ADELAIDE
ENERGY
LIMITED

# Annual Report 2010

ADELAIDE ENERGY LIMITED

ACN 116 256 823



www.adelaideenergy.com.au

ADELAIDE
ENERGY
LIMITED



## CORPORATE DIRECTORY

### DIRECTORS

**Mr Neville Martin**
Non Executive Chairman

**Mr Carl Dorsch**
Managing Director

**Mr Roderic Hollingsworth**
Non Executive Director

**Mr Peter Hunt**
Non Executive Director

**Company Secretary**
Rajita Alwis

**Personnel**
Neil Young, *Chief Commercial Officer*
Dounia Clarke, *Engineering Manager*
Joanna Trepa, *Financial Controller*
Russell Campbell, *Field Superintendent*
Simon Mooney, *Production Operator – Katnook*
Robert Thompson, *Production Operator – Katnook*

**Registered Office**
Level 5, 70 Pirie Street
ADELAIDE, SA 5000
Ph: 61 8 8228 5207
Fax: 61 8 8223 3235
Web: www.adelaideenergy.com.au

**Share Registry**
Computershare Investor Services Pty. Ltd.
Level 5, 115 Grenfell Street
ADELAIDE, SA 5000
Ph: (inside Australia) 1300 556 161
Ph: (outside Australia) 61 3 9615 4000

**Auditors**
Grant Thornton
Chartered Accountants
Level 1, 67 Greenhill Road
WAYVILLE, SA 5034

**Australian Securities Exchange**
The Company is listed on the
Australian Securities Exchange Limited.
The home exchange is Adelaide.

ASX Code: **ADE**

Below: Various operations in the
Otway Petroleum Project during 2010

ADELAIDE ENERGY LIMITED

# Annual Report 2010

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## CHAIRMAN'S REPORT FOR THE YEAR ENDED 30 JUNE 2010

Dear Shareholder,

I am pleased to report upon Adelaide Energy's operations and achievements for the year ended 30 June 2010.

This has been a period of significant activity by the Company, the highlights being:

- the first full year of our operation of the Katnook Gas Plant;
- the drilling of the Hollick-1 and Patrick-1 wells in the Otway Basin Petroleum Project;
- the construction and commissioning of the Katnook Pipeline System;
- the participation in the Wakefield-1 well drilled in PEL 218 in the Cooper Basin.

The operation of the Katnook Gas Plant is achieving good cash flows for the Company. The production for this period came from the existing gas fields acquired from Origin Energy in 2008 and revenue from gas/condensate sales during this period amounted to $3.17m. Since then, the Company has connected the Jacaranda Ridge-2 discovery and substantially increased the revenue stream. The cashflow for the 3 months to the end of September 2010 amounted to $1.64m (a record for quarterly revenue).

Although gas was discovered in both Hollick-1 and Patrick-1, which were drilled back to back in March and April of this year, the full extent of these discoveries remains to be ascertained. Further testing needs to be carried out and ADE is planning to complete this by early 2011.

The construction and commissioning of the Katnook Pipeline System has been accomplished on time and at a final cost of $4.54m. The pipeline system connects the Jacaranda Ridge-1 discovery to the Katnook Plant and can readily be linked to the Hollick-1 and Patrick-1 discoveries once the planned further testing takes place. The Katnook Pipeline System will enable the Company to better exploit the existing gas fields and the recent discoveries.

During this period Adelaide Energy conducted a number of capital raisings including the 2009 Share Purchase Plan, the 2010 Rights Issue and several placements to sophisticated investors. The placements included share issues to The Auckland Trust Company Limited which now holds 19.85% of the issued shares in the Company.

The ADE share price at the end of June was $0.085. Since then it has fluctuated and at the date of this report was $0.10. The Board and management believe that the current share price does not fully reflect the value of the portfolio of assets acquired by the Company and are very focused on improving that situation.

Adelaide Energy is unique amongst the ranks of junior oil & gas explorers in operating its own gas plant. The cash flow from gas and condensate production has steadily increased and provides the Company with funding to pursue other opportunities.

In addition, the Company has much to look forward to over the forthcoming year with:

- further testing to be conducted in the Hollick-1 and Patrick-1 exploration wells; and
- the commencement of the shale gas exploration venture with Beach Energy Limited in PEL 218 (ADE having a $25m gross free carried interest).

The Board will be making every effort to highlight the Company's plans and participation in these opportunities.

Finally, I would like to thank my fellow Board members, the management and our staff at the head office and at the Katnook Plant for their efforts on behalf of the Company and its shareholders.

Yours Sincerely,

**Neville Martin**
Chairman
Adelaide Energy Limited

15 October 2010

## MANAGING DIRECTOR'S REPORT FOR THE YEAR ENDED 30 JUNE 2010

**Summary**

The year ended 30 June 2010 has been one of intense activity for Adelaide Energy Ltd (ADE or the Company) across all areas of our business, as follows:

- Increasing production of gas and condensate through the Katnook gas plant.
- The installation of pipeline infrastructure to connect new wells and fields to the Katnook gas plant.
- Two exploration wells (Hollick-1 and Patrick-1) drilled in PEL 255 and one exploration well drilled in PEL 218 (Post Permian).
- The completion and testing of the Wynn-2 well in PRL 2.
- Acquisitions of more equity in existing assets (e.g. PEL 218 Post Permian) and in new exploration permits (e.g. in ATPA 855P).
- Raising equity through an SPP, placements and a rights issue.
- Developing plans to procure Australia's first Gas Storage Retention Licence, which was granted after year end.
- Progressing plans to develop a gas-fired generation facility at Katnook.

These are expanded upon below. Although not all of this activity has been immediately successful, it has placed the Company in a strong position to grow, given the following features of ADE's asset portfolio:

1. An Operator of gas production facilities, which is unusual for a small ASX company.
2. A balanced portfolio of mature producing, brownfields and exploration assets, which still have a strong focus – on onshore Australia – with both gas and liquids exposure.
3. A carried interest in Australia's foremost shale gas exploration venture.
4. Strong option value from electricity generation and gas storage projects.

Whilst focusing on maximising the potential of this existing portfolio of assets, the Company is always on the lookout for growth options and continually investigates new investment opportunities (and indeed divestments where that makes sense). The Company's key platform for growth is its core competencies across the key technical and commercial disciplines required in petroleum exploration and production, from both its permanent staff and a wide network of outside consultants.

The Company's licence portfolio as at 30 June 2010 is summarized in the table below:

| Permit | Equity | Gross km2 | Net km2 |
|---|---|---|---|
| ***Otway Basin*** | | | |
| PPL 62* | 100% | 29 | 29 |
| PPL 168* | 100% | 9 | 9 |
| PPL 202* | 100% | 2 | 2 |
| PRL 1* | 100% | 4 | 4 |
| PRL 2* | 100% | 2 | 2 |
| PRL 13* | 80% | 17 | 14 |
| PEL 255* | 100% | 37 | 37 |
| PEL 494* | 100% | 1,765 | 1,765 |
| PEL 496* | 100% | 408 | 408 |
| ***Cooper Basin*** | | | |
| PEL 218P | 10% | 1,603 | 160 |
| PEL 218PP | 20% | - | - |
| ATPA 855P | 7.5% | 1,679 | 126 |
| PEL 105* | 50% | 219 | 110 |
| ***Surat Basin*** | | | |
| ATP 904P* | 100% | 1,101 | 1,101 |
| ***Maryborough Basin*** | | | |
| ATP 613P | 25% | 621 | 155 |
| ATPA 674P | 25% | 1,554 | 389 |
| ATPA 733P | 25% | 1,321 | 330 |
| ***USA*** | | | |
| West Florence | 58% | 42 | 24 |
| | | **10,413** | **4.665** |
| ***Operatorship** | **Acres** | **2,572,011** | **1,152,212** |

## MANAGING DIRECTOR'S REPORT FOR THE YEAR ENDED 30 JUNE 2010

**The Otway Petroleum Project**

The 100% owned Otway Petroleum Project is ADE's key focus area at present. It comprises an integrated suite of production, development and exploration assets located in the on-shore Otway Basin in the South-East of South Australia. Key activities in each of these areas in the year ended 30 June 2010 was as follows:

***Production***

Revenues in the year from the sale of gas and condensate produced through the Company's Katnook Gas Plant were in excess of $3M. This was a large increase from the prior year, as new wells were brought on line whilst production continued from older wells.

Gas sales were made to Origin Energy at the exit flange of the Katnook Gas Plant, whilst condensate was trucked and sold to Shell at its Geelong refinery.

No material safety or environmental incidents arose in the course of these production activities in the year.

***Development***

The Company installed around 23 kilometres of new pipeline infrastructure in the year, connecting the Katnook Gas Plant to various ADE owned wells in the region. Gas and condensate has subsequently been produced through the new pipeline network. The Jacaranda Ridge-2 well in PEL 255 has been produced through this new pipeline under an extended production test.

Again these development activities were undertaken without any material safety or environmental incidents.

***Exploration***

In the year the Company drilled two new exploration wells (Hollick-1 and Patrick-1) in PEL 255 located some 7 kilometres to the North of the Katnook Gas Plant. The new gas pipeline network mentioned above connects PEL 255 to Katnook.

Both of these wells provided highly encouraging signs of the presence of gas during their drilling. They were subsequently completed and tested. However, their production testing performance was less than anticipated. The Company has subsequently been developing further testing and remediation plans in connection with these wells, which it intends to prosecute in fiscal year 2011.

As part of this exploration program, the Wynn-2 well, which had previously been drilled by Origin Energy some years ago, was completed and tested. Again the results were less than expected and the plans noted above will include further work on Wynn-2. Pipeline infrastructure was installed to the well as part of the Development phase noted above and so a successful testing outcome will be followed with immediate production.

Seismic was shot in the year over PELs 494 and 496. The processing and interpretation of this has yielded a number of drillable prospects. The Company is currently in discussions with a number of parties over farming-out the drilling of these prospects.

Once again, no material safety or environmental incidents occurred in these exploration activities.

***Further Developments – Otway***

The Otway Petroleum Project is well located from a broad energy market perspective, given factors such as its proximity to the national gas and electricity transmission networks.

After year end, the Company was awarded a Gas Storage Retention Licence (GSRL) for an area congruent with its petroleum production and retention licence areas. This GSRL gives the Company an initial five year period within which to determine the commercial and technical feasibility of developing a gas storage project based on the depleted and depleting reservoirs in the Katnook area. The Company has entered into discussions with a number of large energy companies with respect to potentially jointly developing or profitably selling down this gas storage project.

Katnook also has many favourable characteristics for developing a small scale electricity generation project and the Company has conducted feasibility studies and commenced FEED thereon. Plans have centred on utilising the significant but otherwise stranded $CO_2$ rich gas that remains in the Ladbroke Grove reservoir together with new gas reserves established in the region. ADE expects to reach a final investment decision over this gas fired generation plan in the current fiscal year.

**Cooper Basin Exploration**

***PEL 218 (Post Permian)***

The Wakefield-1 well was drilled in the Post Permian strata of PEL 218 during the year (ADE share – 10%). The well encountered a number of interesting oil and gas shows in the Cretaceous and Jurassic strata. The well was suspended pending decisions by the joint venture on investigating these further and new exploration activity is expected to follow in the course of the current fiscal year.

ADE subsequently acquired a further 10.05% equity stake in this section of PEL 218 as part of the acquisition of two private companies.

***PEL 218 (Permian)***

Although abnormally wet weather delayed drilling in this section of PEL 218 until after year end, substantial technical preparatory work was undertaken by the Operator of this permit (Beach Energy Limited) in connection with a major shale gas exploration program. Drilling has now commenced subsequent to year end. ADE has a 10% stake in this exciting resource play and is carried through the first $25M (gross) of expenditure thereon.

## MANAGING DIRECTOR'S REPORT FOR THE YEAR ENDED 30 JUNE 2010

***ATPA 855P***

ADE acquired a 20% interest (reducing to 7.5% under a farmout agreement with a private party) in this Queensland Cooper Basin permit in year. This permit lies immediately to the east of PEL 218 and is expected to have similar geological features.

The permit was granted after year end and exploration activity should commence thereon during the remainder of the current financial year.

***PEL 105***

ADE has secured a 50% interest in PEL 105 following the restructuring of a farmin Agreement with Austin Exploration Limited. Drilling activity on this permit was delayed by wet weather and is now expected to commence in the first half of 2011. The drilling will target an exciting oil prospect through the Pirie-1 well.

### Other Exploration Assets

***ATP 849P – Surat Basin***

A 20% interest was acquired in this coal bed methane (CBM) prospective permit in the year. Subsequently an Agreement was entered into with a Queensland Government owned corporation to sell this interest, but unfortunately all the approvals it required to finalise the deal were not obtained. ADE is currently investigating other options in connection with this asset, including retention through an upcoming CBM exploration program.

***ATP 904P – Surat Basin***

During the year ADE acquired a 100% interest in the oil interests in this permit (the gas interests are subject to a farmout arrangement) and is currently planning an exploration program to follow over the next few years.

***Maryborough Basin permits – ATP 613P, ATPA 674P and ATPA 733P***

ADE entered into a purchase Agreement with Magellan Petroleum Ltd over its 25% interest in these permits during the year. Settlement awaits closure of outstanding native title issues and final grant of the permits, which is expected shortly. These permits will be the subject of a CBM exploration program by the Operator, Blue Energy Ltd, through which ADE will be carried through the first 9 wells. ADE considers these permits also have shale gas potential, which should be the subject of a longer term exploration program.

***USA asset – West Florence***

Low level oil production continued through the year at ADE's US asset located at West Florence in Colorado. Towards the end of the year, ADE bought out some of its joint venture partners in West Florence, ultimately giving it a 58.33% share and facilitating new work on the lease with the sole remaining partner. The work has commenced subsequent to this reporting period and ADE expects it to be both rewarding in its own right in terms of increased oil production but also to enhance its attractiveness to potential buyers.

### Corporate

The activities outlined above required the investment of substantial capital, particularly given the 100% owned nature of the Otway Petroleum Project. The Company funded this expenditure through a number of equity raisings as well as its increased operating cashflows.

Through a large placement made towards the end of 2009, ADE welcomed a major new shareholder onto its register during the year and one who continues to be a strong supporter of the Company.

