
Deferred tax liability		(51,844)
		-
2009		
Opening balance	(50,603)	(45,818)
Charged to Statement of Comprehensive Income	15,242	42,799
Losses used	35,339	-
Closing balance	(22)	(3,019)
Tax expense/(benefit) in profit or loss		(57,986)
Amounts recognised in the Statement of Financial Position:		
Deferred tax asset		49,915
Deferred tax liability		(52,934)
		(3,019)

Australia

The Group has recognised tax losses arising in Australia of $130 million (2009: $118 million) to the extent that it offsets a deferred tax liability and that are available indefinitely for offset against future taxable profits of the Australian group.

The Group has unrecognised tax losses arising in Australia of $0.852 million (2000: Nil) that are available indefinitely for offset against future taxable profits of the Australian group.

Petroleum Resource Rent Tax (PRRT) applies to all petroleum projects in offshore areas under the Petroleum Act, other than some specified production licenses. PRRT is assessed on a project basis or production licence area and is levied on the taxable profits of a petroleum project at a rate of 40%. Certain specified undeducted expenditures are eligible for compounding. The expenditures can be compounded annually at set rates, and the compounded amount can be deducted against assessable receipts in future years.

The Group estimates that past holders of the Permit and AED Oil Limited have incurred expenditure resulting in total carried forward undeducted expenditure able to be set off against income, derived in future years of $422million (2009 $360 million).

In order for the Group to utilise undeducted expenditures for PRRT purposes from prior years, it will be required to substantiate eligible expenditure in relation to the Permit since the date of its grant. Any amount that the Group is not able to substantiate cannot be utilised by the Group against its assessable receipts in future years.

The Group has not recognised a deferred tax asset with respect to the carried forward undeducted PRRT expenditure.

6. Income Tax (cont.)

Indonesia

The Group's exploration permit interests in the Indonesian locations of Rombebai and South Madura are each subject to terms of a Production Sharing Contract (PSC). The PSC subjects the Group's share of the assessable petroleum profits from each respective interest to the Indonesian company tax rate prevailing at the time they were signed which was 30%.

The Group's has a 100% interest in the Rombebai PSC which was originally signed on 16 November 1998. If the Group was to make a petroleum discovery on the Rombebai permit, BP Migas and the relevant Indonesian Government audit authorities would review all carry forward expenditures and assess whether they are cost recoverable (and accordingly tax deductible) within the requirements of the PSC. It is difficult to reliably estimate the carry forward recoverable and tax deductible expenditure until after BP Migas and the Indonesian audit authorities have made their assessment. Based on Financial Quarterly Reports lodged by AED Rombebai BV the estimated carry forward recoverable and tax deductible expenditure is estimated at estimated to be AUD $101m.

The Group has a 60% interest in the South Madura PSC which was originally signed on 14 October 2003 and is therefore subject to Indonesia's New Petroleum Law of 2002. As a consequence, the quantification of tax losses that may be carried forward in relation to the South Madura PSC are determined in accordance with the 1983 Income Tax Law, as last amended by Law No. 17 2000, and its Regulations. The carry forward tax losses applicable to the South Madura PSC are self assessed. Based on Financial Quarterly Reports lodged by AED South Madura BV the estimated carry forward tax losses applicable to the South Madura PSC are estimated to be AUD $55m.

The Group has not recognised a deferred tax asset in respect of its Indonesian recoverable expenditure or carry forward tax losses.

Brunei

The Group's exploration permit interests in Brunei are subject to a Production Sharing Agreement (PSA). The PSA subjects the Group's share of its petroleum profits to Brunei tax of 55% pursuant to the Income Tax (petroleum) Act (Cap. 119).

The Group has a 50% interest in the Brunei PSA. The PSA defines the carry forward recoverable costs. It is normal practice for the Collector of Income Tax in Brunei to review the claimed recoverable costs after lodgement of a tax return. Until the Group starts to produce petroleum from the permit area and it lodges tax returns in Brunei, it is difficult to reliably estimate the carry forward recoverable costs that will be allowed by the Collector of Income Tax in Brunei. Based on the historic expenditure incurred to date by AED SE Asia Limited $54 million, the Group’s share of the recoverable costs in relation to the Group's Brunei PSA are estimated to be $27 million.

The Group has not recognised a deferred tax asset in respect of its Brunei recoverable costs.

Singapore, Cyprus, Netherlands

The Group does not have any tax related balances in respect of its subsidiaries in Singapore, Cyprus and the Netherlands due to limited activities in these jurisdictions.

7. Earnings per Share

Basic earnings per share amounts are calculated by dividing net profit or loss for the year attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year.

Diluted earnings per share amounts are calculated by dividing the net profit or loss attributable to ordinary equity holders of the parent (after deducting fair value adjustments and interest on the convertible redeemable preference shares) by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on the conversion of all the dilutive potential ordinary shares into ordinary shares.

7. Earnings per Share (cont.)

The following reflects the income and share data used in the basic and diluted earnings per share computations:

	CONSOLIDATED	
	2010 **$'000**	2009 $'000
Earnings/(loss) used in calculation of basic and diluted EPS	**(11,983)**	(103,628)

	2010 **No.'000**	2009 No.'000
Weighted average number of ordinary shares used in the calculation of basic EPS	**173,266**	154,928

	2010 **Cents**	2009 Cents
Earnings per share		
Basic EPS	**(6.9)**	(66.9)
Diluted EPS	**(6.9)**	(66.9)

There have been no other transactions involving ordinary shares or potential ordinary shares between the reporting date and the date of completion of these financial statements.

(i) In 2010 and 2009 the conversion of share options and convertible notes would decrease the loss per share and hence are anti-dilutive.

8. Dividends

No dividends were paid or proposed to the members during the financial year ended 30 June 2010.

On 5 September 2008, the directors declared a fully franked special dividend of 20 cents per share ($30.9 million) to the holders of fully paid ordinary shares in respect of the financial year ended 30 June 2008. The dividend was paid in the year-ended 30 June 2010. No dividends were declared for 2009.

The Company has a franking account balance of $22,058,000 (2009: $22,058,000). The Company's ability to utilise the franking account credits depends on these being sufficiently available profits to declare dividends.

9. Notes to the Statement of Cash Flows

(a) Reconciliation of cash and cash equivalents

	CONSOLIDATED	
	2010 $'000	2009 $'000
Cash at bank and in hand	**23,991**	53,238
Short-term deposits	**-**	35,408
Total cash and cash equivalents	**23,991**	88,646
Other financial assets (Note 10)	**40,605**	17,066
Total cash and cash equivalents and other financial assets	**64,596**	105,712

Cash at bank earns interest at floating rates based on daily bank deposit rates.

Short-term deposits have maturity dates of between one day and three months. Deposits are made for varying periods depending on the immediate cash requirements of the Company, and earn interest at the respective short-term deposit rates. Short-term deposits are readily convertible to cash without penalty.

The fair value of cash and cash equivalents is $23,991,000 (2009: $88,646,000).

Included in other financial assets are:

- $14,185,000 (2009: Nil) in restricted cash as part of the dispute process with Puffin FPSO. It is held in an interest bearing cash deposit that was lodged with the Supreme Court of Victoria. The GST refund that this cash balance is being used for security has been received from the Australian Taxation Office (Refer to Note 5(i)). The release of the security balance is expected shortly. Refer to Note 27;
- As part of the Group's overall cash management strategy, investments are also made in other liquid financial assets, consisting of fixed and floating rate notes of $17,229,000 (2009: $17,066,000) (measured at fair value). These can be redeemed at short notice at their fair value. This is held through a Global A rated financial institution which holds some fixed and floating rate notes in counter parties that are predominately AA rating. As such these securities are currently quite liquid and are tradable not only on the various bank dealing desks but with the financial institutions own client base;
- $1,173,000 (2009: Nil) in restricted cash as part of the dispute with an Installation Contractor. Refer to Note 27. This amount has since been repaid subsequent to year end; and
- $8,018,000 (2009: Nil) in restricted cash as part of a cash backed guarantee in relation to the drilling campaign in Brunei. This guarantee expired subsequent to year end.

9. Notes to the Statement of Cash Flows (cont.)

(b) Reconciliation of profit/(loss) for the period to net cash flows from operating activities

	CONSOLIDATED	
	2010	2009
	$'000	$'000
Reconciliation of net profit/(loss) after tax to net cash flows from operations		
Net profit/(loss) after tax	**(11,983)**	(103,628)
Adjustments for:		
Depreciation	**173**	6,453
Fair value change on derivatives	**(3,238)**	10,425
Non-cash interest on 6% Convertible Notes	**1,118**	-
Employee option expense	**240**	(1,204)
Net exchange differences	**465**	(25,238)
Development and exploration costs expensed	**-**	33,064
Asset write-downs	**676**	38,020
Impairment write-down	**-**	50,562
Convertible note issue costs	**839**	-
Investment review costs	**950**	-
Changes in assets and liabilities		
(Increase)/decrease in trade and other receivables	**(1,209)**	1,087
(Increase)/decrease in prepayments	**92**	(705)
(Increase)/decrease in inventory	**1,519**	3,542
(Increase)/decrease in deferred tax assets	**-**	9,626
(Decrease)/increase in current tax liabilities	**(128)**	(50,567)
(Decrease)/increase in deferred tax liabilities	**(3,019)**	(52,425)
(Decrease)/increase in trade and other payables	**224**	(11,478)
(Decrease)/increase in provisions	**1,859**	2,267
Net cash used in operating activities	**(11,422)**	(90,199)

(c) Disclosure of non-cash financing and investment activities

The Company repaid US$ 1,153,000 of AED's US$85,000,000 6.5% convertible unsecured notes by the issue of 1,770,275 ordinary shares in the Company.