In 2010, the Company initiated a pro-rata rights issue to raise further equity finance. The timing of that rights issue coincided with the Federal Government's introduction of its Resource Super Profits Tax, together with market jitters over European sovereign risks. Accordingly, the issue suffered from a material shortfall, which required the Company to look to its operating cashflows to make up.

### Outlook

ADE is well placed to grow in 2011 and beyond.

Activity in the current fiscal year will focus on the PEL 218 shale gas drilling program, further testing work on the Otway Petroleum Project wells and the pursuit of the Company's other energy projects. The Company will continue its efforts on improving its deliverability of hydrocarbons within its production infrastructure with a view to maximizing its revenue stream.

Beyond that, exciting and material exploration prospects have been identified in the Company's permits in the Otway, Cooper, Surat, Maryborough and Colorado Basins, which the Company looks forward to developing.

Yours sincerely,

**Carl Dorsch**
Managing Director

## CORPORATE GOVERNANCE STATEMENT FOR THE YEAR ENDED 30 JUNE 2010

The Board of Directors of Adelaide Energy Limited has established corporate governance policies and procedures, where practicable, consistent with the revised Corporate Governance Principles and Recommendations issued by the ASX Corporate Governance Council (**ASX Recommendations**).

The following statement sets out a summary of the Company's corporate governance practices that were in place during the financial year and how those practices relate to the ASX Recommendations.

These ASX Recommendations are not intended to be prescriptions to be followed by all ASX listed companies, but rather guidelines designed to produce an effective, quality and integrity outcome. The Corporate Governance Council has recognised that a 'one size fits all' approach to Corporate Governance is not required. Instead, it states aspirations of best practice for optimising corporate performance and accountability in the interests of shareholders and the broader economy. A company may consider that a recommendation is inappropriate to its particular circumstances and has flexibility not to adopt it and explain why.

In ensuring ethical behaviour and accountability, the Board has included in its corporate governance policies those matters contained in the ASX Recommendations where applicable. However, the Board also recognises that full adoption of the above ASX Recommendations may not be practical nor provide the optimal result given the particular circumstances and structure of the Company. The Board is, nevertheless, committed to ensuring that appropriate Corporate Governance practices are in place for the proper direction and management of the Company. This statement outlines the main Corporate Governance practices of the Company disclosed under the ASX Recommendations, including those that comply with best practice and which unless otherwise disclosed, were in place during part or whole of the financial year ended 30 June 2010.

### PRINCIPLE 1 - Lay solid foundations for management and oversight

***Recommendation 1.1 – Recommendation followed***

The Board is governed by the Corporations Act 2001, ASX Listing Rules and a formal constitution adopted by the Company in 2005.

The role of the Board is to provide leadership and direction to management and to agree with management the aims, strategies and policies of the Company for the protection and enhancement of long-term shareholder value.

To fulfil this role, the Board is responsible for the overall Corporate Governance of the Company including formulating its strategic direction, approving and monitoring capital expenditure, setting remuneration, appointing, removing and creating succession policies for Directors and senior executives, establishing and monitoring the achievement of management's goals and ensuring the integrity of risk management, internal control, legal compliance, financial reporting, ethical standards and management information systems.

The Board has delegated responsibility for operation and administration of the Company to the Managing Director. This includes being responsible for the management of financial, physical and human resources, development and implementation of risk management, internal control and regulatory compliance policies and procedures, recommending strategic direction and planning for the operations of the business and the provision of relevant information to the Board. Responsibilities are delineated by formal authority delegations.

The Board has adopted a formal statement of matters reserved to it in a Board charter that details its functions and responsibilities. Details of the Board's charter is located on the Company's website www.adelaideenergy.com.au.

To assist in the execution of its responsibilities, the Board has established a number of Board committees including an Audit & Risk Committee and a Remuneration Committee. These committees have written mandates and operating procedures which are reviewed on a regular basis.

The full Board currently holds ten scheduled meetings each year, plus strategy meetings and any extraordinary meetings at such other times as may be necessary to address any specific significant matters that may arise.

The agenda for meetings is prepared in conjunction with the Chairman, Managing Director and Company Secretary. Standing items include the Managing Director's report, financial reports, strategic matters, governance and compliance. Submissions are circulated in advanced. Executives are regularly involved in Board discussions and Directors have other opportunities, including visits to business operations, for contact with a wider Group of employees.

***Recommendation 1.2 – Recommendation followed***

The Board takes overall responsibility for monitoring the composition of the Board and reviewing the performance and compensation of the Company's Executive Directors and senior management with the objective of motivating and appropriately rewarding performance.

A Remuneration Committee has been established to:

- review when required, the engagement, performance and remuneration of senior executives of the Company;
- recommend to the Board appropriate terms and conditions of engagement.

## CORPORATE GOVERNANCE STATEMENT FOR THE YEAR ENDED 30 JUNE 2010 (continued)

The Board policy is that the Remuneration Committee will comprise entirely of at least two Directors. The members of the Remuneration Committee during the year were:

- Mr. Neville Martin (Chairman of the Company)
- Mr. Roderic Hollingsworth (Non-executive Director)

The Managing Director, Mr. Carl Dorsch, is invited to Remuneration Committee meetings, as required, to discuss senior executives' performance and remuneration packages but does not attend meetings involving matters pertaining to him.

The Remuneration Committee meets once a year or as required. The committee met once during the year and committee member's attendance record is disclosed in the table of Directors' meeting as part of the Directors' report. The Remuneration Committee's Charter is available on the Company's website.

***Recommendation 1.3 – Recommendation followed***

During the year the Board considered a performance evaluation of the Managing Director. The evaluation was in accordance with the Company's process for evaluation of senior executives.

**PRINCIPLE 2 - Structure the Board to add value**

***Recommendation 2.1 – Recommendation followed***

The composition of the Board consists of four Directors of whom three are Independent Directors.

An Independent Director is a Director who is not a member of management (a Non-Executive Director) and who:

- holds less than five per cent of the voting shares of the Company and is not an officer of, or otherwise associated , directly or indirectly, with a shareholder of more than five per cent of the voting shares of the Company
- has not within the last three years been employed in an executive capacity by the Company, or been a Director after ceasing to hold any such employment
- within the last three years had not been a principal or employee of a material professional adviser or material* consultant to the Company
- is not a material* supplier or customer of the Company, or an officer or otherwise associated directly or indirectly, with a material* supplier or customer
- has no material* contractual relationship with the Company other than as a Director of the Company
- is free from any interest and any business or other relationship which could, or could reasonably be perceived to, materially interfere with the Director's ability to act in the best interests of the Company

** the Board considers, 'material', in this context, to be where any Director-related business relationship has represented, or is likely in the future to represent the lesser of at least 10 per cent of the relevant segment's or the Director-related business's revenue. The Board considered the nature of the relevant industries' competition and the size and nature of each Director-related business relationship, in arriving at this threshold.*

***Recommendation 2.2 – Recommendation followed***

The Chairman, Mr. Martin is an Independent Director.

***Recommendation 2.3 – Recommendation followed***

Mr. Martin's role as Chairman of the Board is separate from that of the Managing Director, Mr. Dorsch who is responsible for the day to day management of the Company and is in compliance with the ASX Recommendation that these roles not be exercised by the same individual.

***Recommendation 2.4 – Recommendation not followed***

The Board believes that given the size of the Company and the stage of the entity's life as a publicly listed junior oil and gas exploration company, that the cost of establishing a Nomination Committee and a formal charter as recommended under Recommendation 2.4, cannot be justified by the perceived benefits of doing so. The Company does have a process in place that addresses the issues that would otherwise be considered by a Nomination Committee.

## CORPORATE GOVERNANCE STATEMENT FOR THE YEAR ENDED 30 JUNE 2010 (continued)

***Recommendation 2.5 – Recommendation not followed***

The Board recognises that as a result of the Company's size and the stage of the entity's life as a publicly listed junior oil and gas exploration company, the assessment of the Board's overall performance and its own succession plan is conducted on an informal basis. Whilst this is at a variance with the ASX Recommendation 2.5, the Directors consider that at the date of this report an appropriate and adequate process for the evaluation of Directors is in place.

The Company has an informal process to educate new Directors about the nature of the business, current issues, the corporate strategy and the expectations of the Company concerning performance of Directors. Directors also have the opportunity to visit the company's facilities and meet with management to gain a better understanding of business operations. Directors are given access to continuing education opportunities to update and enhance their skills and knowledge.

Each Director has the right to access all relevant Company information and to the Company's executives and, subject to prior consultation with the Chairman, may seek independent professional advice from a suitably qualified adviser at the Company's expense. The Director must consult with an advisor suitably qualified in the relevant field,

and obtain the Chairman's approval on the fee payable for the advice proceeding with the consultation. A copy of the advice received by the Director is made available to all other members of the Board.

***Recommendation 2.6 – Recommendation followed***

The names of the Directors of the Company and terms in office at the date of this Statement together with their skills, experience, expertise and financial interests in the Company are set out in the Directors' Report section of this report.

Messrs Martin, Hollingsworth and Hunt are considered to be independent.

The Company has no relationships with any of the independent Directors which the Company believes would compromise the independence of these Directors.

All Directors are entitled to take such legal advice as they require at any time and from time to time on any matter concerning or in relation to their rights, duties and obligations as Directors in relation to the affairs of the Company at the expense of the Company upon seeking permission and being granted it by the Chairman.

The Company's constitution specifies the number of Directors must be at least three and at most ten. The Board may at any time appoint a Director to fill a casual vacancy. Directors appointed by the Board are subject to election by shareholders at the following annual general meeting and thereafter Directors (other than the Managing Director) are subject to re-election at least every three years. The tenure for executive Directors is linked to their holding of executive office.

As the Board does not have a Nomination Committee, the functions of this Committee in its absence are dealt with by the Board as a whole. An assessment of the Board's overall performance and its own succession plan is conducted on an informal basis and was done so during the year by the Chairman.

**PRINCIPLE 3 - Companies should actively promote ethical and responsible decision making**

***Recommendation 3.1 – Recommendation followed***

The Company has adopted a formal code of conduct. The Company requires all its Directors and employees to abide by the standards of behaviour and business ethics in accordance with the law and the code of conduct.

The Code of Conduct Policy is presented and signed by new Directors and employees to ensure the individual complies with this policy. Should an individual not understand or has issues with the policy, the individual is expected to bring this immediately to the attention of the Managing Director or Chairman, whichever is considered appropriate to the individual.

The following standards of behaviour apply:

- Comply with the laws that govern the Company and its operations
- Act honestly and with integrity and fairness in all dealings with others and each other
- Avoid or manage conflicts of interest
- Use Company assets properly and efficiently for the Company's benefit
- Contribute to the well being of the Company's key stakeholders
- Seek to be an exemplary corporate citizen

## CORPORATE GOVERNANCE STATEMENT FOR THE YEAR ENDED 30 JUNE 2010 (continued)

Directors are also required to provide the Company with details of all securities registered in the Director's name or an entity in which the Director has a relevant interest within the meaning of section 9 of the Corporations Act 2001 and details of all contracts, other than contracts to which the Company is a party to which the Director is a party or under which the Director is entitled to a benefit, and that confer a right to call for or deliver shares in the Company and the nature of the Director's interest under the contract.

Directors are required to disclose to the Board any material contract in which they may have an interest. In accordance with Section 195 of the Corporations Act 2001, a Director having a material personal interest in any matter to be dealt with by the Board, will not be present when that matter is considered by the Board and will not vote on that matter.

***Recommendation 3.2 – Recommendation followed***

The Company has established a formal share trading policy for Directors and employees.

Directors, officers and employees are not permitted to trade in securities of the Company at any time whilst in possession of price sensitive information not readily available to the market. Section 1043A of the Corporations Act 2001 also prohibits the acquisition and disposal of securities where a person possesses information that is not generally available and which may reasonably be expected to have a material effect on the price of the securities if the information was generally available. Securities trading policies have been established and all employees and Directors are obliged to comply.

All Directors have been required to disclose details of all securities registered in the Director's name or an entity in which the Director has a relevant interest within the meaning of section 9 of the Corporations Act 2001 and details of all contracts, other than contracts to which the Company is a party, to which the Director is a party or under which the Director is entitled to a benefit, and that confer a right to call for or deliver shares in the Company and the nature of the Director's interest under the contract.

***Recommendation 3.3 – Recommendation followed***

The Company's Trading Policies can be found at www.adelaideenergy.com.au

**PRINCIPLE 4 - Safeguard integrity in financial reporting**

***Recommendation 4.1 – Recommendation followed***

Adelaide Energy Limited is not a company required by ASX Listing Rule 12.7 to have an Audit & Risk Committee during the year although it is an ASX Recommendation. Notwithstanding the Listing Rule requirement, an Audit & Risk Committee has been established by the Company to oversee corporate governance over internal controls, ethical standards, financial reporting, and external accounting and compliance procedures.

The Audit & Risk Committee has a documented charter, approved by the Board. All members must be non-executive Directors with a majority being independent. The Chairman may not be the Chairman of the Board.

The main responsibilities of the Audit & Risk Committee include:

- Reviewing the annual, half-year reports and other financial information distributed externally. This includes approving new accounting policies to ensure compliance with Australian Accounting Standards (AASBs), and assessing whether the financial information is consistent with the committee members' information and adequate for shareholder needs
- Assessing management processes supporting external reporting
- Assessing the performance and objectivity of the internal audit function
- Establishing procedures for selecting, appointing, and if necessary, removing the external auditor
- Assessing whether non-audit services provided by the external auditor are consistent with maintaining the external auditor's independence. Each reporting period the external auditor provides an independence declaration in relation to the audit or review
- Providing advice to the Board in respect of whether the provision of non-audit services by the external auditor is compatible with the general standard of independence of auditors imposed by the Corporations Act 2001
- Assessing the adequacy of the internal control framework and the Company's code of ethical standards
- Organising, reviewing and reporting or any special reviews or investigations deemed necessary by the Board
- Monitoring the procedures to ensure compliance with the Corporations Act 2001 and the ASX Listing Rules and all other regulatory requirements
- Addressing any matters outstanding with auditors, Australian Taxation Office, Australian Securities and Investments Commission, ASX and other financial institutions

## CORPORATE GOVERNANCE STATEMENT FOR THE YEAR ENDED 30 JUNE 2010 (continued)

***Recommendation 4.2 – Recommendation followed***

The Audit & Risk Committee consists of three non-executive Directors. The members of the Audit Committee during the year were:

- Mr. Peter Hunt FCA – (Chairman) – Independent Non-Executive
- Mr. Neville Martin LLB – Independent Non-Executive
- Mr. Roderic Hollingsworth BSc (Hons) FAIE – Independent Non-Executive

***Recommendation 4.3 – Recommendation followed***

The Company's Audit & Risk Committee charter can be found at www.adelaideenergy.com.au.

The Audit & Risk Committee reviews the performance of the external auditors on an annual basis and normally meets with them during the year to:

- Discuss the external audit and internal audit plans, identifying any significant changes in structure, operations, internal controls or accounting policies likely to impact the financial statements and to review the fees proposed for the audit work to be performed
- Review the half-year report prior to lodgement with the ASX, and any significant adjustments required as a result of the auditor's findings, and to recommend Board approval of these documents, prior to announcement of results
- Review the draft annual report and half-year financial report, and recommend Board approval of the financial report
- Review the results and findings of the auditor, the adequacy of accounting and financial controls, and to monitor the implementation of any recommendations made

***Recommendation 4.4 – Recommendation followed***

Details of the Audit & Risk Committee member's qualifications are detailed above in Recommendation 4.2. The Chairman, Mr. Peter Hunt is a qualified Chartered Accountant.

The external auditors, Managing Director and Company Secretary, are invited to attend Audit & Risk Committee meetings at the discretion of the Committee. The Committee met three times during the year and committee members' attendance record is disclosed in the table of Directors' meetings as part of the Director's report.

**PRINCIPLE 5 - Make timely and balanced disclosure**

***Recommendation 5.1 and 5.2 – Recommendations followed***

The Company operates under the continuous disclosure requirements of the ASX Listing Rules and ensures that all information which may be expected to affect the value of the Company's securities or influence investment decisions is released to the market in order that all investors have equal and timely access to material information concerning the Company. The information is made publicly available on the Company's website following release to the ASX.

The Company's formal policy for continuous disclosure can be found at www.adelaideenergy.com.au.

The Company's Managing Director has the responsibility for ensuring that all relevant information is released to the market in a timely manner in consultation with the Board. The Company considers this to be a satisfactory protocol given the size and stage of the Company's development.

The Managing Director and Company Secretary are responsible for lodging various company announcements with the ASX. All Directors are required to approve the announcement prior to the release to the market where practicable.

## CORPORATE GOVERNANCE STATEMENT FOR THE YEAR ENDED 30 JUNE 2010 (continued)

**PRINCIPLE 6 - Respect the rights of shareholders**

***Recommendation 6.1 and 6.2 – Recommendations followed***

The Board aims to ensure that shareholders are informed of all major developments affecting the Company's state of affairs. In accordance with the ASX Recommendations, information is communicated to shareholders as follows:

- the annual financial report which includes relevant information about the operations of the Company during the year, changes in the state of affairs of the entity and details of future developments, in addition to the other disclosures required by the Corporations Act,
- the half yearly financial report lodged with the Australian Securities Exchange and Australian Securities and Investments Commission and sent to all shareholders who request it;
- notifications relating to any proposed major changes in the Company which may impact on share ownership rights that are submitted to a vote of shareholders;
- notices of all meetings of shareholders;
- publicly released documents including full text of notices of meetings and explanatory material made available on the Company's website; and
- disclosure of the Company's Corporate governance practices and communications strategy on the entity's website.

The Board encourages full participation of shareholders at the Annual General Meeting to ensure a high level of accountability and identification with the Company's strategy and goals. Important issues are presented to the shareholders as single resolutions. The external auditor of the Company is also invited to the Annual General Meeting of shareholders and is available to answer any questions concerning the conduct, preparation and content of the auditor's report. Pursuant to section 249K of the Corporations Act 2001 the external auditor is provided with a copy of the notice of meeting and related communications received by shareholders. To assist shareholders in communicating issues to the Board, reply paid question cards are issued with the annual report.

The shareholders are requested to vote on the appointment and aggregate remuneration of Directors, the granting of options and shares to Directors, the Remuneration Report and changes to the Constitution. Copies of the Constitution are available to any shareholder who requests it.

The Company's policy for shareholder communication is posted on the Company's website, www.adelaideenergy.com.au

**PRINCIPLE 7 - Recognise and manage risk**

***Recommendation 7.1, 7.2 and 7.4 – Recommendations not followed***

The Board recognises that there are inherent risks associated with the Company's operations including oil and gas exploration and production, environmental, title and native title, legal and other operational risks. The Board endeavours to mitigate such risks by continually reviewing the activities of the Company in order to identify key business and operational risks and ensuring that they are appropriately assessed and managed. No formal report in relation to the Company's management of its material business risk is presented to the Board.

Due to the size of the Company and the stage of life of the entity as a publicly listed junior exploration company, and the inherent risks associated with the industry it operates in, the Board does not believe formal policies for oversight and management of risk are required nor a mechanism for formal review be established. The policy describing how the Company manages risk by procedures established at Board and executive level can be found posted on the Company's website, www.adelaideenergy.com

***Recommendation 7.3 – Recommendation followed***

In accordance with ASX Recommendation 7.3 the Managing Director, Financial Controller and Company Secretary have given the Board their assurance that the written declarations provided under s295A of the Corporations Act are founded on a sound system or risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks

## CORPORATE GOVERNANCE STATEMENT FOR THE YEAR ENDED 30 JUNE 2010 (continued)

**PRINCIPLE 8 - Remunerate fairly and responsible**

***Recommendation 8.1 – Recommendation followed***

The Board has established a Remuneration Committee and the Board policy is that the Remuneration Committee will comprise entirely of at least two Independent Directors. The members of the Remuneration Committee during the year were:

- Mr. Neville Martin (Chairman of the Company)
- Mr. Roderic Hollingsworth (Non-Executive Director)

The Managing Director, Mr. Carl Dorsch, is invited to Remuneration Committee meetings, as required, to discuss senior executives performance and remuneration packages but does not attend meetings involving matters pertaining to him.

The Remuneration Committee meets once a year or as required. The committee did not meet during the year and committee member's attendance record is disclosed in the table of Directors' meeting as part of the Director's report. The Remuneration Committee's Charter is available on the Company's website.

***Recommendation 8.2 and 8.3 – Recommendations followed***

In accordance with ASX Recommendation 8.2 the Company's remuneration practices are set out as follows. The Company's Constitution specifies that the total amount of remuneration of non-executive Directors shall be fixed from time to time by a general meeting. The current maximum aggregate remuneration of non-executive Directors has been set at $500,000 per annum. Directors may apportion any amount up to this maximum amount amongst the non-executive Directors as they determine. Directors are also entitled to be paid reasonable travelling, accommodation and other expenses incurred in performing their duties as Directors.

Non-executive Director remuneration is by way of fees and statutory superannuation contributions. Non-executive Directors do not participate in schemes designed for remuneration of executives nor do they receive options or bonus payments and are not provided with retirement benefits other than salary sacrifice and statutory superannuation.

The Company also has an Employee Share Option Plan approved by shareholders that enables the Board to offer eligible employees options to ordinary fully paid shares in the Company. Under the terms of the Plan, options to ordinary fully paid shares may be offered to the Company's eligible employees at no cost in accordance with the terms and conditions of the Plan. The objective of the Plan is to align the interests of employees and shareholders by providing employees of the company with the opportunity to participate in the equity of the Company as an incentive to achieve greater success and profitability for the Company and to maximise the long term performance of the Company. The non-executive Directors are not eligible to participate in the Plan.

The employment conditions of the Managing Director are formalised in a service agreement. The Managing Director's service agreement may be terminated at any time by mutual agreement or without notice in serious instances of misconduct.

Further details of Director's remuneration, superannuation and retirement payments are set out in the Remuneration Report section of the Directors' Report.

These Corporate Governance Policies can be found at www.adelaideenergy.com.au

## DIRECTORS' REPORT FOR THE YEAR ENDED 30 JUNE 2010

The Directors present this report on Adelaide Energy Limited and its controlled entities ('The Group") for the financial year ended 30 June 2010.

### 1 DIRECTORS

The names of each person who has been a Director during the year and to the date of this report are:

**Neville Martin** – LLB (Chairman)

Neville Martin is a partner with the law firm Minter Ellison in Adelaide, and has 39 years experience in corporate law and mining oil and gas law. He is a former State President of the Australian Mining & Petroleum Law Association. Mr Martin is also a Director of Island Sky Australia Limited (ASX Listed). Mr Martin was also a Director of Austin Exploration Ltd (an oil and gas exploration company) from 11 May 2005 to 28 July 2008.

Interest in Shares and Options – 7,036,045 ordinary shares and options to acquire 4,651,162 ordinary shares

Mr Martin is aged 61 years.

**Carl Dorsch** – BSc, BE, CEng, FIChemE (Managing Director)

Carl Dorsch is a Chartered Chemical Engineer with over 30 years of Australian and International experience in the hydrocarbon sector and hard rock mining projects. His main focus in the oil and gas sector has been in the upstream side with extensive drilling, completion and production experience.

Mr Dorsch was also a Director of Strzelecki Metals Limited (formerly Primary Resources Limited), from 9 March 2007 to 2 September 2010.

Interest in Shares and Options – 4,811,957 ordinary shares and options to acquire 5,984,495 ordinary shares

Mr Dorsch is aged 56 years.

**Roderic Hollingsworth** – BSc (Hons), FAIE (Non-executive Director)

Rod Hollingsworth is a geophysicist with extensive experience in minerals and oil and gas exploration. He was the Exploration Manager for Delhi Petroleum Pty Ltd during the period of major discoveries in the Cooper Basin, and has consulted to Santos Ltd and other oil and gas explorers. He was the Executive Director and Director of Operations of Stuart Petroleum Limited August 1999 to February 2003.

Mr Hollingsworth was the Non Executive Chairman of ASX Listed Company, Fall River Resources Limited (Canadian and ASX Listed petroleum exploration and production company) (appointed July 2005 and retired on 29 February 2009). He was also the Chairman of Primary Resources Ltd until 13 June 2008. He is a Fellow of the Australian Institute of Energy and a member of the Australian Society of Exploration Geophysicists and the Petroleum Society of Australia.

Interest in Shares and Options – 5,086,957 ordinary shares and options to acquire 4,651,163 ordinary shares

Mr Hollingsworth is aged 74 years.

**Peter Hunt** – FCA (Non-executive Director)

Peter Hunt is a Partner of PKF Adelaide, Chartered Accountants. He is a Fellow of the Institute of Chartered Accountants in Australia.

Mr Hunt has been Chairman of the ASX Listed Company, Intermin Resources Limited since 1989 and was appointed Chairman of ASX Listed Strzelecki Metals Limited, formerly Primary Resources Limited, on 23 July 2008. Mr Hunt was appointed as a Non-executive Director of Strzelecki Metals Limited on 9 November 2005.

Interest in Shares and Options – 1,638,878 ordinary shares and options to acquire 1,395,349 ordinary shares

Mr Hunt is aged 64 years.

Particulars of Directors shareholdings appear in other parts of this Annual Report.

## DIRECTORS' REPORT FOR THE YEAR ENDED 30 JUNE 2010 (continued)

### 2 SECRETARY

The Company Secretary, Ms Rajita Alwis CA, aged 31 was appointed on 15 April 2009. Ms Alwis is a Chartered Accountant with over 10 years experience working in public practice and commerce. Ms Alwis is also Company Secretary for a number of other companies including Adelaide Equity Partners Ltd and Island Sky Australia Limited (ASX Listed).

**Directors' Meetings**

The number of Directors' meetings and number of meetings attended by each of the Directors of the Company during the financial year are:

| Director | Directors' Meetings | | Audit and Risk Committee Meetings | | Remuneration Committee Meetings | |
|---|---|---|---|---|---|---|
| | No. attended | No. of meetings held | No. attended | No. of meetings held | No. attended | No. of meetings held |
| Neville Martin | 11 | 11 | 3 | 3 | - | - |
| Carl Dorsch | 11 | 11 | 2 | 3 | - | - |
| Roderic Hollingsworth | 10 | 11 | 2 | 3 | - | - |
| Peter Hunt | 11 | 11 | 3 | 3 | - | - |

The Audit Committee comprises of three Directors (as detailed in 4.2 of the Corporate Governance Statement), and meets as circumstances require. The Remuneration Committee comprises of two Directors (as detailed in 1.2 of the Corporate Governance Statement), and meets as circumstances require.

### 3 OPERATING RESULTS

The net profit/(loss) of the Group for the year ended 30 June 2010 was ($1,893,428) (2009 $1,413,200 profit).

### 4 FINANCIAL POSITION

The net assets of the group have increased by $13,448,499 from 30 June 2009 to $27,520,462 as at 30 June 2010.

### 5 REVIEW OF ACTIVITIES

During the year the entity undertook the following:

Production and Exploration Activities

- Ongoing production of gas and condensate from various wells in the Company's Otway Basin petroleum production and retention licences.
- The installation of a pipeline gathering system that connected various gas/condensate wells to the Company's Katnook Gas Plant.
- The drilling, completion and testing of the Hollick-1 and Patrick-1 wells in PEL 255 in the Otway Basin, followed by the completion and testing of the previously drilled Wynn-2 well in the same region.
- The sustained production testing of the Jacaranda Ridge-2 well in PEL 255.
- Participation in the Wakefield-1 well in PEL 218 in the Cooper Basin, which was suspended following the determination of the likely presence of oil and coal bed methane.