US$21,217,500 of AED's US$85,000,000 6.5% convertible unsecured notes were repaid by the issue of AED's US$21,217,500 9.0% convertible unsecured notes.

The purchase consideration for the 50% operating interest in Brunei (Block L) made by the purchase of Nations Petroleum (SE Asia) Limited (now known as AED South East Asia Limited) included the issue of 24 million shares in AED Oil Limited. Refer Note 4.

The purchase consideration for the 60% joint venture and non-operator interest in the Production Sharing Contract for South Madura, Indonesia made by the purchase of Nations Petroleum (South Madura) BV (now known as AED South Madura BV) included the issue of 6 million shares in AED Oil Limited. Refer Note 4.

The purchase consideration for the 100% operator interest in the Production Sharing Contract for Rombebai, Indonesia made by the purchase of Nations Petroleum (Rombebai) BV (now known as AED Rombebai BV) included the issue of 6 million shares in AED Oil Limited. Refer Note 4.

10. Other Financial Assets

	CONSOLIDATED	
	2010 $'000	2009 $'000
Fixed and floating rate notes[2]	**17,229**	17,066
Deposit with the Supreme Court of Victoria[1]	**14,185**	-
Escrow deposit[3]	**1,173**	-
Cash back guarantee deposit[4]	**8,018**	-
Total other financial assets	**40,605**	17,066

Included in other financial assets are:

(1) $14,185,000 (2009: Nil) in restricted cash as part of the dispute process with Puffin FPSO. It is held in an interest bearing cash deposit that was lodged with the Supreme Court of Victoria. The GST refund that this cash balance is being used for security has been received from the Australian Taxation Office (Refer to Note 5(i)). The release of the security balance is expected shortly. Refer Note 27;

(2) As part of the Group's overall cash management strategy, investments are also made in other liquid financial assets, consisting of fixed and floating rate notes of $17,229,000 (2009: $17,066,000) (measured at fair value). These can be redeemed at short notice at their fair value. This is held through a Global A rated financial institution which holds some fixed and floating rate notes in counter parties that are predominately AA rating. As such these securities are currently quite liquid and are tradable not only on the various bank dealing desks but with the financial institutions own client base;

(3) $1,173,000 (2009: Nil) in restricted cash as part of the dispute with an Installation Contractor. Refer Note 27. This amount has been repaid subsequent to year end; and

(4) $8,018,000 (2009: Nil) in restricted cash as part of a cash backed guarantee in relation to the drilling campaign in Brunei. This guarantee expired subsequent to year end.

11. Trade and Other Receivables

	CONSOLIDATED	
	2010 $'000	2009 $'000
CURRENT		
Trade receivables[i]	**5,004**	952
Goods and services tax refunds	**103**	773
Deposits	**108**	27
Interest receivable	**-**	215
Other receivables[i]	**247**	68
	5,462	2,035

Terms and conditions

(i) Receivables and other current receivables are non–interest bearing and have repayment terms of under 30 days. At 30 June 2010, there is no allowance for impairment loss, and no assets past due.

12. Inventories and Equipment Held for Sale

	CONSOLIDATED	
	2010 $'000	2009 $'000
Equipment Held for Sale (i)	**-**	13,452
	-	13,452
Oil (at net realisable value)	**-**	318
	-	318
	-	13,770

(i) Equipment represented long lead time equipment purchased during the Group's last drilling campaign on the Puffin Field. An amount of $12.951 million was transferred to deferred exploration and evaluation. Refer to Note 15. The remainder was sold during the year.

13. Prepayments

	CONSOLIDATED	
	2010 $'000	2009 $'000
Longtom Gas Project deposit	**-**	35,965
Prepaid Joint Venture contribution	**-**	6,285
Insurance	**288**	686
Software maintenance	**10**	34
	298	42,970

14. Plant and Equipment

	CONSOLIDATED **Plant and Equipment $'000**
Year ended 30 June 2010	
At 1 July 2009 net of accumulated depreciation and impairment	224
Additions	135
Depreciation charge for the year	(173)
At 30 June 2010, net of accumulated depreciation and impairment	186
At 30 June 2010	
Cost	757
Accumulated depreciation	(571)
Net carrying amount	186
At 30 June 2010, there was no allowance for impairment loss	
Year ended 30 June 2009	
At 1 July 2008 net of accumulated depreciation and impairment	353
Additions	42
Depreciation charge for the year	(171)
At 30 June 2009, net of accumulated depreciation and impairment	224
At 30 June 2009	
Cost	622
Accumulated depreciation	(398)
Net carrying amount	224
At 30 June 2009, there was no allowance for impairment loss	

15. Deferred Exploration and Evaluation Costs

	CONSOLIDATED 2010 $'000	2009 $'000
Puffin and Talbot Field		
Carrying amount at beginning of financial year	**167,340**	43,356
Expenditure during the period	**2,315**	56,869
Transfer from/(to) inventory	**12,951**	(13,452)
Transfer from/(to) production assets	**-**	75,724
Restoration asset	**(1,118)**	4,843
Asset write-downs	**(676)**	-
Carrying amount at end of financial year	**180,812**	167,340
Total expenditure comprises:		
Puffin North East	**46,685**	45,697
Puffin South West	**80,478**	78,257
Great Auk	**9,564**	11,141
Talbot	**869**	862
Inventory – long lead items	**12,951**	-
Restoration assets	**30,264**	31,382
	180,812	167,340
Brunei Field		
Carrying amount at the beginning of the financial year	**-**	-
Acquisition costs	**19,671**	-
Expenditure during the year	**6,781**	-
Effect of foreign exchange	**2,468**	-
	28,920	-
Rombebai Field		
Carrying amount at the beginning of the financial year	**-**	-
Acquisition costs	**4,741**	-
Expenditure during the year	**1,334**	-
Effect of foreign exchange	**135**	-
	6,210	-
South Madura Field		
Carrying amount at the beginning of the financial year	**-**	-
Acquisition costs	**5,331**	-
Expenditure during the year	**678**	-
Effect of foreign exchange	**26**	-
	6,035	-
Summary		
Puffin and Talbot Field	**180,812**	167,340
Brunei Field	**28,920**	-
Rombebai Field	**6,210**	-
South Madura Field	**6,035**	-
	221,977	167,340

16. Production Assets

	CONSOLIDATED 2010 $'000	2009 $'000
Carrying amount at beginning of financial year	-	165,320
Transfer from/(to) inventory	-	-
Expenditure during the year	-	34,870
Restoration asset	-	9,866
Development costs expensed	-	(33,064)
Impairment write down	-	(50,562)
Asset write downs	-	(38,020)
Transfer from/(to) deferred exploration, evaluation and development costs	-	(88,410)
Carrying amount at end of financial year	-	-
Accumulated depreciation		
Carrying amount at beginning of financial year	-	(6,321)
Depreciation expense	-	(6,365)
Transfer (from)/to deferred exploration, evaluation and development costs	-	12,686
Carrying amount at end of financial year	-	-
Net book value	-	-

The Group ceased production on 8 May 2009 and the FPSO Charter Contract was terminated on 4 July 2009. In the year ended 30 June 2009 the Group had written off all production infrastructure related costs and has tested the residual value for impairment as described below.

In the absence of ongoing production activities, the residual value of these assets have then been transferred to deferred exploration, evaluation and development costs.

Impairment, Asset Write-downs and Development Costs Expensed

During the year ended 30 June 2009 the Group recognised:

- an impairment write-down of $50.6 million in relation to its production assets as a result of production performance, the existing economic conditions at that time and the fall in oil commodity prices;
- a write-down of FPSO specific assets of $38.0 million and associated subsea equipment assets, and
- expensed development costs of $33.1 million relating to development costs mainly associated with the Puffin-12 well in the North East region.

The Puffin Joint Venture is currently reviewing potential new development scenarios and exploration activities including the acquisition and reprocessing of 3D seismic for areas of the permit previously only covered by 2D seismic. The Puffin Joint Venture has developed a number of new models regarding oil migrations in the region, thereby identifying a number of new leads and prospects. While the geological interpretation of the Puffin Field presents a number of challenges, the Company remains positive by its potential in what is regarded as a quality oil province and by its future exploration and development potential.

The Company, together with its Joint Venture partner, is currently undertaking an extensive review of the reserves and resources with a view to establishing a revised development plan for the Puffin field.

Upon further exploration success and/or completion of geological and geophysical studies which support the resumption of production, the impairment of assets may be reversed.