## DIRECTORS' REPORT FOR THE YEAR ENDED 30 JUNE 2010 (continued)

Corporate Activities

- Entered into an Agreement with the Company's joint venture partner in PEL 105 in the Cooper Basin, under which a 50% interest in this permit was obtained.
- Executed an Agreement to purchase Magellan Petroleum's exploration licence interests in Queensland's Maryborough Basin.
- The purchase of two private companies, Deka Resources Pty Ltd and Well Traced Pty Ltd, (together DRWT) thereby acquiring interests in various exploration licences in Queensland and South Australia. On 12 March 2010, the Company issued 15,000,000 ordinary shares to the former shareholders of Deka Resources Pty Ltd and Well Traced Pty Ltd. The share issue formed part of the consideration of the acquisition of Deka Resources Pty Ltd and Well Traced Pty Ltd.
- On 23 July 2009 the Company issued 8,000,000 ordinary shares by way of a Subscription Agreement with Beach Energy Limited (formerly Beach Petroleum Limited). The placement raised funds of $960,000.
- On 21 September 2009, 20,208,733 ordinary shares were issued as part of the Company's Share Purchase Plan. The Share Purchase Plan raised funds of $2,324,004.
- On 27 November 2009, 30 November 2009 and 3 December 2009, the Company issued 50,000,000 ordinary shares by way of a private placement to sophisticated investors. The placement raised funds of $6,000,000.
- On 19 April 2010 and 20 April 2010, the Company issued 10,000,000 ordinary shares by way of a private placement to sophisticated investors. The placement raised funds of $1,500,000.
- On 20 May 2010, 14,276,309 ordinary shares were issued as part of the Rights Issue that closed on 12 May 2010. The Rights Issue raised funds of $2,141,446.
- On 1 June 2010 4,500,000 ordinary shares were issued as part of a shortfall allocation of the Rights Issue that closed on 12 May 2010. The shortfall allocation raised funds of $675,000
- On 30 June 2010, options were issued to employees under the Company's Employee Share Option Plan. Options issued were 100,000 2011 A Class Options, 1,000,000 2012 Options and 350,000 2013 Options.

### 6 SIGNIFICANT CHANGES IN STATE OF AFFAIRS

There were no other significant changes in the state of affairs of the Group during the year apart from those referred to elsewhere in this report.

### 7 PRINCIPAL ACTIVITIES

The principal activities of the Group during the year consisted of the production of gas and condensate, the exploration for oil and gas and the accumulation and acquisition of hydrocarbon prospective areas.

### 8 EVENTS SUBSEQUENT TO BALANCE DATE

Activity that has occurred subsequent to the Balance Date is as follows:

The Group obtained a $1 million overdraft facility with the ANZ bank. Subject to the exclusion referred to below the security for the facility is a first Registered Company Charge (Mortgage Debenture) over all the assets and undertaking of the Company. The charge is a fixed and floating charge over all present and future assets, undertaking (including goodwill) and unpaid/uncalled capital of the Company. The Katnook Gas Plant is excluded from this charge.

### 9 FUTURE DEVELOPMENTS, PROSPECTS AND BUSINESS STRATEGIES

The likely future developments of the Company during the next financial year will involve the ongoing principal activity of oil and gas exploration and gas and condensate production.

### 10 ENVIRONMENTAL ISSUES

The Company is subject to significant environmental regulations under Commonwealth and/or State and/or Territory and/or United States laws. The Company has not been advised of any environmental breaches during the year.

**DIRECTORS' REPORT FOR THE YEAR ENDED 30 JUNE 2010 (continued)**

## 11 REMUNERATION REPORT (AUDITED)

This report details the nature and amount of remuneration for each Director and key executive of Adelaide Energy Limited.

### 11.1 Remuneration policy

**(a) Principles used to determine the nature and amount of remuneration**

The Group's policy for determining the nature and amounts of emoluments of Board members and senior executive officers of the Group is as follows:

The Company's Constitution specifies that the total amount of remuneration of Non-executive Directors shall be fixed from time to time by a general meeting. The current maximum aggregate remuneration of Non-executive Directors has been set at $500,000 per annum. Directors may apportion any amount up to this maximum amount amongst the Non-executive Directors as they determine. Directors are also entitled to be paid reasonable travelling, accommodation and other expenses incurred in performing their duties as Directors. The remuneration of the Managing Director is determined by the Remuneration Committee as part of the terms and conditions of his employment which are subject to review from time to time. The remuneration of other executive officers and employees is determined by the Managing Director subject to the approval of the Board.

Non-executive Director remuneration is by way of fees and statutory superannuation contributions. Non-executive Directors do not participate in schemes designed for remuneration of executives nor do they receive options or bonus payments and are not provided with retirement benefits other than salary sacrifice and statutory superannuation.

The Group's remuneration structure is based on a number of factors including the particular experience and performance of the individual in meeting key objectives of the Company. The Board is responsible for assessing relevant employment market conditions and achieving the overall, long term objective of maximising shareholder benefits, through the retention of high quality personnel.

The Group does not presently emphasise payment for results through the provision of cash bonus schemes or other incentive payments based on key performance indicators of the Group given the nature of the Group's business as a listed mineral exploration entity and the current status of its activities. However the Board may approve the payment of cash bonuses from time to time in order to reward individual executive performance in achieving key objectives as considered appropriate by the Board.

The employment conditions of the Managing Director, Mr Carl Dorsch, are formalised in a service agreement. The base fee as set out in the employment contract is reviewed annually. The Managing Director's service agreement may be terminated at any time by mutual agreement. The Group may terminate this agreement without notice in serious instances of misconduct.

The Group's policy for determining the nature and amount of emoluments of Board members and senior executives of the Company is as follows:

The objective of the Group's executive reward framework is to ensure reward for performance is competitive and appropriate for the results delivered. The framework aligns executive reward with achievement of strategic objectives and the creation of value for shareholders, and conforms with market best practice for delivery of rewards. The Board ensures, through delegation to the remuneration committee, that executive rewards satisfies the following key criteria for good governance practices:

- Competitiveness and reasonableness
- Acceptability to shareholders
- Performance linkage / alignment of executive compensation
- Transparency
- Capital management

**(b) Details of Remuneration**

| Key Management Person | Position | Appointment Date |
|---|---|---|
| Neville Martin | Non-executive Chairman | 15 September 2005 |
| Carl Dorsch | Managing Director | 25 January 2006 |
| Peter Hunt | Non-executive Director | 16 February 2007 |
| Roderic Hollingsworth | Non-executive Director | 4 October 2001 |
| Rajita Alwis | Company Secretary | 15 April 2009 |

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

## DIRECTORS' REPORT FOR THE YEAR ENDED 30 JUNE 2010 (continued)

Remuneration of the Directors and key management personnel is as follows:

| | 2010 | | | | | 2009 | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Short Term Benefits | | | Post Employment Benefit | Total | Short Term Benefits | | Post Employment Benefit | Total |
| | Salary | Fees | Non-Monetary Benefits | Superannuation | | Salary | Fees | Superannuation | |
| **Key Management Person** | **$** | **$** | **$** | **$** | **$** | **$** | **$** | **$** | **$** |
| Mr N Martin | - | 35,000 | - | 35,000 | 70,000 | - | 60,000 | - | 60,000 |
| Mr C Dorsch[(1)] | - | 522,564 | 6,573 | - | 529,137 | - | 475,000 | - | 475,000 |
| Mr R Hollingsworth | 27,523 | - | - | 22,477 | 50,000 | - | - | 40,000 | 40,000 |
| Mr P Hunt | - | 50,000 | - | - | 50,000 | - | 40,000 | - | 40,000 |
| Ms R Alwis[(2)] | - | - | - | - | - | - | - | - | - |
| | 27,523 | 607,564 | 6,573 | 57,477 | 699,137 | - | 575,000 | 40,000 | 615,000 |

[(1)] Ms Dorsch is provided with a motor vehicle as part of the Managing Director's remuneration.
The value of this benefit for the year ended 30 June 2010 was $6,573 (2009: nil).

[(2)] Ms Alwis is an employee of and is remunerated by AE Administrative Services Pty Ltd as part of a service agreement. During the year ended 30 June 2010 AE Administrative Services Pty Ltd charged the Group $56,944 (2009: $44,330). At balance date there was $6,600 unpaid (2009: $5,510 unpaid).

### (c) Share Based Compensation

The value of Unlisted Options issued as part of remuneration is $nil (2009: $nil).

***Options issued as part of remuneration for the year ended 30 June 2010***

There were no options granted to Directors or key management personnel during the financial year.

***Shares issued on exercise of remuneration options***

No shares were issued to Directors as a result of the exercise of remuneration options during the financial year.

***Performance income***

The Executive Director was not paid performance related income during the current or prior year. The Company does not presently emphasise payments for results through the provision of cash bonus schemes or other incentive payments based on key performance indicators of the Company given the nature of the Company's business as a recently listed mineral exploration entity and the current status of its activities. However the Board may approve the payment of cash bonuses from time to time in order to reward individual executive performance in achieving key objectives as considered appropriate by the Board.

### (d) Service Agreements

The employment conditions of the Managing Director, Mr Carl Dorsch, are formalised in a Managing Director's Service Agreement dated 22 March 2007 between Dorsch Consultants Pty Ltd (Contractor) and Adelaide Energy Limited ("Agreement"). The Contractor agrees to provide the services of Mr Dorsch to act as Managing Director of the Company. Under the agreement the Contractor will be paid $480,000 per annum including superannuation as well as a motor vehicle.

During the financial year Dorsch Consultants Pty Ltd was paid a cash payment of $49,231 for extra contract time performed by Mr Dorsch. *(included in details of remuneration above)*

### (e) Other Directors' Information

There were no post employment retirement benefits approved by members of the Company in a general meeting, nor were any paid to Directors of the Group. There were post employment retirement benefits paid or payable to other key management personnel, *(included in details of remuneration above)* other than superannuation.

## DIRECTORS' REPORT FOR THE YEAR ENDED 30 JUNE 2010 (continued)

### 12 DIVIDENDS

No dividends were paid or declared since the start of the year. No recommendation for payment of dividends has been made.

### 13 INDEMNIFICATION AND INSURANCE OF OFFICERS AND AUDITORS

The Company is required to indemnify the Directors and other officers of the Company against any liabilities incurred by the Directors and officers that may arise from their position as Directors and officers of the Company. No costs were incurred during the year pursuant to this indemnity.

The Company has entered into a deed of indemnity with each Director whereby, to the extent permitted by the Corporations Act 2001, the Company agreed to indemnify each Director against all loss and liability incurred as an officer of the Company, including all liability in defending any relevant proceedings.

Since the end of the financial year, the Company has paid premiums in respect of Directors' and officers' liability and legal expenses insurance contracts.

**Proceedings on Behalf of Company**

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

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

**Share Options**

At the date of this report, the unissued ordinary shares of Adelaide Energy Limited under option are as follows:

| Option | Grant Date | Date of Expiry | Exercise Price | Number under Option |
|---|---|---|---|---|
| Unlisted | 29 March 2007 | 30 June 2011 | $0.40 | 30,000,000 |
| Unlisted | 27 January 2009 | 30 June 2011 | $0.40 | 666,666 |
| Unlisted | 25 February 2009 | 30 June 2011 | $0.40 | 666,666 |
| Unlisted | 30 June 2010 | 30 June 2011 | $0.40 | 100,000 |
| Unlisted | 30 June 2010 | 31 January 2012 | $0.20 | 1,000,000 |
| Unlisted | 30 June 2010 | 31 December 2013 | $0.15 | 350,000 |

### 14 NON-AUDIT SERVICES

The Board of Directors, in accordance with advice from the Audit Committee, is satisfied that the provision of non-audit services during the year is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*. The Directors are satisfied that the services disclosed below did not compromise the external auditor's independence for the following reasons:

- all non-audit services are reviewed and approved by the Board prior to commencement to ensure they do not adversely affect the integrity and objectivity of the auditor; and
- the nature of the services provided do not compromise the general principles relating to auditor independence as set out APES 110 Code of Ethics for Professional Accountants.

There were no fees for non-audit services paid/payable to the external auditors during the year ended 30 June 2010.

### 15 AUDITOR'S INDEPENDENCE DECLARATION

The lead auditor's independence declaration for the year ended 30 June 2010 has been received and can be found on the next page of this report.

Dated at Adelaide this 30th day of September 2010.
Signed in accordance with a resolution of the Directors

**Neville Martin**
Director

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**AUDITOR'S INDEPENDENCE DECLARATION**
**TO THE DIRECTORS OF ADELAIDE ENERGY LIMITED**

In accordance with the requirements of section 307C of the Corporations Act 2001, as lead auditor for the audit of Adelaide Energy Limited for the year ended 30 June 2010, I declare that, to the best of my knowledge and belief, there have been:

a no contraventions of the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and

b no contraventions of any applicable code of professional conduct in relation to the audit.

GRANT THORNTON
South Australian Partnership
Chartered Accountants

S J Gray
Partner

Adelaide, 30 September 2010

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 JUNE 2010

| | Note | Consolidated 2010 $ | Consolidated 2009 $ |
|---|---|---|---|
| **REVENUE** | | | |
| Sales | 2 | 3,170,470 | 853,392 |
| Condensate available for sale | | - | 13,000 |
| Interest revenue | 2 | 226,965 | 145,291 |
| Gas Plant Operating Expenses | | (3,047,111) | (1,171,298) |
| Employment expense | 3 | (604,155) | (528,080) |
| Consultants and professional advisors | | (506,997) | (224,132) |
| Depreciation expense | | (37,644) | (47,224) |
| Finance Costs | | (14,122) | (42,906) |
| Impairment Expense | | (309,240) | (587,941) |
| Profit on sale of assets | | - | 3,687,514 |
| Office and administration expenses | **3** | (558,226) | (427,753) |
| Profit/(Loss) before income tax expense | | (1,680,060) | 1,669,863 |
| Income tax benefit/(expense) | 4 | (213,368) | (256,663) |
| Profit/(Loss) attributable to members of the Company | | (1,893,428) | 1,413,200 |
| Other comprehensive income | | - | - |
| **Total comprehensive income for the year** | | **(1,893,428)** | **1,413,200** |
| Basic earnings per share (cents per share) | 7 | (1.1412) cents | 1.388 cents |
| Diluted earnings per share (cents per share) | 7 | (1.1412) cents | 1.388 cents |