17. Investments

a. Investment in Controlled Entities

Name of the Entity	Country of Incorporation	Class of shares	% Equity Interest 2010	% Equity Interest 2009
Ashmore Oil Pty Ltd	Australia	Ordinary	100	100
AED Services Pte Ltd	Singapore	Ordinary	100	100
Puffin Installation Services Pte Ltd	Singapore	Ordinary	100	100
AED Oil Investments Pty Ltd (formerly AED Gippsland Pty Ltd)	Australia	Ordinary	100	100
AED Finance Pty Ltd	Australia	Ordinary	100	100
AED South East Asia Ltd (formerly Nations Petroleum (SE Asia) Ltd)	Cyprus	Ordinary	100	-
AED Rombebai BV (formerly Nations Petroleum (Rombebai) BV)	The Netherlands	Ordinary	100	-
AED South Madura BV (formerly Nations Petroleum (South Madura) BV)	The Netherlands	Ordinary	100	-

b. Interest in Jointly Controlled Assets

Joint Venture Details

The Group has an interest in the following jointly controlled assets:

Name of Venture	Principal Activity	Output Interest 2010 %	Output Interest 2009 %
EPPL-AED Oil Limited Unincorporated Joint Venture (Puffin Joint Venture)	Oil and gas exploration	40	40
Block L, Brunei Joint Venture	Oil and gas exploration	50	-
South Madura Joint Venture	Oil and gas exploration	60	-

Puffin Field Joint Venture

On 28 March 2008, the Company entered into formal binding agreement with Sinopec International Petroleum Exploration and Production Corporation ("SIPC"), a wholly owned subsidiary of China Petrochemical Corporation ("Sinopec Group"), in which East Puffin Pty Ltd, a wholly owned subsidiary of SIPC ("EPPL"), acquired a 60% joint venture interest in the Company's assets held under AC/P22, AC/L6 and AC/RL1 (which include the Puffin and Talbot fields) and became the Operator of the field. On 18 June 2008, the Company completed the joint venture transaction.

Block L, Brunei Joint Venture

On 23 December 2009, AED entered into an agreement to acquire, through its wholly owned subsidiary AED Oil Investments Pty Ltd, Nations Petroleum Company Limited's wholly owned subsidiary, Nations Petroleum (SE Asia) Limited (now known as AED South East Asia Limited), which holds a 50% joint venture and operator interest in the Production Sharing Agreement for Block L, Brunei Darussalam. On 11 March 2010, AED completed the transaction. The Block L, Brunei Joint Venture comprises AED South East Asia Limited (50%), Kulczyk Oil Brunei Limited (40%), and QAF Brunei Sdn Bhd (10%).

17. Investments (cont.)

b. Interest in Jointly Controlled Assets (cont.)

South Madura Joint Venture

On 5 February 2010, AED entered into an agreement to acquire, through its wholly owned subsidiary AED Oil Investments Pty Ltd, Nations Petroleum Company Limited's wholly owned subsidiary. Nations Petroleum (South Madura) BV (now known as AED South Madura BV), which holds a 60% joint venture and non-operator interest in the Production Sharing Contract for South Madura, Indonesia.

On 4 March 2010, AED completed the transaction. The South Madura Joint Venture comprises AED South Madura BV (60%), South Madura Exploration Company (a subsidiary of Cooper Energy Limited) (30%), and PT Eksindo South Madura (10%).

c. Interests in wholly owned assets

Name of Venture	Principal Activity
Rombebai Production Sharing Contract	Oil and gas exploration, development and production

On 5 February 2010, AED entered into an agreement to acquire, through its wholly owned subsidiary AED Oil Investments Pty Ltd, Nations Petroleum Company Limited's wholly owned subsidiary

Nations Petroleum (Rombebai) BV (now known as AED Rombebai BV), which holds a 100% operator interest in the Production Sharing Contract for Rombebai, Indonesia.

On 4 March 2010, AED completed the transaction.

d. Commitments related to joint venture assets

Refer to Note 27 for disclosure of commitments related to all investments.

e. Contingent Liabilities

Refer to Note 27 for contingent liabilities related to all investments.

18. Parent Entity Information

Information relating to AED Oil Limited

	2010 $'000	2009 $'000
Assets		
Current Assets		
Cash and cash equivalents	**14,313**	20,920
Other financial assets	**23,375**	-
Trade and other receivables	**65,116**	86,042
Inventories	**-**	13,770
Prepayments	**298**	42,970
Total Current Assets	**103,102**	163,702
Non-Current Assets		
Plant and equipment	**160**	224
Deferred exploration, evaluation and development costs	**180,812**	167,340
Total Non-Current Assets	**180,972**	167,564
TOTAL ASSETS	**284,074**	331,266
Liabilities		
Current Liabilities		
Trade and other payables	**8,950**	27,193
Interest-bearing loans and borrowings	**22,343**	78,358
Provisions	**281**	237
Total Current Liabilities	**31,574**	105,788
Non-Current Liabilities		
Interest-bearing loans and borrowings	**18,303**	-
Provisions	**40,630**	39,891
Deferred tax liabilities	**-**	3,121
Total Non-Current Liabilities	**58,933**	43,012
TOTAL LIABILITIES	**90,507**	148,800
NET ASSETS	**193,567**	182,466
Equity		
Contributed equity	**119,590**	96,775
Retained earnings	**72,933**	82,519
Reserves	**1,044**	3,172
TOTAL EQUITY	**193,567**	182,466
Net (loss)/profit for the period of the parent entity	(11,953)	(104,312)
Total comprehensive income of the parent entity	(11,953)	(104,312)

Trade account balances are non-interest bearing and at call. Related party loans have been made on commercial terms and conditions and are interest bearing.

During the year, the parent Company transacted with wholly owned subsidiaries. These transactions were on normal commercial terms and conditions and in relation to reimbursement of capital installation services and operating costs incurred by the subsidiaries.

Refer to Note 27 for disclosure of guarantees, contingent liabilities and contractual commitments made by AED Oil Limited.

19. Trade and Other Payables

	CONSOLIDATED	
	2010	2009
	$'000	$'000
Trade creditors	**8,072**	8,367
Accruals and other payables	**4,895**	17,008
Convertible Note interest accrual	**1,453**	2,035
	14,420	27,410

Terms and conditions

Trade creditors are non-interest bearing and are normally settled on 30 days.

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

20. Interest Bearing Loans and Borrowings

	CONSOLIDATED	
	2010	2009
	$'000	$'000
Current		
Convertible notes 6.5% 2007 – unsecured at Fair Value through Profit or Loss	**-**	**78,358**
Convertible notes 9% 2012 – unsecured at Fair Value through Profit or Loss	**22,343**	**-**
Non-current		
Convertible notes 6% 2014 – unsecured and valued at amortised cost as Other Financial Liabilities	**15,901**	-
Convertible notes 6% 2014 – embedded options valued at Fair Value through Profit or Loss	**2,402**	-
	18,303	**-**

Financing facilities available

New Loan Facility

The Group has entered into a 12 month loan facility of up to AUD $20 million with Deutsche Bank AG for general corporate purposes. The facility is secured by assets held with Deutsche Bank AG. At the date of this report no amounts are drawn under the facility.

Convertible Notes

Restructure of 6.5% Convertible Notes

On 3 July 2009, the Group entered into a transaction to convert US$1.250 million of the convertible notes in exchange for cash (US$0.625 million) and the issue for 858,535 ordinary shares in AED Oil Limited. This resulted in a valuation loss of $0.053 million.

On 16 September 2009 the Group restructured the remainder of its US$43.491 million of its 6.5% Convertible Notes via an Exchange Offer with one individual Convertible Noteholder and a formal Exchange Offer to all remaining eligible Convertible Noteholders (Noteholders'). This resulted in a valuation loss of $3.062 million.

20. Interest Bearing Loans and Borrowings (cont.)

As a result of the Exchange Offer the Convertible Notes has been extinguished in exchange for:

- A cash payment of US$21.745 million in respect of the principal;
- The issue of 911,740 new AED shares at an average share price of AUD $0.65, ranking pari passu with other fully paid ordinary AED shares. The new AED shares have been quoted on the Australian Securities Exchange; and
- The issue of US$21.218 million new 9% convertible unsecured notes due 10 July 2012. The new Convertible Notes were issued at par, interest will be paid semi-annually. Noteholders can convert their holdings into shares and from 23 February 2011 Noteholders will have the right to require the Company to redeem the note at its principal amount together with accrued interest.

On 23 February 2010 the Group redeemed for cash and cancelled its remaining outstanding US$27.509 million 6.5% Convertible Unsecured Notes ("6.5% Notes"), following receipt of redemption notices from holders. All 6.5% Notes have now been exchanged or redeemed. AED has procured the delisting of this class of securities from the official list of Singapore Exchange Securities Trading Limited. This resulted in a valuation loss of $0.836 million.

9% Convertible Notes

On 16 September 2009, the Group issued unsecured and unsubordinated convertible notes raising US$21.218 million (AUD $24.494 million). The convertible notes carry a coupon rate of 9% per annum paid semi-annually. They will mature on 10 July 2012 with an early redemption date in February 2011 at the option of the Noteholder. The convertible notes are designated as fair value through profit or loss. The classification adopted is due to the convertible notes containing multiple embedded derivatives and the designation was elected as Accounting Standards would otherwise require separate fair valuations of all the embedded derivatives.

In the period to 30 June 2010, the change in the fair value of the convertible notes from issuance date amounted to a gain of $2.152 million. The carrying value of the convertible note is equal to the fair value. (Refer further details on fair value in Note 28. On 10 July 2010, the conversion price was reset from AUD $0.77 to AUD $0.61.

6% Convertible Notes

On 19 March 2010, the Group issued an unsecured and unsubordinated convertible note issue raising US$20 million (AUD $21.703 million). The Noteholders have options to convert the notes (conversion option) to either a fixed number of shares or cash (redemption option) where the cash is the equivalent to US$190,000 less the equivalent of previously paid coupons of 6% reinvested at 18% up until the redemption date per convertible note of US$100,000 face value. They will mature on 19 March 2014. The convertible note is a hybrid instrument and has been split for accounting purposes into two parts being (i) liability at amortised cost and (ii) the options within the convertible note that meet the definition of a derivative and are assessed as not being closely related to the convertible note and are classified as derivatives at Fair Value through Profit or Loss.

The conversion option is exercisable from 19 March 2011 to maturity. The Group upon notification of such an election may settle the obligation at the cash equivalent of the fixed number of shares. The redemption option is exercisable on 19 March 2013 and 19 September 2013 and if not, is automatically redeemed under these terms at maturity.

The Group can require the Noteholders to exercise their conversion option if the closing ASX share price exceeds the conversion price (being AUD $0.668) by 140% and 180% respectively for 20 consecutive days. The Group also at its option can settle the obligation for a cash equivalent of the shares instead of a fixed number of shares.

In the period to 30 June 2010, the change in the fair value from issuance date of the conversion options amounted to a gain of $5.037 million.

21. Provisions

	CONSOLIDATED	
	2010 $'000	2009 $'000
Current liabilities – provisions		
Employee Entitlements(i)	**281**	237
Non-current liabilities:		
Provision for restoration (ii)		
At beginning of the year	**39,816**	22,932
Arising during the year and adjustments	**(1,118)**	14,709
Unwinding and discount rate adjustment	**1,808**	2,175
At end of the year	**40,506**	39,816
Employee entitlements(i)	**125**	75
Total Non-current Provisions	**40,631**	39,891

(i) Employee benefits provisions represent provision for accrued annual leave and long service leave (Note 2t).

(ii) The restoration provision represents the present value of the directors' best estimate of the future cost to remove equipment and abandon wells and to meet environmental obligations for the areas under the Group's Permit after production activities have been completed. The estimate has been based on quotes and estimates obtained from an independent well management consultant.

The present value has been calculated based on a discount rate of 4.67% (2009: 4.66%) over a period of five years representing the best estimate of when the costs are expected to be incurred.

22. Contributed Equity

	CONSOLIDATED	
	2010 $'000	2009 $'000

a. Ordinary Shares

201,321,320 fully paid ordinary shares (2009: 163,551,045)	119,590	96,755

Movement in ordinary shares on issue	**Shares No. '000**	**$'000**
At 1 July 2008	154,527	89,732
Convertible note restructure	8,759	7,051
Convertible note restructure – costs	-	(314)
Transfer from employee equity reserves (Note 24)	-	81
Exercise of share options	265	225
At 1 July 2009	163,551	96,775
Convertible note restructure (Note 20)	1,770	1,215
Additional shares issued for purchase of subsidiaries (Note 4)	36,000	21,600
As at June 2010	201,321	119,590

Fully paid ordinary shares carry one vote per share and carry the right to dividends.

22. Contributed Equity (cont.)

b. Share Options

The Company has granted options over unissued shares in the Company, each option conferring the right to subscribe for one fully paid ordinary share. The options do not confer the right to dividends or to vote at meetings of members. Shares allotted on exercise of the options will rank pari passu in all respects with other fully paid ordinary shares. Each option will entitle the holder to participate in new issues in which shares or other securities are offered to members on the prior exercise of the option.

	CONSOLIDATED	
Reconciliation of Options	**2010 No.**	2009 No.
Remuneration Options:		
Remuneration options at the beginning of the year	**3,185,000**	3,030,000
Options issued during the year	**-**	1,530,000
Options lapsed or forfeited during the year	**(1,650,000)**	(1,110,000)
Options exercised during the year	**-**	(265,000)
Total remuneration options at the end of the year (Note 25)	**1,535,000**	3,185,000

23. Retained Earnings/(Accumulated Losses)

	CONSOLIDATED	
	2010 $'000	2009 $'000
Balance at beginning of year	**83,167**	216,554
Net profit/(loss) for the year	**(11,983)**	(103,628)
Dividends paid	**-**	(30,958)
Transfer from employee equity reserves	**2,368**	1,199
Balance at end of year	**73,552**	83,167

24. Reserves

	CONSOLIDATED	
	2010 $'000	2009 $'000
Employee Equity Reserves		
As at beginning of the year	**3,172**	5,656
Share-based payment	**240**	(1,204)
Transfer to share capital	**-**	(81)
Transfer to retained earnings	**(2,368)**	(1,199)
As at end of the year	**1,044**	3,172
Foreign Currency Translation		
As at beginning of the year	**-**	-
Foreign currency translation	**2,355**	-
As at end of the year	**2,355**	-
Summary		
Employee equity reserve	**1,044**	3,172
Foreign currency translation	**2,355**	-
	3,399	3,172

Nature and Purpose of Reserves

Employee Equity Reserves

The employee equity reserves arises on the grant of share options to executives and employees under the employee share option plan. Amounts are transferred out of the reserve and into issued capital when the options are exercised, and it is transferred to retained earnings when the options lapse. Further information about share-based payments to employees is made in Note 25 to the financial statements.

Foreign Currency Translation Reserve

The foreign currency translation reserve is used to record exchange differences arising from the translation of the financial statements of foreign subsidiaries into the presentation currency of the Group.

25. Share-based Payment Plans

a. Employee Share Option Plan (ESOP)

Share options are granted to executives and employees under the ESOP. The ESOP is designed to align participants' interests with those of the shareholders by increasing the value of the Company's shares. Under the ESOP, the exercise price of the options is set at the market price of the shares on the date of the grant and may include individual performance criteria. The contractual life of each option is five years and there are no cash settlement alternatives.

The following table is a summary of options granted under ESOP:

Reconciliation of ESOP Options	**2010 No.**	**2010 WAEP**	2009 No.	2009 WAEP
Employees and executives options at the beginning of the year	**3,185,000**	**$2.24**	3,030,000	$4.65
Options issued during the year	**-**	**-**	1,530,000	$1.01
Options exercised during the year	**-**	**-**	(265,000)	$0.85
Options lapsed or forfeited during the year	**(1,650,000)**	**$2.57**	(1,110,000)	$6.63
Total employees and executives options at the end of the year	**1,535,000**	**$1.90**	3,185,000	$2.24

The outstanding balance as at 30 June 2010 is represented by:

- 255,000 options over ordinary shares with a weighted average exercise price of $6.35 each, exercisable immediately, with average contractual life of 2.40 years; and
- 1,280,000 options over ordinary shares with a weighted average exercise price of $1.01 each, exercisable upon completion of performance hurdles, with average contractual life of 4.00 years.

The range of exercise prices for options outstanding at the end of the year was $1.01-$8.40 (2009: $0.85-$9.43).

No options were issued this year. The weighted average fair value of options granted during 2009 was $0.32.

The weighted average remaining life for the share options outstanding as at 30 June 2010 was 3.74 years (2009: 3.59 years)

b. Summary of ESOP Option Valuation Model

No options were issued during the year.

The following table lists the inputs to the model used for options granted during the year ended 30 June 2009:

	2009
Dividend yield (%)	-
Weighted average expected volatility (%)	81.0
Weighted average risk free interest rate (%)	5.22
Expected life of options (years)	2.5
Weighted average option exercise price ($)	1.01
Weighted average share price at grant date ($)	0.76
Model used	Binomial

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.

26. Auditors Remuneration

	CONSOLIDATED	
	2010	2009
	$	$
The auditor of AED Oil Limited is Ernst & Young		
Amounts received or due and receivable by Ernst & Young for:		
• An audit or review of the financial report of the entity	**288,400**	233,300
• Audit or review – prior year	**88,060**	56,000
• Other services in relation to the entity		
• Taxation Services	**87,520**	80,000
• Assurance related and due diligence services	**44,805**	-
	508,785	369,300

27. Commitments and Contingencies

a. Operating lease commitments – Company as lessee

The Company entered into new commercial leases on the premises at Level 20, 8 Exhibition Street in June 2009 which expires October 2012. There are no restrictions placed upon the lessee by entering into these leases.

Future minimum rentals payable under non-cancellable operating leases as at 30 June 2010 are as follows:

	CONSOLIDATED	
	2010	2009
	$'000	$'000
Within one year	**167**	147
After one year but not more than five years	**229**	397
More than five years	**-**	-
	396	544

Puffin Joint Venture Commitments

SIPC and AED Oil Limited have entered into an unincorporated joint venture (Note 17(b)). The commitments disclosed below represent AED Oil Limited's 40% share.

Puffin FPSO Limited

The joint venture had a Charter agreement with Puffin Frontline FPSO Ltd for the supply and operation of the Front Puffin to be used as a Floating Production Storage and Offloading facility.

Future minimum rentals payable under non-cancellable operating leases as at 30 June 2010 are as follows:

	CONSOLIDATED	
	2010	2009
	$'000	$'000
Within one year(i)	**-**	32,596
After one year but not more than five years	**-**	-
More than five years	**-**	-
	-	32,596

(i) Refer to Note 27(d) for further details.