The accompanying notes form part of these financial statements

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2010

| | Note | Consolidated 2010 $ | Consolidated 2009 $ |
|---|---|---|---|
| **CURRENT ASSETS** | | | |
| Cash and cash equivalents | 8 | 1,209,003 | 4,225,590 |
| Trade and other receivables | 9 | 1,376,590 | 750,369 |
| Other current assets | 10 | 1,016 | 14,575 |
| **TOTAL CURRENT ASSETS** | | 2,586,609 | 4,990,534 |
| **NON-CURRENT ASSETS** | | | |
| Property, plant and equipment | 11 | 160,382 | 81,467 |
| Oil & gas development assets | 12 | 8,688,003 | 3,912,026 |
| Exploration and evaluation expenditure | 13 | 22,921,797 | 8,162,430 |
| **TOTAL NON-CURRENT ASSETS** | | 31,770,182 | 12,155,923 |
| **TOTAL ASSETS** | | 34,356,791 | 17,146,457 |
| **CURRENT LIABILITIES** | | | |
| Trade and other payables | 14 | 3,859,550 | 400,770 |
| Financial liabilities | 24 | 16,951 | - |
| Short-term provisions | 15 | 152,136 | 190,937 |
| **TOTAL CURRENT LIABILITIES** | | 4,028,637 | 591,707 |
| **NON-CURRENT LIABILITIES** | | | |
| Financial liabilities | 24 | 72,307 | - |
| Deferred tax liability | | 586,409 | 408,138 |
| Long-term provisions | 15 | 2,148,976 | 2,074,649 |
| **TOTAL NON-CURRENT LIABILITIES** | | 2,807,692 | 2,482,787 |
| **TOTAL LIABILITIES** | | 6,836,329 | 3,074,494 |
| **NET ASSETS** | | 27,520,462 | 14,071,963 |
| **EQUITY** | | | |
| Issued capital | 16 | 29,118,397 | 13,776,470 |
| Retained Profits/(losses) | | (1,597,935) | 295,493 |
| **TOTAL EQUITY** | | 27,520,462 | 14,071,963 |

The accompanying notes form part of these financial statements

## CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2010

| Consolidated | Note | Share Capital Ordinary $ | Retained Profit/(Losses) $ | Total $ |
|---|---|---|---|---|
| **Balance at 30 June 2008** | | 13,456,050 | (1,117,707) | 12,338,343 |
| Shares issued during the year | 16 | 325,000 | - | 325,000 |
| Share issue costs (net of tax) | 16 | (4,580) | - | (4,580) |
| Total comprehensive income | | - | 1,413,200 | 1,413,200 |
| **Balance at 30 June 2009** | | 13,776,470 | 295,493 | 14,071,963 |
| **Balance at 30 June 2009** | | 13,776,470 | 295,493 | 14,071,963 |
| Shares issued during the year | 16 | 15,700,447 | - | 15,700,447 |
| Share issue costs (net of tax) | 16 | (358,520) | - | (358,520) |
| Total comprehensive income | | - | (1,893,428) | (1,893,428) |
| **Balance at 30 June 2010** | | 29,118,397 | (1,597,935) | 27,520,462 |

The accompanying notes form part of these financial statements

## CONSOLIDATED STATEMENT OF CASHFLOWS FOR THE YEAR ENDED 30 JUNE 2010

| | NOTE | Consolidated 2010 $ | Consolidated 2009 $ |
|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | |
| Receipts from customers | | 2,675,803 | 326,685 |
| Payments to suppliers and employees | | (2,457,084) | (2,341,276) |
| Interest received | | 226,965 | 145,291 |
| Finance costs | | (14,122) | (42,906) |
| Net cash provided by/(used in) operating activities | 18 | 431,562 | (1,912,206) |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | |
| Proceeds from sale of property, plant and equipment | | - | 5,140,000 |
| Payment for subsidiaries | 26 | (2,000,000) | - |
| Payments for property, plant and equipment | | (116,559) | (40,969) |
| Payments for development assets | | (3,264,653) | (1,636,587) |
| Payments for exploration activities | | (11,155,214) | (2,870,377) |
| Net cash (used in)/provided by investing activities | | (16,536,426) | 592,067 |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | |
| Proceeds from issue of shares | | 13,600,447 | 325,000 |
| Transactions costs capitalised in capital raising | | (512,170) | (6,544) |
| Net cash provided by/(used in) financing activities | | 13,088,277 | 318,456 |
| Net (decrease)/increase in cash held | | (3,016,587) | (1,001,683) |
| Cash at beginning of financial year | | 4,225,590 | 5,227,273 |
| Cash at end of financial year | 8 | 1,209,003 | 4,225,590 |

The accompanying notes form part of these financial statements

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

### NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

These financial statements are general purpose and have been prepared in accordance with Accounting Standards, Accounting Interpretations, other authoritative pronouncements of the Australian Accounting Standards Board and the Corporations Act 2001.

Adelaide Energy Limited is a listed public company, incorporated and domiciled in Australia.

The financial statements of Adelaide Energy Limited and its controlled entities comply with all Australian equivalents to International Financial Reporting Standards (AIFRS) in their entirety. Compliance with AIFRS ensures that the Group complies with International Financial Reporting Standards.

The following is a summary of the material accounting policies adopted by the Group in the preparation of the financial report. The accounting policies have been consistently applied, unless otherwise stated.

**Basis of Preparation**

***Reporting basis and Conventions***

The financial report has been prepared on an accruals basis and is based on historical costs modified by the revaluation of selected non-current assets, financial assets and financial liabilities for which the fair value of accounting has been applied.

**Adoption of new and revised accounting standards**

In the current year, the Group has adopted all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board that are relevant to its operations and effective for the current annual reporting period. The 2009 comparatives contained in these financial statements therefore differ from those published in the financial statements for the year ended 30 June 2009 as described below.

Significant effects on current, prior or future periods arising from the first-time application of the standards discussed above in respect of presentation, recognition and measurement of accounts are described in the following note.

*Adoption of AASB 101 Presentation of Financial Statements (revisions), AASB 2007-8 and 2007-10 Amendments arising from the revisions to AASB 101*

Adelaide Energy Limited have adopted the revisions to AASB 101 Presentation of Financial Statements in these financial statements which have resulted in the introduction of the statement of comprehensive income, changes to the statement of changes in equity, and other terminology changes.

*Adoption of AASB 8 Operating Segments*

From 1 January 2009, operating segments are identified and segment information disclosed on the basis of internal reports that are regularly provided to, or reviewed by, the group's chief operating decision maker, which for the group, is the Board of Directors. In this regard, such information is provided using different measures to those used in preparing the Statement of Comprehensive Income and the Statement of Financial Position. Reconciliations of such management information to the statutory information contained in the financial statements have been included.

**Third statement of financial position**

Two comparative periods are presented for the statement of financial position when the Group:

i Applies an accounting policy retrospectively,

ii Makes a retrospective restatement of items in its financial statements, or

iii Reclassifies items in the financial statements

The Group has determined that only one comparative period for the statement of financial position was required for the current reporting period as the application of the new accounting standards have had no material impact on the previously presented primary financial statements that were presented in the prior year financial statements.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

**Accounting Policies**

**Summary of Significant Accounting Policies**

### (a) Principles of Consolidation

The consolidated financial statements incorporate the assets, liabilities and results of entities controlled by Adelaide Energy Limited at the end of the reporting period. A controlled entity is any entity over which Adelaide Energy Limited has the power to govern the financial and operating policies so as to obtain benefits from the entity's activities. Control will generally exist when the parent owns, directly or indirectly through subsidiaries, more than half of the voting power of and entity. In assessing the power to govern, the existence and effect of holdings of actual and potential voting rights are considered.

Where controlled entities have entered or left the Group during the year, the financial performance of those entities are included only for the period of the year that they were controlled. A list of controlled entities is contained in Note 19 to the financial statements.

In preparing the consolidated financial statements, all inter-group balances and transactions between entities in the consolidated group have been eliminated on consolidation. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with those adopted by the parent entity.

Non-controlling interests, being the equity in a subsidiary not attributable, directly or indirectly, to a parent, are shown separately within the Equity section of the consolidated Statement of Financial Position and Statement of Comprehensive Income. The non-controlling interests in the net assets comprise their interests at the date of the original business combination and their share of changed in equity since that date.

### (b) Business combinations

Business combinations occur where an acquirer obtains control over one or more businesses and results in the consolidation of its assets and liabilities. A business combination is accounted for by applying the acquisition method, unless it is a combination involving entities or businesses under common control. The acquisition method requires that for each business combination one of the combining entities must be identified as the acquirer (i.e. parent entity). The business combination will be accounted for as at the acquisition date, which is the date that control over acquiree is obtained by the parent entity. At this date, the parent shall recognize, in the consolidated accounts, and subject to certain limited exceptions, the fair value of the identifiable assets acquired and liabilities assumed. In addition, contingent liabilities of the acquiree will be recognized where a present obligation has been incurred and its fair value can be reliably measured.

The acquisition may result in the recognition of goodwill or a gain from a bargain purchase. The method adopted for the measurement of goodwill will impact on the measurement of any non-controlling interest to be recognized in the acquired where less than 100% ownership interest is held in the acquire.

The acquisition date fair value of the consideration transferred for a business combination plus the acquisition date fair value of any previously held equity interest shall form the cost of the investment in the separate financial statements. Consideration may comprise the sum of the assets transferred by the acquirer, liabilities incurred by the acquirer to the former owners of the acquiree and the equity interests issued by the acquirer. Fair value uplifts in the value of pre-existing equity holdings are taken to the statement of comprehensive income. Where changes in the value of such equity holdings had previously been recognized in other comprehensive income, such amounts are recycled to profit or loss.

Included in the measurement of consideration transferred is any asset or liability resulting from a contingent consideration arrangement. Any obligation incurred relating to contingent consideration is classified as either a financial liability or equity is not remeasure and its subsequent settlement is accounted for within equity. Contingent consideration classified as either a financial liability or equity instrument, depending upon the nature of the arrangement. Rights to refunds of consideration previously paid are recognized as receivable. Subsequent to initial recognition, contingent consideration classifies as an asset or a liability is remeasured each reporting period to fair value through the statement of comprehensive income unless the change in value can be identified as existing at acquisition date.

All transaction costs incurred in relation to the business combination are expenses to the statement of comprehensive income.

### (c) Revenue Recognition

Revenue from gas and condensate sales is recognised upon delivery.

Interest revenue is recognised on a proportional basis taking into account the interest rates applicable to the financial assets.

All revenue is stated net of the amount of goods and services tax (GST).

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

**(d) Income Tax**

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

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

Deferred income tax expense reflects movements in deferred tax asset and deferred tax liability balances during the year as well as unused tax losses.

Current and deferred income tax expense (income) is charged or credited directly to equity instead of the profit or loss statement when the tax relates to items that are credited or charged directly to equity.

Deferred tax assets and liabilities are ascertained based on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax assets also result where amounts have been fully expensed but future tax deductions are available. No deferred income tax will be recognised from the initial recognition of an asset or liability, excluding a business combination, where there is no effect on accounting or taxable profit or loss.

Deferred tax assets and liabilities are calculated at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates enacted or substantively enacted at reporting date. Their measurement also reflects the manner in which management expects to recover or settle the carrying amount of the related asset or liability.

Deferred tax assets relating to temporary differences and unused tax losses are recognised only to the extent that it is probable that future taxable profit will be available against which the benefits of the deferred tax asset can be utilised.

Where temporary differences exist in relation to investments in subsidiaries, branches, associates, and joint ventures, deferred tax assets and liabilities are not recognised where the timing of the reversal of the temporary difference can be controlled and it is not probable that the reversal will occur in the foreseeable future.

Current tax assets and liabilities are offset where a legally enforceable right of set-off exists and it is intended that net settlement or simultaneous realisation and settlement of the respective asset and liability will occur. Deferred tax assets and liabilities are offset where a legally enforceable right of set-off exists, the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where it is intended that net settlement or simultaneous realisation and settlement of the respective asset and liability will occur in future periods in which significant amounts of deferred tax assets or liabilities are expected to be recovered or settled.

**Tax Consolidation**

Adelaide Energy Limited and its wholly-owned subsidiaries have formed an income tax consolidated group under tax consolidation legislation. Each entity in the Group recognises its own current and deferred tax assets and liabilities. Such taxes are measured using the ‘stand alone’ taxpayer approach to allocation. Current tax liabilities (assets) and deferred tax assets arising from unused tax losses and tax credits in the subsidiaries are immediately transferred to the head entity. The Group notified the Australian Taxation Office that it had formed an income tax consolidated group to apply from 12 March 2010. The tax consolidated group has entered a tax funding arrangement whereby each company in the Group contributes to the income tax payable by the Group in proportion to their contribution to the Group’s taxable income. Differences between the amounts of net tax assets and liabilities are derecognised and the net amounts recognised pursuant to the funding arrangement are recognised as either a contribution by, or distribution to the head entity.

**(e) Trade and other receivables**

Trade receivables and other receivables are carried at amounts due less any provision for specific doubtful debts.

**(f) Impairment of Non-financial Assets**

At each reporting date, the Company reviews the carrying values of its tangible and intangible assets to determine whether there is any indication that those assets have been impaired. If such an indication exists, the recoverable amount of the asset, being the higher of the asset’s fair value less costs to sell and value in use, is compared to the asset’s carrying value. Any excess of the asset’s carrying value over its recoverable amount is expensed to the statement of comprehensive income.

Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

**(g) Exploration and Development Expenditure and Restoration Provisions**

Exploration, evaluation and development expenditure incurred is accumulated in respect of each identifiable area of interest. These costs are only carried forward to the extent that they are expected to be recouped through the successful development of the area or where activities in the area have not yet reached a stage that permits reasonable assessment of the existence of economically recoverable reserves.

Accumulated costs in relation to an abandoned area are written off in full against profit in the year in which the decision to abandon the area is made.

When production commences, the accumulated costs for the relevant area of interest are amortised over the life of the area according to the rate of depletion of the economically recoverable reserves.

A regular review is undertaken of each area of interest to determine the appropriateness of continuing to carry forward costs in relation to that area of interest.

Costs of site restoration are provided over the life of the facility from when exploration commences and are included in the costs of that stage. Site restoration costs include the dismantling and removal of oil and gas plant, equipment and building structures, waste removal, and rehabilitation of the site in accordance with clauses of the oil and gas permits. Such costs have been determined using estimates of future costs, current legal requirements and technology on a discounted basis.

Any changes in the estimates for the costs are accounted on a prospective basis. In determining the costs of site restoration, there is uncertainty regarding the nature and extent of the restoration due to community expectations and future legislation. Accordingly the costs have been determined on the basis that the restoration will be completed within one year of abandoning the site.

**(h) Plant and Equipment**

Each class of plant and equipment is carried at cost or fair value as indicated less, where applicable, any accumulated depreciation and impairment losses.