27. Commitments and Contingencies (cont.)

b. Exploration expenditure commitments

Puffin Field

Expenditure commitments being the minimum work requirements under exploration permits for petroleum. As a condition of the acquisition of the interest in AC/P22, the following work is committed to be performed:

Year	Commitment	Estimated Cost AUD $
2011	Seismic reprocessing	240,000
2011	Seismic Interpretation and mapping	60,000
2012	Seismic Interpretation and mapping	60,000
2013	Drill one well	4,000,000
2014	Permit Evaluation and review	40,000

Expenditure commitments include obligations arising from farm-in arrangements, and minimum work obligations for the initial 3 year period of exploration permits, and thereafter annually. Minimum work obligations, may, subject to negotiation and approval, be varied.

Brunei Contract Area

As at 30 June 2010, under the Production Sharing Agreement for Block L, Brunei, AED South East Asia Limited had the outstanding obligation to drill one well to 2000 metres and had otherwise met the committed minimum expenditure obligation. Following the end of the financial year, AED South East Asia Limited satisfied the final outstanding drilling obligation by drilling the Lempuyang-1 well to a depth of more than 2000 metres. As at 30 June 2010, contractual commitments entered into in regards to this drilling obligation amounted to $5.345 million. Minimum work obligations, may, subject to negotiation and approval, be varied.

Rombebai Contract Area

As at 30 June 2010, AED Rombebai BV had agreed with the relevant Indonesian governmental authority to drill one further well on the Rombebai Contract Area with no specified minimum expenditure obligation or well depth. It is currently required to full fill this obligation by November 2011. As at 30 June 2010, no contractual commitments have been entered into in regards to these work obligations. Minimum work obligations, may, subject to negotiation and approval, be varied.

South Madura Contract Area

As at 30 June 2010, AED South Madura BV had the following outstanding work obligations with no specified minimum expenditure obligation:

Year	Commitment
2010	Gigir East-1 well
	Seismic Modelling
2011	Seismic Modelling, Seismic Reprocessing and Field Mapping
2012	Prospect Portfolio Generation
	Survey Seismic 3D and Processing of 200 sq km
	Drill 2 exploration wells
2013	Drill 4 exploration wells

Following the end of the financial year, AED South Madura BV satisfied part of this obligation by drilling the Gigir East-1 well. As at 30 June 2010, contractual commitments entered into in regards to these work obligations amounted to $2.46 million. Minimum work obligations, may, subject to negotiation and approval, be varied.

c. Overriding Royalty Interest – Puffin and Talbot Field

The interests of the Group in respect of the Permit are subject to certain Overriding Royalty Interests relating to Petroleum produced from the Permit Area.

27. Commitments and Contingencies (cont.)

c. Overriding Royalty Interest – Puffin and Talbot Field (cont.)

Overriding Royalty Interests have been granted to the following parties and is payable based on the Group's share of production:

Existing Overriding Royalty Interest holder	Existing Overriding Royalty Interest %
Geoscience Works	0.25
Plexor	0.45
Westranch	1.25
Attune	1.25
Total	3.20

d. Contingencies

Legal Claims

Installation Contractor Dispute

The Company and a subsidiary (Puffin Installation Services Pte Ltd) are defendants to proceedings in the Supreme Court of Western Australia brought by its installation contractor seeking amounts alleged to be owing arising out of an installation contract of approximately US$10 million. The Company has issued proceedings in the Supreme Court of Victoria against the installation contractor, its directors, legal advisers and others for an amount substantially greater than the amount claimed by the installation contractor. Further, the Company has other claims against the installation contractor.

The Company disputes it is indebted to the installation contractor. A conditional settlement has been agreed between the parties which, if satisfied, will result in the Western Australia proceedings being discontinued and the Company receiving a payment. The terms of the conditional settlement are confidential and as such the Group is unable to quantify the amount of the conditional settlement in this report.

Puffin FPSO – Contractual Dispute

The Puffin Joint Venture is currently involved in a confidential arbitration with Puffin FPSO relating to the termination and material breaches in respect of the FPSO Charter Contract and other matters between the Puffin Joint Venture and Puffin FPSO. Puffin FPSO has claimed certain amounts (including but not limited to minimum Charter fees payable under the lease as at 30 June 2009 and described above) from the Puffin Joint Venture for alleged wrongful termination of the FPSO Charter Contract and further amounts in respect of invoices alleged not to have been paid by the Puffin Joint Venture. These amounts are disputed by the Puffin Joint Venture. The Puffin Joint Venture has also claimed certain amounts in respect of alleged overpayments made to Puffin FPSO under the FPSO Charter Contract and intends to make further claims for additional amounts from Puffin FPSO.

In addition, in August 2009 proceedings were commenced in the Supreme Court of Victoria in relation to amounts claimed by Puffin FPSO from the Puffin Joint Venture under a tax indemnity and associated company guarantee and charge, and in relation to other amounts claimed by Puffin FPSO under the FPSO Charter Contract. The enforceability of the tax indemnity and the rights to enforce the guarantee and charge, and the rights to other amounts under the FPSO Charter Contract, are all in dispute. The Supreme Court granted an injunction in favour of the Group to restrain Puffin FPSO from enforcing its rights under the charge.

The Group contended that the various disputes between the parties and raised in the Supreme Court proceedings should be referred to arbitration as required by the agreed dispute resolution processes in the FPSO Charter Contract. Puffin FPSO disputed this. This point was subsequently the subject of an appeal made by the Group to the Court of Appeal which was heard in January 2010.

On 5 March 2010, the Group received judgment from the Court of Appeal which was in favour of the Group and had the effect that all matters in relation to this dispute were referred to arbitration. That arbitration has not yet commenced and is currently scheduled to commence in late 2010. The injunction restraining Puffin FPSO from enforcing its rights under the charge remains in force.

The Puffin Joint Venture has lodged a cash deposit with the Supreme Court (refer note 10) in respect of a GST refund dispute. This deposit is expected to be released shortly as a result of finalisation of the GST refund dispute which has been received. Refer Note 5(j). No amount has been recognised in the financial statements with respect to this matter.

27. Commitments and Contingencies (cont.)

e. Guarantees

A guarantee for $8,018,000 was provided in relation to the drilling campaign in Brunei. This guarantee expired subsequent to year end.

28. Financial Instruments

Financial Risk Management Objectives and Policies

The Group's principal financial instruments at year end comprise cash, short-term deposits, fixed rate and floating notes, receivables, payables and convertible notes. It is, and has been throughout the year, the Group's policy that no trading in financial instruments shall be undertaken. The use of financial derivatives requires approval by the board of directors.

The main risks arising from the Group's financial instruments are foreign currency risk, credit risk, liquidity risk, interest rate risk and quoted exchange risk. The group uses different methods to measure and manage different types of risks to which it is exposed. Key risk exposures and responses are noted below.

28. Financial Instruments (cont.)

Financial Risk Management Objectives and Policies (cont.)

The accounting classification of each category of financial instruments and their carrying amounts are set out below.

30 June 2010	Note	Loans & Receivables $'000	Cash and Cash Equivalents $'000	Designated at FVTPL $'000	Financial Liabilities Measured at Amortised Cost $'000	Total Carrying Amount $'000
CONSOLIDATED						
Financial Assets						
Cash and cash equivalents	9	-	23,991	-	-	23,991
Other financial assets	10	40,605	-	-	-	40,605
Trade and other receivables	11	5,462	-	-	-	5,462
Financial Liabilities						
Trade creditors	19	-	-	-	(8,072)	(8,072)
Accruals	19	-	-	-	(4,895)	(4,895)
Convertible note interest	19	-	-	(1,058)	(395)	(1,453)
Convertible note	20	-	-	(24,745)	(15,901)	(40,646)
		46,067	23,991	(25,803)	(29,263)	14,992

30 June 2009	Note	Loans & Receivables $'000	Cash and Cash Equivalents $'000	Designated at FVTPL $'000	Financial Liabilities measured at amortised cost $'000	Total carrying amount $'000
CONSOLIDATED						
Financial Assets						
Cash and cash equivalents	9	-	88,646	-	-	88,646
Other financial assets	10	17,066	-	-	-	17,066
Trade and other receivables	11	2,035	-	-	-	2,035
Financial Liabilities						
Trade creditors	19	-	-	-	(8,367)	(8,367)
Accruals	19	-	-	-	(17,008)	(17,008)
Convertible Notes interest	19	-	-	-	(2,035)	(2,035)
Convertible Notes	20	-	-	(78,358)	-	(78,358)
		19,101	88,646	(78,358)	(27,410)	(1,979)

Foreign Exchange Rate Risk

The Group is exposed to foreign currency risk on sales, purchases, cash, accounts receivable, accounts payable and convertible notes.

The majority of the Group's net cash flows from business operations are denominated in USD and, as a result, the Group has a natural position in USD. The foreign exchange exposure arising from financial instruments is considered in the context of the underlying natural exposure of the group.

Where a payable is significant, US dollars are purchased on incurring the liability or commitment.

28. Financial Instruments (cont.)

Foreign Exchange Rate Risk (cont.)

The carrying amount of the Group's foreign currency denominated monetary assets and monetary liabilities at the reporting date is as follows:

	CONSOLIDATED	
	2010 **$'000**	2009 $'000
Assets		
Cash and cash equivalents	**13,941**	7,042
Trade receivables	**1,894**	-
	15,835	7,042
Liabilities		
Trade payables and accruals	**(8,457)**	(16,414)
Convertible note and interest accrual	**(42,099)**	(80,393)
	(50,556)	(96,807)
	(34,721)	(89,765)

Sensitivity analysis

Taking into account past performance, future expectations, economic forecasts, and management's knowledge and experience of the financial markets, the table below shows the impact on profit or loss if the Australian dollar exchange rate against the US dollar exchange rate moved by +10%/-10% at year-end:

	CONSOLIDATED	
	2010 **$'000**	2009 $'000
Judgements of reasonably possible movements		
Impact on post tax profit		
AUD/USD +10%	2,851	7,741
AUD/USD -10%	(2,851)	(7,741)

There is no impact on equity other than the impact of the above post tax profit sensitivities would have on retained earnings.

Concentration of credit risk

Cash and Cash Equivalents

The Group formulated an appropriate investment strategy the management of cash and short term deposits, including approval of appropriate counterparty limits and credit ratings, and as a result the concentration risk has been effectively managed and reduced.

28. Financial Instruments (cont.)

Liquidity Risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Company's objective is to maintain a balance between continuity of funding and flexibility through the use of debt facilities.

The Groups approach to managing liquidity risk is to ensure, as far as possible, that it will always have sufficient liquidity to meet its obligations when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

Ultimate responsibility for liquidity risk management rests with the board of directors, who have built an appropriate liquidity risk management framework for the management of the Group's short, medium and long-term funding and liquidity management requirements. The Group manages liquidity risk by adopting policies and negotiating facilities to meet ongoing operational requirements, exploration and development commitments and ad-hoc projects that may arise. The need for available funds is monitored through the preparation and maintenance of future rolling cash flow forecasts.

The following table illustrates management's expectation on the financial assets and financial liability's contractual maturity:

Year ended 30 June 2010	<1 month $'000	>1 ≤ 3 months $'000	>3 ≤ 12 months $'000	>1 ≤ 5 years $'000	> 5 years $'000
CONSOLIDATED					
Financial assets					
Cash and cash equivalents	23,991	-	-	-	-
Other financial assets	40,605	-	-	-	-
Trade and other receivables[(i)]	5,462	-	-	-	
	70,058	-	-	-	-
Financial liabilities					
Trade and other payables	(8,072)	(4,895)	-	-	-
Convertible Note Interest	(1,120)	(704)	(1,824)	(2,815)	-
Convertible Note [(ii)]	-	-	(24,894)	(32,555)	-
	(9,192)	(5,599)	(26,718)	(35,370)	-
Net maturity	60,866	(5,599)	(26,718)	(35,370)	-

(i) There were no assets that are past due but not impaired at 30 June 2010.
(ii) The contractual maturity value of the convertible note equals its redemption value at the first optional maturity date assuming that the Convertible Notes are not converted to shares.

The following table illustrates management's expectation on the financial assets and financial liability's contractual maturity:

Year ended 30 June 2009	<1 month $'000	>1 ≤ 3 months $'000	>3 ≤ 12 months $'000	>1 ≤ 5 years $'000	> 5 years $'000
CONSOLIDATED					
Financial assets				-	-
Cash and cash equivalents	73,287	6,359	9,000	-	-
Other financial assets	17,066	-	-	-	
Trade and other receivables	2,035	-	-		
	92,388	6,359	9,000	-	-
Financial liabilities					
Trade and other payables	(8,367)	(17,008)	-	-	-
Convertible note Interest	-	(2,894)	(2,894)	-	-
Convertible note	-	-	(89,041)	-	-
	(8,367)	(19,902)	(91,935)	-	-
Net maturity	84,021	(13,543)	(82,935)	-	-

28. Financial Instruments (cont.)

Interest Rate Risk

The Group's exposure to the risk of changes in market interest rates related to the Group's cash and cash equivalents with a floating interest rate. Short term deposits are made for varying periods of between one and three months, depending on the immediate cash requirements of the Group, and earn interest at the respective short term deposit rates.

At reporting date, the Group had the following mix of financial assets and liabilities exposed to Australian and US variable interest rate risks that are not designated in cash flow hedges:

	CONSOLIDATED	
	2010 $'000	2009 $'000
Cash and cash equivalents	**23,991**	88,646
Other financial assets	**40,605**	17,066
Net exposure	**64,596**	105,712

Sensitivity analysis

Taking into account past performance, future expectations, economic forecasts, and management's knowledge and experience of the financial markets, the Group believes the impact on profit or loss and the impact on equity in the following table are 'reasonably possible' over the next 12 months if interest rates had changed by +/- 1% from the year-end rates with all other variables including foreign exchange rates held constant:

	CONSOLIDATED	
	2010 $'000	2009 $'000
Impact on post tax profit		
+ 1% (100 basis points)	452	740
- 1% (100 basis points)	(452)	(740)

There is no impact on equity other than the impact the above post tax profit sensitivities would have on retained earnings. Sensitivity of the 2012 Convertible Note is included under Quoted Exchange Risk.

Share Price Risk

The Group's exposure to the risk of changes in its own share price is related to the Group's convertible note issues.

Sensitivity Analysis

The Group has applied a sensitivity of movement in the share price based on movements over the last financial year.

	CONSOLIDATED	
	2010 $'000	2009 $'000
Impact on post tax profit		
+ 58% share price 2014 Convertible Note Embedded Option	**(3,423)**	-
- 58% share price 2014 Convertible Note Embedded Option	**1,681**	-

There is no impact on equity other than the impact the above post tax profit sensitivities would have on retained earnings. Sensitivity of the 2012 Convertible Note is included under Quoted Exchange Risk.

28. Financial Instruments (cont.)

Quoted Exchange Risk

The Group's 2012 convertible notes are designated as fair value through profit or loss and are stated at fair value, with any resultant gain or loss recognised in profit or loss. The fair value is determined by reference to a quoted market price.

The Group's profit or loss is therefore exposed to movements in the fair value of convertible notes arising from changes in the price quoted on the Singapore Exchange.

Sensitivity analysis

Taking into account past performance, future expectations, economic forecasts, and management's knowledge and experience of the financial markets, the table below shows the impact on profit or loss in the following table if the quoted price of the convertible notes moved by +10%/-10% at year-end:

	CONSOLIDATED	
	2010 $'000	2009 $'000
Impact on post tax profit		
+ 10% quoted price movement	**(1,638)**	(5,585)
- 10% quoted price movement	**1,638**	5,485

There is no impact on equity other than the impact the above post tax profit sensitivities would have on retained earnings. The 2014 convertible note is not included in this table as it not listed and quoted on an exchange.

Fair Values

Convertible Notes: The fair value of the 2007 and 2012 convertible notes is based on market price as listed and quoted on the official list of Singapore Exchange Securities Trading Limited.

	CONSOLIDATED
	$'000
2007 Convertible Note 6.5%	
Fair value at 30 June 2008	**83,004**
Changes in fair value attributable to:	
Foreign Exchange Risk	**16,687**
Credit Risk	**(24,792)**
Market Risk	**17,262**
Buy Back of Convertible Notes	**(13,803)**
Fair value at 30 June 2009	**78,358**
Fair value at 30 June 2009	**78,358**
Changes in fair value attributable to:	
Foreign Exchange Risk	**(9,403)**
Credit Risk	**21,999**
Market Risk	**(12,598)**
Fair value at 15 September 2009	**78,356**
Buy Back of Convertible Notes	**(78,356)**
Fair value at 30 June 2010	**-**

28. Financial Instruments (cont.)

Fair Values (cont.)

	CONSOLIDATED
	$'000
2012 Convertible Note 9%	
Fair value at inception	**24,494**
Changes in fair value attributable to:	
Foreign Exchange Risk	**585**
Credit Risk	**(6,971)**
Market Risk	**4,235**
Fair value at 30 June 2010	**22,343**

The above table reflects the change in fair value of the convertible bonds. This has been split between changes due to credit risk and market risk. The Company estimates changes in fair value due to credit risk by estimating the amount of change in the fair value that is not due to changes in market conditions that give rise to market risk.

The carrying values of all financial instruments reflect their approximate fair value, except for the 2014 convertible note component that is classified as other financial liabilities (Fair Value AUD $18.204 million determined in accordance with a Level 2 Fair Value disclosure and Carrying Value AUD $15.901 million). The methods for estimating fair value are outlined in the relevant notes to the financial statements.

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value in the statement of financial position, grouped into levels 1 to 3 based on the extent to which fair value is observable:

Level 1: Fair Value Measurements are those derived from quote prices (unadjusted) in active markets for identical assets or liabilities.
Level 2: Fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices).
Level 3: Fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	2010 AUD $'000		
Financial Instrument at Fair Value	Level 1	Level 2	Level 3
2012 Convertible Note	-	(22,343)	-
2014 Convertible Note Option	-	(2,402)	-

Capital Management

The Group manages its capital to ensure the Group will be able to continue as a going concern while maximising the return to stakeholders through optimization of the debt and equity balance.