Plant and equipment are measured on a cost basis. The carrying amount of plant and equipment is reviewed annually by Directors to ensure it is not in excess of the recoverable amount of these assets. The recoverable amount is assessed on the basis of the expected net cash flows that will be received from the asset's employment and subsequent disposal. The expected net cash flows have been discounted to their present values in determining recoverable amounts.

The cost of fixed assets constructed within the Group includes the cost of materials, direct labour, borrowing costs and an appropriate proportion of fixed and variable overheads. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the statement of comprehensive income during the financial period in which they are incurred.

**(i) Depreciation**

Items of plant and equipment are depreciated over their estimated useful lives, ranging from 3 to 40 years to write off the net cost of each asset during its expected useful life. The straight line method of depreciation is used.

Assets are depreciated from the date of acquisition or, in respect of internally constructed assets, from the time an asset is completed and held ready for use.

The asset's residual value and useful lives is reviewed, and adjusted if appropriate, at each balance sheet date. The asset's carrying amount is written down immediately to its recoverable amounts if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with the carrying amounts. The gains and losses are included in the statement of comprehensive income.

**(j) Leased Office Premises & Plant and Equipment**

Leases of office premises and plant and equipment are classified as operating leases where the lessor retains substantially all of the risks and benefits of ownership. Minimum lease payments are charged against profits over the accounting periods covered by the lease terms except where an alternative basis would be more representative of the pattern of benefits to be derived from the leased property.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

**(k) Employee Entitlements**

Provision is made for benefits accruing to employees in respect of wages and salaries, annual leave, long service leave and sick leave when it is probable that settlement will be required and they are capable of being measured reliably.

Provisions made in respect of long service leave and other employee entitlements 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 Company in respect of services provided by employees up to the reporting date. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service.

Contributions made by the Company to employee superannuation funds are charged to expenses as incurred.

**(l) Trade and Other Payables**

Liabilities are recognised for amounts to be paid in the future for goods or services received, whether or not billed to the Company. The amounts are unsecured and are usually paid within 30 days of recognition.

**(m) Financial assets and liabilities**

**Financial Instruments**

**Recognition and Initial Measurement**

Financial assets and financial liabilities are recognised when the entity becomes a party to the contractual provisions to the instrument. For financial assets, this is equivalent to the date that the company commits itself to either the purchase or sale of the asset (ie trade date accounting is adopted).

Financial instruments are initially measured at fair value plus transaction costs, except where the instrument is classified 'at fair value through profit or loss', in which case transaction costs are expensed to profit or loss immediately.

**Classification and Subsequent Measurement**

Finance instruments are subsequently measured at either of fair value, amortised cost using the effective interest rate method, or cost. *Fair value* represents the amount for which an asset could be exchanged or a liability settled, between knowledgeable, willing parties. Where available, quoted prices in an active market are used to determine fair value. In other circumstances, valuation techniques are adopted.

***Amortised cost* is calculated as:**

a. the amount at which the financial asset or financial liability is measured at initial recognition;

b. less principal repayments;

c. plus or minus the cumulative amortisation of the difference, if any, between the amount initially recognised and the maturity amount calculated using the *effective interest method*; and

d. less any reduction for impairment.

The *effective interest method* is used to allocate interest income or interest expense over the relevant period and is equivalent to the rate that exactly discounts estimated future cash payments or receipts (including fees, transaction costs and other premiums or discounts) through the expected life (or when this cannot be reliably predicted, the contractual term) of the financial instrument to the net carrying amount of the financial asset or financial liability. Revisions to expected future net cash flows will necessitate an adjustment to the carrying value with a consequential recognition of an income or expense in the statement of comprehensive income.

i. Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are subsequently measured at amortised cost.

ii. Financial liabilities

Non-derivative financial liabilities (excluding financial guarantees) are subsequently measured at amortised cost.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

***Fair Value***

Fair value is determined based on current bid prices for all quoted investments. Valuation techniques are applied to determine the fair value for all unlisted securities, including recent arm's length transactions, reference to similar instruments and option pricing models.

***Impairment***

At each reporting date, the Group assesses whether there is objective evidence that a financial instrument has been impaired. In the case of available-for-sale financial instruments, a prolonged decline in the value of the instrument is considered to determine whether any impairment has arisen. Impairment losses are recognised in the statement of comprehensive income.

***Derecognition***

Financial assets are derecognised where the contractual rights to receipt of cash flows expires or the asset is transferred to another party whereby the entity no longer has any significant continuing involvement in the risks and benefits associated with the asset. Financial liabilities are derecognised where the related obligations are either discharged, cancelled or expired. The difference between the carrying value of the financial liability extinguished or transferred to another party and the fair value of consideration paid, including the transfer of non-cash assets or liabilities assumed, is recognised in statement of comprehensive income.

**(n) Cash and Cash Equivalents**

Cash and cash equivalents include cash on hand, deposits held at call with banks and bank overdrafts.

**(o) Foreign Currency Transaction and Balances**

***Functional and presentation currency***

The financial statements are presented in Australian dollars which is the Group's functional and presentation currency.

***Transaction and balances***

Foreign currency transactions are translated into functional currency using the exchange rates prevailing at the date of the transaction. Foreign currency monetary items are translated at the year-end exchange rate.

**(p) Provisions**

Provisions are recognised where the Group has a legal or constructive obligation, as a result of past events, for which it is probable that an outflow of economic benefit will result and that outcome can be reliably measured.

**(q) Goods and Service Tax (GST)**

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Taxation Office. In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of the item of expense. Receivables and payables in the statement of financial position are shown inclusive of GST.

Cash flows are presented in the statement of cashflows on a gross basis, except for the GST component of investing and financing activities where it is impracticable to identify the amounts of GST, which are disclosed as operating cash flows.

**(r) Comparative Figures**

Where required by Accounting Standards, comparative figures have been adjusted to conform to changes in presentation for the current financial year.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

**(s) Interests in Joint Ventures**

The company's share of assets, liabilities, revenue and expenses of joint venture operations are included in the appropriate items of the financial statements. Details of the company's interests are shown at note 13.

The interests in joint venture entities are brought to account using the cost method.

**(t) Critical Accounting Estimates and Judgements**

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

***Key estimate – impairment***

The Group assesses impairment at each reporting date by evaluating conditions specific to the Group that may lead to impairment of assets. Where an impairment trigger exists, the recoverable amount of the asset is determined. Value-in-use calculations performed in accessing recoverable amounts incorporate a number of key estimates.

Exploration and evaluation assets are assessed for impairment annually if (i) sufficient data exists to determine technical feasibility and commercial viability, and (ii) facts and circumstances suggest that the carrying amount exceeds the recoverable amount (see impairment accounting policy). For the purposes of impairment testing, exploration and evaluation assets are allocated to cash-generating units to which the exploration activity relates. The cash generating unit shall not be larger than the area of interest.

Development assets include plant and equipment and wells in relation to the production assets of the company. Assumptions are made in relation to the useful lives of the development assets with useful lives for the plant and equipment and wells. These estimates are reviewed annually.

***Key estimates – provisions***

A provision has been made in the accounts for restoration and rehabilitation of areas from which natural resources are extracted on the basis that no significant disturbance in relation to the Group's exploration activities has occurred. This policy is subject to annual review.

**(u) New Accounting Standards for Application in Future Periods**

The AASB has issued new and amended standards and interpretations that have mandatory application dates for future reporting periods. The Group has decided against early adoption of these standards. A discussion of those future requirements and their impact on the Group follows:

- ***AASB 9: Financial Instruments and AASB 2009–11: Amendments to Australian Accounting Standards arising from AASB 9 [AASB 1, 3, 4, 5, 7, 101, 102, 108, 112, 118, 121, 127, 128, 131, 132, 136, 139, 1023 & 1038 and Interpretations 10 & 12] (applicable for annual reporting periods commencing on or after 1 January 2013).***
  These standards are applicable retrospectively and amend the classification and measurement of financial assets. The Group has not yet determined the potential impact on the financial statements. The changes made to accounting requirements include:
  - simplifying the classifications of financial assets into those carried at amortised cost and those carried at fair value;
  - simplifying the requirements for embedded derivatives;
  - removing the tainting rules associated with held-to-maturity assets;
  - removing the requirements to separate and fair value embedded derivatives for financial assets carried at amortised cost;
  - allowing 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; and
  - reclassifying financial assets where there is a change in an entity's business model as they are initially classified based on:

    a. the objective of the entity's business model for managing the financial assets;

    b. the characteristics of the contractual cash flows.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

- ***AASB 124: Related Party Disclosures (applicable for annual reporting periods commencing on or after 1 January 2011).***
  This standard removes the requirement for government related entities to disclose details of all transactions with the government and other government related entities and clarifies the definition of a related party to remove inconsistencies and simplify the structure of the standard. No changes are expected to materially affect the Group.

- ***AASB 2009–4: Amendments to Australian Accounting Standards arising from the Annual Improvements Project [AASB 2 and AASB 138 and AASB Interpretations 9 & 16] (applicable for annual reporting periods commencing from 1 July 2009) and AASB 2009-5: Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project [AASB 5, 8, 101, 107, 117, 118, 136 & 139] (applicable for annual reporting periods commencing from 1 January 2010).***
  These standards detail numerous non-urgent but necessary changes to accounting standards arising from the IASB's annual improvements project. No changes are expected to materially affect the Group.

- ***AASB 2009–8: Amendments to Australian Accounting Standards — Group Cash-settled Share-based Payment Transactions [AASB 2] (applicable for annual reporting periods commencing on or after 1 January 2010).***
  These amendments clarify the accounting for group cash-settled share-based payment transactions in the separate or individual financial statements of the entity receiving the goods or services when the entity has no obligation to settle the share-based payment transaction. The amendments incorporate the requirements previously included in Interpretation 8 and Interpretation 11 and as a consequence, these two Interpretations are superseded by the amendments. These amendments are not expected to impact the Group.

- ***AASB 2009–9: Amendments to Australian Accounting Standards — Additional Exemptions for First-time Adopters [AASB 1] (applicable for annual reporting periods commencing on or after 1 January 2010).***
  These amendments specify requirements for entities using the full cost method in place of the retrospective application of Australian Accounting Standards for oil and gas assets, and exempt entities with existing leasing contracts from reassessing the classification of those contracts in accordance with Interpretation 4 when the application of their previous accounting policies would have given the same outcome. These amendments are not expected to impact the Group.

- ***AASB 2009–10: Amendments to Australian Accounting Standards — Classification of Rights Issues [AASB 132] (applicable for annual reporting periods commencing on or after 1 February 2010).***
  These amendments clarify that rights, options or warrants to acquire a fixed number of an entity's own equity instruments for a fixed amount in any currency are equity instruments if the entity offers the rights, options or warrants pro-rata to all existing owners of the same class of its own non-derivative equity instruments. These amendments are not expected to impact the Group.

- ***AASB 2009–12: Amendments to Australian Accounting Standards [AASBs 5, 8, 108, 110, 112, 119, 133, 137, 139, 1023 & 1031 and Interpretations 2, 4, 16, 1039 & 1052] (applicable for annual reporting periods commencing on or after 1 January 2011).***
  This standard makes a number of editorial amendments to a range of Australian Accounting Standards and Interpretations, including amendments to reflect changes made to the text of International Financial Reporting Standards by the IASB. The standard also amends AASB 8 to require entities to exercise judgment in assessing whether a government and entities known to be under the control of that government are considered a single customer for the purposes of certain operating segment disclosures. These amendments are not expected to impact the Group.

- ***AASB 2009–13: Amendments to Australian Accounting Standards arising from Interpretation 19 [AASB 1] (applicable for annual reporting periods commencing on or after 1 July 2010).***
  This standard makes amendments to AASB 1 arising from the issue of Interpretation 19. The amendments allow a first-time adopter to apply the transitional provisions in Interpretation 19. This standard is not expected to impact the Group.

- ***AASB 2009–14: Amendments to Australian Interpretation — Prepayments of a Minimum Funding Requirement [AASB Interpretation 14] (applicable for annual reporting periods commencing on or after 1 January 2011).***
  This standard amends Interpretation 14 to address unintended consequences that can arise from the previous accounting requirements when an entity prepays future contributions into a defined benefit pension plan. These amendments are not expected to impact the Group.

- ***AASB Interpretation 19: Extinguishing Financial Liabilities with Equity Instruments (applicable for annual reporting periods commencing on or after 1 July 2010).***
  This Interpretation deals with how a debtor would account for the extinguishment of a liability through the issue of equity instruments. The Interpretation states that the issue of equity should be treated as the consideration paid to extinguish the liability, and the equity instruments issued should be recognised at their fair value unless fair value cannot be measured reliably in which case they shall be measured at the fair value of the liability extinguished. The Interpretation deals with situations where either partial or full settlement of the liability has occurred. This Interpretation is not expected to impact the Group.

The Group does not anticipate the early adoption of any of the above Australian Accounting Standards.