The Group manages this by maintaining adequate cash and other financial asset balances, banking facilities and convertible notes as required and monitoring its future rolling cash flows by running long term forecasts and reviewing appropriate capital structures for expected future operations and developments. The Group is not subject to any externally imposed capital requirements.

29. Key Management Personnel

Details of Key Management Personnel

The Directors and other members of key management personnel of the Group during the year were:

Directors

David Dix	Chairman & Chief Executive Officer (Executive)
Pedro De Souza	Managing Director (Executive) (resigned 18 September 2010)
Barry McGuiness	Director (Non-Executive)
John Branson	Director (Non-Executive)
Richard Price	Director (Non-Executive)
John Imle	Director (Non-Executive) (appointed 16 April 2010)
Tim Baldwin	Director (Non-Executive) (appointed 16 April 2010)

Executives

Richard Little	Chief Financial Officer and Country Manager Indonesia
Trevor Slater	Company Secretary and Country Manager Brunei
John Fear	Chief Operating Officer (resigned 31 March 2010)

Compensation of Key Management Personnel

The aggregate compensation made to key management personnel of the Group and the Company is set out below:

	CONSOLIDATED	
	2010 **$**	2009 $
Short-Term	**2,248,764**	2,030,000
Post Employment	**238,600**	243,600
Other Long-Term	**22,253**	17,376
Share-based Payment	**187,610**	-
	2,697,227	2,290,676

Contract for Services

The Company has entered into employment contracts with the Executives. Employment contracts with executive directors and senior management do not include a specified term. In specified circumstances justifying summary dismissal, the Company may terminate the agreement immediately without notice. In all circumstances, the Company may terminate the agreement by giving the employee three months notice or payment in lieu of notice. The Employee may terminate the agreement by giving the Company three months notice in writing.

On termination on notice by the Company, any Options that have vested, or that will vest during the notice period, will be released. Options that have not yet vested will be forfeited.

29. Key Management Personnel (cont.)

Table 1: Option holdings of Key Management Personnel

30 June 2010		Balance at beginning of period 1 July 2009	Granted as Remuneration	Options Exercised	Options Lapsed	Net Change Other	Balance at end of period 30 June 2010	At 30 June 2010	
								Total Exercisable	Not Exercisable
Directors									
David Dix Chairman and CEO	Direct	-	-	-	-	-	-	-	-
	Indirect	-	-	-	-	-	-	-	-
Pedro De Souza[(3)] Managing Director	Direct	500,000	-	-	-	-	500,000	-	500,000
	Indirect	-	-	-	-	-	-	-	-
Barry McGuiness Non-Executive Director	Direct	-	-	-	-	-	-	-	-
	Indirect	-	-	-	-	-	-	-	-
John Branson Non-Executive Director	Direct	-	-	-	-	-	-	-	-
	Indirect	-	-	-	-	-	-	-	-
Richard Price Non-Executive Director	Direct	-	-	-	-	-	-	-	-
	Indirect	-	-	-	-	-	-	-	-
John Imle[(2)] Non-Executive Director	Direct	-	-	-	-	-	-	-	-
	Indirect	-	-	-	-	-	-	-	-
Tim Baldwin[(2)] Non-Executive Director	Direct	-	-	-	-	-	-	-	-
	Indirect	-	-	-	-	-	-	-	-
Executives									
John Fear [(1)] Chief Operating Officer	Direct	400,000	-	-	(400,000)	-	-	-	-
	Indirect	-	-	-	-	-	-	-	-
Richard Little Chief Financial Officer	Direct	400,000	-	-	-	-	400,000	150,000	250,000
	Indirect	-	-	-	-	-	-	-	-
Trevor Slater Company Secretary	Direct	800,000	-	-	(500,000)	-	300,000	50,000	250,000
	Indirect	-	-	-	-	-	-	-	-
Total	Direct	2,100,000	-	-	(900,000)	-	1,200,000	200,000	1,000,000
	Indirect	-	-	-	-	-	-	-	-

(1) John Fear was appointed Chief Operating Officer on 25 July 2008 and resigned on 31 March 2010.
(2) Appointed a Director on 16 April 2010.
(3) Pedro De Souza was appointed on 30 June 2009 and resigned 18 September 2010.

29. Key Management Personnel (cont.)

Table 2: Option holdings of Key Management Personnel

30 June 2009		Balance at beginning of period 1 July 2008	Granted as Remuneration	Options Exercised	Net Change Other	Balance at end of period 30 June 2009	At 30 June 2009 Total Exercisable	At 30 June 2009 Not Exercisable
Directors								
David Dix Chairman and CEO	Direct	-	-	-	-	-	-	-
	Indirect	-	-	-	-	-	-	-
Pedro De Souza[(2)] Managing Director	Direct	-	500,000	-	-	500,000	-	500,000
	Indirect	-	-	-	-	-	-	-
Barry McGuiness Non – Executive Director	Direct	-	-	-	-	-	-	-
	Indirect	-	-	-	-	-	-	-
John Branson Non – Executive Director	Direct	-	-	-	-	-	-	-
	Indirect	250,000	-	(250,000)	-	-	-	-
Richard Price Non – Executive Director	Direct	-	-	-	-	-	-	-
	Indirect	-	-	-	-	-	-	-
Executives								
John Fear[(1)] Chief Operating Officer	Direct	150,000	250,000	-	-	400,000	150,000	250,000
	Indirect	-	-	-	-	-	-	-
Richard Little Chief Financial Officer	Direct	150,000	250,000	-	-	400,000	150,000	250,000
	Indirect	-	-	-	-	-	-	-
Trevor Slater Company Secretary	Direct	550,000	250,000		-	800,000	550,000	250,000
	Indirect	-	-	-	-	-	-	-
Total	Direct	850,000	1,250,000	-	-	2,100,000	850,000	1,250,000
	Indirect	250,000	-	(250,000)	-	-	-	-

(1) John Fear was appointed Chief Operating Officer on 25 July 2008. The opening balance represents the option holding at that date of appointment.
(2) Pedro De Souza was appointed on 30 June 2009 and resigned 18 September 2010.

29. Key Management Personnel (cont.)

Table 3: Shareholdings of Key Management Personnel (Consolidated)

30 June 2010		Balance 1 July 2009 Ordinary Shares	Granted as Remuneration Ordinary Shares	On Exercise of Options Ordinary Shares	Net Change Other Ordinary Shares	Balance 30 June 2010 Ordinary Shares
Directors						
David Dix	Direct	1,200,000	-	-	(200,000)	1,000,000
Chairman and CEO	Indirect	36,358,613	-	-	550,000	36,908,613
Pedro De Souza[(2)]	Direct	-	-	-	-	-
Managing Director	Indirect	-	-	-	30,000	30,000
Barry McGuiness	Direct	-	-	-	-	-
Non – Executive Director	Indirect	280,000	-	-	10,000	290,000
John Branson	Direct	-	-	-	-	-
Non – Executive Director	Indirect	270,000	-	-	-	270,000
Richard Price	Direct	-	-	-	-	-
Non – Executive Director	Indirect	3,092,102	-	-	-	3,092,102
John Imle[(1)]	Direct	-	-	-	-	-
Non – Executive Director	Indirect	-	-	-	-	-
Tim Baldwin[(1)]	Direct	-	-	-	-	-
Non – Executive Director	Indirect	-	-	-	-	-
Executives						
John Fear[(3)]	Direct	-	-	-	-	-
Chief Operating Officer	Indirect	2,480	-	-	(2,480)	-
Richard Little	Direct	-	-	-	-	-
Chief Financial Officer	Indirect	5,000	-	-	-	5,000
Trevor Slater	Direct	700,000	-	-	-	700,000
Company Secretary	Indirect	-	-	-	-	-
Total	Direct	1,900,000	-	-	(200,000)	1,700,000
	Indirect	40,008,195	-	-	587,520	40,595,715

The Company has not issued any Preference Shares.

(1) Appointed a Director on 16 April 2010.
(2) Pedro De Souza was appointed on 30 June 2009 and resigned 18 September 2010.
(3) John Fear was appointed Chief Operating Officer on 25 July 2008 and resigned on 31 March 2010.

29. Key Management Personnel (cont.)

Table 4: Shareholdings of Key Management Personnel (Consolidated)

30 June 2009		Balance 1 July 2008 Ordinary Shares	Granted as Remuneration Ordinary Shares	On Exercise of Options Ordinary Shares	Net Change Other Ordinary Shares	Balance 30 June 2009 Ordinary Shares
Directors						
David Dix Chairman and CEO	Direct	1,000,000	-	-	200,000	1,200,000
	Indirect	36,558,613	-	-	(200,000)	36,358,613
Pedro De Souza[(1)] Managing Director	Direct	-	-	-	-	-
	Indirect	-	-	-	-	-
Barry McGuiness Non – Executive Director	Direct	-	-	-	-	-
	Indirect	280,000	-	-	-	280,000
John Branson Non – Executive Director	Direct	-	-	-	-	-
	Indirect	20,000	-	250,000	-	270,000
Richard Price Non – Executive Director	Direct	-	-	-	-	-
	Indirect	3,092,102	-	-	-	3,092,102
Executives						
John Fear[(2)] Chief Operating Officer	Direct	-	-	-	-	-
	Indirect	2,480	-	-	-	2,480
Richard Little Chief Financial Officer	Direct	-	-	-	-	-
	Indirect	5,000	-	-	-	5,000
Trevor Slater Company Secretary	Direct	700,000	-	-	-	700,000
	Indirect	-	-	-	-	-
Total	Direct	1,700,000	-	-	200,000	1,900,000
	Indirect	39,958,195	-	250,000	(200,000)	40,008,195

The Company has not issued any Preference Shares.