The financial report was authorised for issue on the 30th day of September 2010 by the Board of Directors.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

| | Consolidated 2010 $ | 2009 $ |
|---|---|---|
| **NOTE 2: REVENUE** | | |
| Operating activities | | |
| Condensate and Gas | 3,170,470 | 853,392 |
| Interest received from bank | 226,965 | 145,291 |
| Total Revenue | 3,397,435 | 998,683 |
| **NOTE 3: PROFIT/(LOSS) FOR THE YEAR** | | |
| Profit/(Loss) from ordinary activities before income tax has been determined after: | | |
| Depreciation expense | 37,644 | 47,224 |
| Employment Expenses | | |
| Directors fees | 170,000 | 140,000 |
| Executive Remuneration | 529,137 | 475,000 |
| Less Executive Remuneration relating to exploration | (506,517) | (408,750) |
| Accounting & Consulting | 99,610 | 41,638 |
| Other employee costs | 311,925 | 280,192 |
| | **604,155** | **528,080** |
| Office and Administration Expenses: | | |
| Insurance | 19,762 | 25,882 |
| Occupancy costs | 142,011 | 109,358 |
| Printing, stationery & photocopying | 26,533 | 11,882 |
| Corporate Expenses | 209,031 | 222,301 |
| Consultants Fees | 68,597 | - |
| Office Administration Expenses | 58,124 | 43,109 |
| Other Expenses | 34,168 | 15,221 |
| | **558,226** | **427,753** |
| **NOTE 4: INCOME TAX EXPENSE** | | |
| (a) The components of income tax (benefit)/expense comprise: | | |
| Current Tax | (118,554) | (153,439) |
| Deferred Tax | 331,922 | 410,102 |
| | 213,368 | 256,663 |
| (b) The prima facie tax on loss from ordinary activities before income tax is reconciled to the income tax as follows: | | |
| Net Profit/(Loss) | (1,680,060) | 1,669,863 |
| Prima facie tax benefit on loss from ordinary activities before income tax at 30% | (540,018) | 500,959 |
| Add/(less) | | |
| Tax effect of: | | |
| Capital raising costs deductible | (113,757) | (77,916) |
| Immediate write off of tenement expenditure | (4,118,693) | (523,031) |
| Other non assessable and non deductible items | 5,220,326 | 287,983 |
| Other temporary differences | (483,858) | 240,179 |
| Recoupment of prior year tax losses | - | (428,174) |
| | - | - |

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

| | Consolidated 2010 $ | 2009 $ |
|---|---|---|
| **NOTE 4: INCOME TAX EXPENSE (CONTINUED)** | | |
| Deferred tax assets recognised direct to equity and not meeting the recognition criteria of AASB 112 | 153,651 | 1,964 |
| Tax effect of tax losses not brought to account as they do not meet the recognition criteria | - | - |
| Current year movement in net deferred tax liabilities attributable to temporary differences after offset of tax losses | 178,271 | - |
| Initial recognition of net deferred tax liabilities attributable to temporary differences after offset of tax losses | - | 408,138 |
| Research and Development Tax Offset attributable to prior year but refunded in current year | (118,554) | (153,439) |
| Income tax attributable to operating loss | 213,368 | 256,663 |
| Total income tax losses for which no deferred tax asset has been recognised | - | - |

| | 2010 | 2009 |
|---|---|---|
| (c) Opening deferred tax liability | 408,138 | - |
| Movement in deferred tax liabilities attributable to temporary differences after offset of tax losses | 178,271 | 408,138 |
| Closing deferred tax liability | 586,409 | 408,138 |

### NOTE 5: KEY MANAGEMENT PERSONNEL COMPENSATION

Key management personnel remuneration has been included in the remuneration report included in the Directors' report.

**a. Names and positions held by key management personnel in office at any time during the financial year are:**

| Key Management Person | Position |
|---|---|
| Mr Neville Martin | Chairman — Non-Executive |
| Mr Carl Dorsch | Managing Director–Executive |
| Mr Roderic Hollingsworth | Director – Non Executive |
| Mr Peter Hunt | Director— Non-Executive |
| Ms R Alwis | Company Secretary |

Refer to the Remuneration Report contained in the Report of the Directors for details of the remuneration paid or payable to each member of the Group's key management personnel for the year ended 30 June 2010.

The total of remuneration paid to Key Management Personnel of the Group during the year are as follows:

| | 2010 | 2009 |
|---|---|---|
| Short-term employee benefits | 635,087 | 575,000 |
| Post-employment benefits | 57,477 | 40,000 |
| Other long-term benefits | - | - |
| Termination benefits | - | - |
| Share-based payments | - | - |
| | 692,564 | 615,000 |

*The remuneration of the Company Secretary is not included above, please refer to the Remuneration Report in the Directors' Report.*

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

**NOTE 5: KEY MANAGEMENT PERSONNEL COMPENSATION (CONT)**

**b. Options and Rights Holdings**

Number of 2011 A Class Options held by Key Management Personnel:

| | Balance at 30 June 2009 | Issued | Exercised | Vested at 30 June 2010 | Unvested at 30 June2010 |
|---|---|---|---|---|---|
| Mr N Martin(1) | 4,651,162 | - | - | 4,651,162 | - |
| Mr C Dorsch | 5,984,495 | - | - | 5,984,495 | - |
| Mr R Hollingsworth(2) | 4,651,163 | - | - | 4,651,163 | - |
| Mr P Hunt | 1,395,349 | - | - | 1,395,349 | - |
| Ms R Alwis | - | - | - | - | - |
| **TOTAL** | **16,682,169** | | | **16,682,169** | **-** |

| | Balance at 30 June 2008 | Issued | Exercised | Vested at 30 June 2009 | Unvested at 30 June 2009 |
|---|---|---|---|---|---|
| Mr N Martin(1) | 4,651,162 | - | - | 4,651,162 | - |
| Mr C Dorsch | 4,651,163 | 1,333,332 | - | 5,984,495 | - |
| Mr R Hollingsworth(2) | 4,651,163 | - | - | 4,651,163 | - |
| Mr P Hunt | 1,395,349 | - | - | 1,395,349 | - |
| Ms R Alwis | - | - | - | - | - |
| **TOTAL** | **15,348,837** | **1,333,332** | **-** | **16,682,169** | **-** |

**(1)** 4,349,335 options are held by Mr Martin on behalf of some of the partners of Minter Ellison (Adelaide).
**(2)** All options are held by Mr Hollingsworth on behalf of the RJS Hollingsworth Family Trust.

No options were exercised during the year.

**c. Ordinary Share Holdings**

| | Balance at 30 June 2009 | Issued | Net Other Change(1) | Balance at 30 June 2010 |
|---|---|---|---|---|
| Mr N Martin(2) | 5,454,921 | - | 1,581,124 | 7,036,045 |
| Mr C Dorsch | 4,725,000 | - | 86,957 | 4,811,957 |
| Mr R Hollingsworth(3) | 4,725,000 | - | 361,957 | 5,086,957 |
| Mr P Hunt(4) | 1,464,964 | - | 173,914 | 1,638,878 |
| Ms R Alwis | - | - | - | - |
| **TOTAL** | **16,369,885** | **-** | **2,203,952** | **18,573,837** |

| | Balance at 30 June 2008 | Issued | Net Other Change(1) | Balance at 30 June 2009 |
|---|---|---|---|---|
| Mr N Martin(2) | 5,454,921 | - | - | 5,454,921 |
| Mr C Dorsch | 4,725,000 | - | - | 4,725,000 |
| Mr R Hollingsworth(3) | 4,725,000 | - | - | 4,725,000 |
| Mr P Hunt(4) | 1,464,964 | - | - | 1,464,964 |
| Ms R Alwis | - | - | - | - |
| **TOTAL** | **16,369,885** | **-** | **-** | **16,369,885** |

**(1)** Net Change other refers to shares purchased or sold during the financial year.

**(2)** 4,418,381 shares are held by Mr Martin on behalf of some of the partners of Minter Ellison (Adelaide) and 1,021,098 shares are held by Houmar Nominees Pty. Ltd as trustee for the Martin Super Fund. Mr Martin is a Director and shareholder of Houmar Nominees Pty. Ltd and a beneficiary of the Martin Super Fund.

"**(3)**" 4,000,000 shares are held by Mr Hollingsworth on behalf of the RJS Hollingsworth Family Trust.

"**(4)**" 451,921 shares held by Hunt Corporation Investments Pty Ltd as trustee for The Peter Hunt Superannuation Fund. Mr Hunt is a Director and shareholder of Hunt Corporation Investments Pty Ltd and a beneficiary of the Peter Hunt Superannuation Fund.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

| | NOTE | Consolidated 2010 $ | 2009 $ |
|---|---|---|---|
| **NOTE 6: AUDITORS' REMUNERATION** | | | |
| Remuneration of the auditor of the Group for: | | | |
| auditing or reviewing the financial report | | 26,500 | 22,000 |
| | | 26,500 | 22,000 |
| **NOTE 7: EARNINGS PER SHARE** | | | |
| a. Net profit/(loss) | | (1,893,428) | 1,413,200 |
| Earnings used in the calculation of basic EPS | | (1,893,428) | 1,413,200 |
| b. Weighted average number of ordinary shares outstanding during the year used in calculation of basic EPS | | 165,921,300 | 101,802,515 |
| c. In accordance with AASB 133 there are no dilutive securities | | | |
| **NOTE 8: CASH AND CASH EQUIVELANTS** | | | |
| CURRENT | | | |
| Cash at bank and in hand | | 1,209,003 | 4,225,590 |

The effective interest rate on cash at bank deposits was 5% (2009: 3%); these deposits are at call.

*The company's risk exposure to interest rate risk is discussed at Note 20.*

| | | | |
|---|---|---|---|
| **NOTE 9: RECEIVABLES** | | | |
| CURRENT | | | |
| Trade Debtors | | 682,880 | 594,229 |
| Other Debtors | | 118,554 | 153,439 |
| Goods & Service Taxation receivable | | 575,156 | 2,701 |
| | | 1,376,590 | 750,369 |

*There are no material trade and other receivables that are considered to be past due or impaired.*

| | | | |
|---|---|---|---|
| **NOTE 10: OTHER ASSETS** | | | |
| CURRENT | | | |
| Condensate Reserves | | - | 13,000 |
| Prepayments | | 1,016 | 1,575 |
| | | 1,016 | 14,575 |

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

### NOTE 11: PROPERTY, PLANT AND EQUIPMENT

| | Consolidated | |
|---|---|---|
| | **2010** | **2009** |
| PLANT AND EQUIPMENT | **$** | **$** |
| Plant and equipment at cost | 269,121 | 154,639 |
| Accumulated depreciation | (108,739) | (73,172) |
| | 160,382 | 81,467 |
| Balance at the beginning of year | 81,467 | 87,722 |
| Additions | 116,559 | 40,969 |
| Disposals | - | - |
| Depreciation expense | (37,644) | (47,224) |
| **Carrying amount at the end of year** | 160,382 | 81,467 |

### NOTE 12: OIL & GAS DEVELOPMENT ASSETS

| | | |
|---|---|---|
| Plant & Equipment at cost | 5,797,191 | 956,763 |
| Accumulated depreciation | (282,312) | (54,700) |
| | 5,514,879 | 902,063 |
| Development assets and wells at cost | 3,880,377 | 3,269,546 |
| Accumulated Amortisation | (707,253) | (259,583) |
| | 3,173,124 | 3,009,963 |
| | 8,688,003 | 3,912,026 |
| Balance at the beginning of the year | 3,912,026 | - |
| Additions – Plant & Equipment | 4,840,428 | 956,763 |
| Additions – Development Assets | 610,831 | 3,269,546 |
| Depreciation Expense – Plant & Equipment | (227,612) | (54,700) |
| Amortisation Expense – Development Assets | (447,670) | (259,583) |
| **Carrying amount at end of year** | 8,688,003 | 3,912,026 |

### NOTE 13: EXPLORATION AND EVALUATION COSTS

| | | |
|---|---|---|
| Costs carried forward in respect of exploration and evaluation expenditure | 22,921,797 | 8,162,430 |
| **(a) Movements in carrying amounts** | | |
| Balance at the beginning of the year | 8,162,430 | 7,260,876 |
| Amounts capitalised during the year | 10,968,607 | 2,941,981 |
| Amounts acquired through business combination | 4,100,000 | - |
| Tenement interest disposed | - | (1,452,486) |
| Asset Impairment | (309,240) | (587,941) |
| Total exploration and evaluation costs | 22,921,797 | 8,162,430 |

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

### NOTE 13: EXPLORATION AND EVALUATION COSTS (Contd)

The following joint ventures are currently held by the Group and are available for exploration:

| Licence | Interest | Basin | State | Capitalised Costs 2009 $ | Capitalised Costs 2008 $ |
|---|---|---|---|---|---|
| PEL-105 (Cooper Basin) | 50% (1) | Cooper | SA | 1,549,321 | 1,185,436 |
| West Florence Project | 50% (2) | Florence | Colorado, USA | 109,408 | 100,000 |
| PEL-218 (Cooper Basin) | 10% (3) | Cooper | SA | 1,767,895 | 178,559 |

(1) Adelaide Energy has the right to acquire a 50% participating interest in PEL 105 from Austin Exploration Limited under the PEL 105 Farm-in Agreement dated 8 October 2007.

(2) Adelaide Energy Limited has earned a 15% interest in West Florence Prospect and assumed another 35%

(3) Beach Petroleum Limited acquired an interest in the Permian and Post Permian Strata of PEL 218 on 22 May 2009. A further interest was acquired in the post permian strata on 12 March 2010 as part of the Deka Resources Pty Ltd and Well Traced Pty Ltd acquisition.

The ultimate recoupment of costs carried forward is dependant on successful development and commercial exportations and sale of the respective areas of interest.

| | Consolidated 2010 $ | Consolidated 2009 $ |
|---|---|---|
| **NOTE 14: TRADE AND OTHER PAYABLES** | | |
| CURRENT | | |
| Trade payables | 2,891,310 | 233,942 |
| Sundry payables and accrued expenses | 968,240 | 166,828 |
| | 3,859,550 | 400,770 |

### NOTE 15: PROVISIONS

| | Restoration | Short-term employee benefits | Long-term employee benefits | Total |
|---|---|---|---|---|
| Opening Balance at 1 July 2009 | 2,000,000 | 190,937 | 74,649 | 2,265,586 |
| Additional Provisions | - | 72,965 | 74,327 | 147,292 |
| Amounts used | - | (111,766) | - | (111,766) |
| Balance at 30 June 2010 | 2,000,000 | 152,136 | 148,976 | 2,301,112 |

| **Analysis of Total Provisions** | **2010** | **2009** |
|---|---|---|
| Current | 152,136 | 190,937 |
| Non-current | 2,148,976 | 2,074,649 |
| | 2,301,112 | 2,265,586 |

**Provision for Restoration**

A provision has been recognised for the costs to be incurred for the restoration of the wells used for the extraction of gas and condensate. It is anticipated that the wells will require restoration in the next 5 years.