(1) Pedro De Souza was appointed on 30 June 2009 and resigned 18 September 2010

(2) John Fear was appointed Chief Operating Officer on 25 July 2008 and resigned on 31 March 2010.

30. Related Party Disclosure

Director Related Entities

During the year, the Company paid Macquarie Capital Advisors Limited on normal commercial terms and conditions $202,636 for advice in respect of the agreement for a potential 50% interest in Longtom Gas Project which did not proceed. In 2009, $6,606,693 was paid on the completion of the sale of 60% of AED Oil Limited's interest in the Puffin and Talbot Field assets. Richard Price is an executive director within Macquarie Capital Advisers.

Ultimate Parent

AED Oil Limited is the ultimate parent company.

31. Significant Events after the Balance Date

AED South East Asia Limited (a wholly owned subsidiary of AED), and its joint venture partners in Block L, Brunei Darussalam, (together the "**Block L Joint JV**") have elected to proceed with the Phase 2 exploration program for Block L, Brunei Darussalam. Phase 2 consists of a two year exploration period commencing on 28 August, 2010 and the minimum work obligations are:

1. acquire and process at least 500 kilometres of onshore 2D seismic data and 500 kilometres of offshore 2D seismic data;
2. acquire and process at least 150 square kilometres of offshore 3D seismic data or the dollar equivalent amount of 2D seismic data; and
3. drill two onshore exploration wells, each to a minimum depth of 2,000 metres.

The Block L JV is obligated to expend a minimum of US $16 million during Phase 2 (100%; AED's share being US$ 8 million).

The new 9% US$21.2 million convertible note, subsequent to year end, had its conversion price reset to A$0.61.

There has not been any other matter or circumstances occurring subsequent to the end of the financial year that has significantly affected, or may significantly affect, the operations of the consolidated entity, the results of those operations, or the state of affairs of the consolidated entity in future financial years.

Directors' Declaration

In accordance with a resolution of the Directors of AED Oil Limited, I state that:

In the opinion of the Directors:

1. (a) The financial statements, notes and the additional disclosures included in the Directors' Report designated as audited, of the consolidated entity are in accordance with the *Corporations Act 2001*, including:
    i. Giving a true and fair view of the consolidated entity's financial position as at 30 June 2010 and its performance for the period ended on that date; and
    ii. Complying with Accounting Standards and Corporations Regulations 2001;

   (b) The financial statements and notes also comply with International Financial Reporting Standards as disclosed in Note 2; and

   (c) There are reasonable grounds to believe that the consolidated entity will be able to pay its debts as and when they become due and payable.

2. The declaration has been made after receiving the declarations required to be made to the Directors in accordance with section 295A of *Corporations Act 2001* for the financial year ended 30 June 2010.

On behalf of the Board

David Russell Dix
Director

Melbourne 23 September 2010

Ernst & Young Building
8 Exhibition Street
Melbourne VIC 3000 Australia
GPO Box 67 Melbourne VIC 3001

Tel: +61 3 9288 8000
Fax: +61 3 8650 7777
www.ey.com/au

Independent auditor's report to the members of AED Oil Limited

Report on the Financial Report

We have audited the accompanying financial report of AED Oil Limited, which comprises the consolidated statement of financial position as at 30 June 2010, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with the Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 2, the directors also state that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Auditor's Responsibility

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

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

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

Independence

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

ERNST & YOUNG

Auditor's Opinion

In our opinion:

1. the financial report of AED Oil Limited is in accordance with the *Corporations Act 2001*, including:

   i giving a true and fair view of the consolidated entity's financial position at 30 June 2010 and of its performance for the year ended on that date; and

   ii complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*.

2. the financial report also complies with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Uncertainty Regarding Continuation as a Going Concern

Without qualification to the opinion expressed above, attention is drawn to the following matter. As indicated in Note 2(f) "Going Concern" to the financial report, the Directors of AED Oil Limited are of the opinion that the consolidated entity has the ability to appropriately resolve the dispute under the FPSO Charter Contract in an acceptable timeframe in addition to the ability to raise capital or successfully pursue other capital management alternatives as required.

If that dispute is not appropriately resolved in an acceptable timeframe or if the consolidated entity does not raise capital or successfully pursue other capital management alternatives as required, there is a material uncertainty as to whether the consolidated entity will be able to continue as a going concern and therefore whether it will be able to realise its assets and extinguish its liabilities in the normal course of business at the amounts stated in the financial report. The financial report does not include any adjustments relating to the recoverability and classification of recorded asset amounts or to the amounts and classification of liabilities that might be necessary should the consolidated entity not be able to continue as a going concern.

Report on the Remuneration Report

We have audited the Remuneration Report included in pages 11 to 15 of the directors' report for the year ended 30 June 2010. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Auditor's Opinion

In our opinion the Remuneration Report of AED Oil Limited for the year ended 30 June 2010, complies with section 300A of the *Corporations Act 2001*.

Ernst & Young

Ernst & Young

Michael Collins
Partner
Melbourne
23 September 2010

COMPILED AS AT 17 SEPTEMBER 2010

Number of Equity Holders

Ordinary Share Capital

201,321,320 paid ordinary shares are held by 7,520 individual shareholders.

Voting Rights

At meetings of members or classes of members:

- each member entitled to vote may vote in person or by proxy, attorney or representative;
- on a show of hands, every person present who is a member or a proxy, attorney or representative of a member has one vote;
- on a poll, every person present who is a member or a proxy, attorney or representative of a member has:
    - for each fully paid share held by him, or in respect of which he is appointed a proxy, attorney or representative, one vote for the share;
    - for each partly paid share; only the fraction of one vote which the amount paid (not credited) on the share bears to the total amounts paid and payable on the share (excluding amounts credited); and
- subject to any rights or restrictions attached to any shares or class or classes of shares.

Distribution of Ordinary Shares

Number of members by size of holding and total number of shares on issue:

Ordinary Shares	No. of Holders	Securities	% Issued Capital
1 – 1,000	2,050	1,257,823	0.63
1,001 – 5,000	3,004	8,495,601	4.22
5,001 – 10,000	1,077	8,622,847	4.28
10,001 – 100,000	1,277	37,006,298	18.38
100,001 and over	112	145,938,751	72.49
TOTAL	7,520	201,321,320	100.00

Unmarketable parcels

The number of security investors holding less than a marketable parcel on 17 September 2010 is 1,437 and they hold 644,956 securities.

Substantial Shareholders

	Shares	%
UBS Wealth Management Australia Nominees Pty Ltd	40,326,962	20.03
Nations Petroleum Company Limited	36,000,000	17.88
Winlen Pty Ltd – Tregonning 888 A/C	11,765,068	5.84
Winlen Pty Limited	11,445,269	5.69
	99,537,299	49.44

COMPILED AS AT 17 SEPTEMBER 2010

The 20 Largest Holders of Ordinary Shares	Shares	%
UBS Wealth Management Australia Nominees Pty Ltd	40,326,962	20.03%
Nations Petroleum Company Ltd	36,000,000	17.88%
Winlen Pty Ltd – Tregonning 888 A/C	11,765,068	5.84%
Winlen Pty Limited	11,445,269	5.69%
National Nominees Limited	3,058,820	1.52%
HSBC Custody Nominees (Australia) Limited	2,375,446	1.18%
Wise Plan Pty Ltd	2,357,102	1.17%
Citicorp Nominees Pty Limited	2,335,329	1.16%
J P Morgan Nominees Australia Limited	1,674,541	0.83%
Mr Thomas Iovino	1,673,638	0.83%
Dansar Pty Ltd	1,538,521	0.76%
Slab-O-Beer Pty Ltd	1,500,000	0.75%
Ms Catherine Eve Price	1,421,051	0.71%
Capro Pty Ltd	1,421,051	0.71%
HSBC Custody Nominees (Australia) Limited – A/C 3	1,400,001	0.70%
JP Morgan Nominees Australia Limited	1,337,405	0.66%
HSBC Custody Nominees (Australia) Limited	1,204,499	0.60%
Mr Kenneth Tregonning	1,000,000	0.50%
Mr David Russell Dix	1,000,000	0.50%
ANZ Nominees Limited	893,594	0.44%
	125,728,297	**62.45%**

Option Holders	Options	%
Options issued under the AED Oil limited Employee Option Plan	1,535,000	100.00

Schedule of Interests in Mining Tenements and Production Sharing Contracts

Location	Tenement/PSC	%
Ashmore Cartier Reef, Timor Sea, Australia	AC/P22	40
Talbot, Australia	ACR/L1	40
Ashmore Cartier Reef, Timor Sea, Australia	AC/L6 *	40
Brunei Darussalam	Block L	50
Madura Island, Indonesia	South Madura	60
Papua, Indonesia	Rombebai	100

* AC/L6 is a production license contained within the AC/P22 area