**Provision for Short/Long-term Employee Benefits**

A provision has been recognised for employee entitlements relating to annual and long service leave. In calculating the present value of future cashflows in respect of long service leave, the probability of long service leave being taken is based on historical data. The measurement and recognition criteria relating to employee benefits has been included in Note 1 to this report.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

| NOTE 16: ISSUED CAPITAL | Consolidated 2010 | 2009 |
|---|---|---|
| 227,092,667 (2009: 105,107,625 fully paid ordinary shares) | 29,118,397 | 13,776,470 |
| **a. Ordinary shares** | | |
| At the beginning of the year | 13,776,470 | 13,456,050 |
| Shares issued during the year: | | |
| 23 July 2009 | 960,000 | - |
| 21 September 2009 | 2,324,000 | - |
| 27 November 2009 | 3,960,000 | - |
| 30 November 2009 | 1,440,000 | - |
| 3 December 2009 | 600,000 | - |
| 12 March 2010 | 2,100,000 | - |
| 19 April 2010 | 345,000 | - |
| 20 April 2010 | 1,155,000 | - |
| 20 May 2010 | 2,141,447 | - |
| 1 June 2010 | 675,000 | - |
| Total shares issued during the year | 15,700,447 | - |
| Shares issued during the prior year: | | |
| 23 December 2008 | - | 275,000 |
| 23 February 2009 | - | 50,000 |
| Total shares issued during prior year | - | 325,000 |
| Less: Cost of capital raising (net of tax) | (358,520) | (4,580) |
| At the end of the year | 29,118,397 | 13,776,470 |

| | 2010 No. | 2009 No. |
|---|---|---|
| At the beginning of the year | 105,107,625 | 98,607,625 |
| Shares issued during the year: | | |
| 23 July 2009 | 8,000,000 | - |
| 21 September 2009 | 20,208,733 | - |
| 27 November 2009 | 33,000,000 | - |
| 30 November 2009 | 12,000,000 | - |
| 3 December 2009 | 5,000,000 | - |
| 12 March 2010 | 15,000,000 | - |
| 19 April 2010 | 2,300,000 | - |
| 20 April 2010 | 7,700,000 | - |
| 20 May 2010 | 14,276,309 | - |
| 1 June 2010 | 4,500,000 | - |
| | 121,985,042 | - |
| Shares issued during the prior year: | | |
| 23 December 2008 | - | 5,500,000 |
| 23 February 2009 | - | 1,000,000 |
| Total shares Issued during the year | - | 6,500,000 |
| At the end of the year | 227,092,667 | 105,107,625 |

At shareholders' meetings each ordinary share is entitled to one vote when a poll is called, otherwise each shareholder has one vote on a show of hands.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

| NOTE 16: ISSUED CAPITAL | Consolidated 2010 $ | Consolidated 2009 $ |
|---|---|---|
| **b. Options** | **Unlisted 2011 A Class Options** | |
| | **No.** | **No.** |
| At the beginning of the year | 31,333,332 | 30,000,000 |
| Options issued during the year | | |
| 30 June 2010 | 100,000 | - |
| Options issued during prior year | | |
| 27 January 2009 | - | 666,666 |
| 25 February 2009 | - | 666,666 |
| At the end of the year | 31,433,332 | 31,333,332 |
| | **Unlisted 2012 Options** | |
| | **No.** | **No.** |
| At the beginning of the year | - | - |
| Options issued during the year | | |
| 30 June 2010 | 1,000,000 | - |
| At the end of the year | 1,000,000 | - |
| | **Unlisted 2013 Options** | |
| | **No.** | **No.** |
| At the beginning of the year | - | - |
| Options issued during the year | | |
| 30 June 2010 | 350,000 | - |
| At the end of the year | 350,000 | - |

In the event that all Unlisted Options were exercised the Company would be required to issue a further 32,783,332 (2009: 31,333,332) ordinary shares.

The options have the following terms:

Unlisted Options: 2011 A Class Options have an exercise price of $0.40 and expire on 30 June 2011

Unlisted Options: 2012 Options have an exercise price of $0.20 and expire on 31 January 2012

Unlisted Options: 2013 Options have an exercise price of $0.15 and expire on 31 December 2013

**c. Capital Management**

Management control the capital of the Group in order to maintain a good debt to equity ratio, provide the shareholders with adequate returns and ensure that the group can fund its operations and continue as a going concern. The Group's debt and capital includes ordinary share capital supported by financial assets. There are no externally imposed capital requirements.

Management effectively manages the Group's capital by assessing the Group's financial risks and adjusting its capital structure in response to changes in these risks and in the market. These responses include the management of debt levels, distributions to shareholders and share issues. The Group's policy is to fund exploration and development projects by share capital.

There have been no changes in the strategy adopted by management to control the capital of the Group since the prior year.

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010**

### NOTE: 17 OPERATING SEGMENTS

The Group has identified its operating segments based on the internal reports that are reviewed and used by the Board of Directors (chief operating decision makers) in assessing performance and determining the allocation of resources.

The Group operated in the oil and gas industry within two geographical segments: Australian and the United States of America. For the annual year ending 30 June 2010, the company operated within two business segments: production and exploration and evaluation.

**Basis of accounting for purposes of reporting by operating segments**

Unless stated otherwise, all amounts reported to the Board of Directors as the chief decision maker with respect to operating segments are determined in accordance with accounting policies that are consistent with those adopted in the annual financial statements of the company.

***Segment assets***

Where an asset is used across multiple segments, the asset is allocated to the segment that receives the majority of economic value from the asset. In the majority of instances, segment assets are clearly identifiable on the basis of their nature and physical location.

***Segment liabilities***

Liabilities are allocated to segments where there is direct nexus between the incurrence of the liability and the operations of the segment. Borrowings and tax liabilities are generally considered to relate to the company as a whole and are not allocated. Segment liabilities include trade and other payables and certain direct borrowings.

***Unallocated items***

The following items of revenue, expense, assets and liabilities are not allocated to operating segments as they are not considered part of the core operations of any segment:

- Income tax expense; and
- Deferred tax assets and liabilities

***Comparative information***

This is the first annual reporting period in which AASB 8: Operating Segments has been adopted. Comparative information has been stated to conform to the requirements of the Standard.

**Consolidated**

| **(i) Segment performance** | **Production** | **Exploration** | **Corporate & Administration** | **Total** |
|---|---|---|---|---|
| **30.06.2010** | **$** | **$** | **$** | **$** |
| Revenue | | | | |
| External Sales | 3,170,470 | - | - | 3,170,470 |
| Interest revenue | | - | 226,965 | 226,965 |
| Total segment revenue | 3,170,470 | - | 226,965 | 3,397,435 |
| Segment net profit before tax, depreciation and amortisation | 798,641 | (309,240) | (1,456,535) | (967,134) |
| *Reconciliation of segment result to total net profit/(loss) before tax* | | | | |
| Amounts not included in segment result but reviewed by the Board: | | | | |
| • Depreciation & Amortisation | (675,282) | - | (37,644) | (712,926) |
| Net profit before tax from continuing operations | 123,359 | (309,240) | (1,494,179) | (1,680,060) |

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

### NOTE 17: OPERATING SEGMENTS (CONT)

| | Production | Exploration | Corporate & Administration | Total |
|---|---|---|---|---|
| **30.06.2009** | **$** | **$** | **$** | **$** |
| Revenue | | | | |
| External Sales | 866,392 | 5,140,000 | - | 6,006,392 |
| Interest revenue | - | - | 145,291 | 145,291 |
| Total segment revenue | 866,392 | 5,140,000 | 145,291 | 6,151,683 |
| Segment net profit before tax, depreciation and amortisation | 9,377 | 3,687,514 | (1,665,521) | 2,031,370 |
| *Reconciliation of segment result to total net profit/(loss) before tax* | | | | |
| Amounts not included in segment result but reviewed by the Board: | | | | |
| • Depreciation & Amortisation | (314,283) | - | (47,224) | (361,507) |
| Net profit before tax from continuing operations | (304,906) | 3,687,514 | (1,712,745) | 1,669,863 |

**Consolidated**

| (ii) Segment assets | Production | Exploration | Corporate & Administration | Total |
|---|---|---|---|---|
| **30.06.2010** | **$** | **$** | **$** | **$** |
| Segment Assets | 8,688,003 | 22,921,797 | 2,746,991 | 34,356,791 |
| Segment asset increases for the period: | | | | |
| • Property, Plant & Equipment | 4,840,428 | - | 116,559 | 4,956,987 |
| • Oil & Gas Development Assets | 610,831 | - | - | 610,831 |
| • Exploration & Evaluation Expenditure | - | 15,068,607 | - | 15,068,607 |
| | 5,451,259 | 15,068,607 | 116,559 | 20,636,425 |
| Total assets from continuing operations | 8,688,003 | 22,921,797 | 2,746,991 | 34,356,791 |

| | Production | Exploration | Corporate & Administration | Total |
|---|---|---|---|---|
| **30.06.2009** | **$** | **$** | **$** | **$** |
| Segment Assets | 3,985,186 | 8,162,430 | 5,072,001 | 17,146,457 |
| Segment asset increases for the period: | | | | |
| • Property, Plant & Equipment | 956,763 | - | 40,969 | 40,969 |
| • Oil & Gas Development Assets | 3,269,546 | - | - | 4,226,309 |
| • Exploration & Evaluation Expenditure | - | 2,941,981 | - | 2,941,981 |
| | 4,226,309 | 2,941,981 | 40,969 | 7,209,259 |
| Total assets from continuing operations | 3,912,026 | 8,162,430 | 5,072,001 | 17,146,457 |

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

### NOTE 17: OPERATING SEGMENTS (CONT)

**Consolidated**

| (iii) Segment liabilities | Production | Exploration | Corporate & Administration | Total |
|---|---|---|---|---|
| **30.06.2010** | **$** | **$** | **$** | **$** |
| Segment liabilities | 2,358,641 | 2,992,917 | 1,484,771 | 6,836,329 |
| Total liabilities | 2,358,641 | 2,992,917 | 1,484,771 | 6,836,329 |

| Consolidated | Production | Exploration | Corporate & Administration | Total |
|---|---|---|---|---|
| **30.06.2009** | **$** | **$** | **$** | **$** |
| Segment liabilities | 2,198,986 | 440,215 | 435,293 | 3,074,494 |
| Total liabilities | 2,198,986 | 440,215 | 435,293 | 3,074,494 |

### NOTE 18: CASH FLOW INFORMATION

| | Consolidated 2010 $ | Consolidated 2009 $ |
|---|---|---|
| **a. Reconciliation of Cash Flow from Operations with Loss from Ordinary Activities after Income Tax** | | |
| Profit/(Loss) from ordinary activities after income tax | (1,893,428) | 1,413,200 |
| Non-cash flows in profit from ordinary activities | | |
| Depreciation | 265,256 | 161,507 |
| Amortisation | 447,670 | 200,000 |
| Impairment | 309,240 | 587,941 |
| Profit on disposal | - | (3,687,514) |
| Tax portion on capital raising costs | 153,651 | 1,964 |
| Changes in assets and liabilities: | | |
| (Increase)/decrease in receivables | (626,221) | (680,146) |
| (Increase)/decrease in prepayments and other assets | 13,559 | (519,491) |
| Increase/(decrease) in creditors | 3,548,038 | (54,970) |
| Increase/(decrease) in deferred tax liability | 178,271 | 408,138 |
| Increase/(decrease) in provisions | (1,964,474) | 257,165 |
| Cash flow from operations | 431,562 | (1,912,206) |

### NOTE 19: SHARE-BASED PAYMENTS

There were share based payments issued to employees during the year pursuant to the employee share option plan.

| Options granted to employees during the year are as follows: | Grant Date | Number |
|---|---|---|
| | 30 June 2010 | 1,450,000 |

*1,000,000 2012 Options were issued with a strike price of $0.20*

*350,000 2013 Options were issued with a strike price of $0.15*

*100,000 2011 A Class Options were issued with a strike price of $0.40*

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

### NOTE 19: SHARE-BASED PAYMENTS (CONT)

| | 2010 | | 2009 | |
|---|---|---|---|---|
| | Number of Options | Weighted Average Exercise Price $ | Number of Options | Weighted Average Exercise Price $ |
| Outstanding at the beginning of the year | 1,333,332 | $0.40 | - | - |
| Granted | 1,450,000 | $0.20 | 1,333,332 | $0.40 |
| Forfeited | - | - | - | - |
| Exercised | - | - | - | - |
| Expired | - | - | - | - |
| Outstanding at year-end | 2,783,332 | $0.30 | 1,333,332 | $0.40 |
| Exercisable at year-end | 2,783,332 | $0.30 | 1,333,332 | $0.40 |

As at the date of exercise, the weighted average share price of options exercised during the year was $Nil.

The weighted average remaining contractual life of options outstanding at year end was 1.5 years. The weighted average exercise price of outstanding shares at reporting date was $0.30.

The weighted average fair value of options granted during the year was $Nil. These values were calculated using the Black-Scholes options pricing model applying the following inputs:

| | |
|---|---|
| Weighted average exercise price: | 0.20 |
| Weighted average life of the option: | 2 years |
| Underlying share price: | $0.09 |
| Expected share price volatility: | 30.26% |
| Risk-free interest rate: | 4.63% |

No shares were issued to key management personnel as share based payments during the year.

### NOTE 20: FINANCIAL INSTRUMENTS

**a. Financial Risk Management**

The Group's financial instruments consist mainly of deposits with banks, accounts receivable, trade and sundry payables.

(i)Treasury risk management

The senior executives of the Group regularly analyse interest rate exposure and evaluation treasury management strategies in the context of the most recent economic conditions and forecasts.

(ii)Financial risks

The main risk the Group is exposed to through its financial instruments is liquidity risk.

*Liquidity risk*

Liquidity risk is the risk arising from the Group not being able to meet its obligations. The Group manages its liquidity needs by monitoring scheduled debt servicing payments for long-term financial liabilities as well as forecast cash inflows and outflows due in day-to-day business. The data used for analysing these cash flows is consistent with that used in the contractual maturity analysis below. Liquidity needs are monitored in various time bands, on a day-to-day and week-to-week basis, as well as on the basis of a rolling 30-day projection. Long-term liquidity needs for a 180-day and a 360-day lookout period are identified monthly. Net cash requirements are compared to available borrowing facilities in order to determine headroom or any shortfalls. This analysis shows that available borrowing facilities are expected to be sufficient over the lookout period.

The Group's objective is to maintain cash and marketable securities to meet its liquidity requirements for 30-day periods at a minimum. The Group maintains cash and marketable securities to meet its liquidity requirements for 30-day periods at a minimum. Funding for long-term liquidity needs is additionally secured by an adequate amount of committed credit facilities and the ability to sell long-term financial assets.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

**NOTE 20: FINANCIAL INSTRUMENTS (CONTD)**

**h. Financial Instruments**

(i)Interest rate risk

The Group's exposure to interest rate risk, which is the risk that a financial instrument's value will fluctuate as a result of changes in market interest rates and the effective weighted average interest rates on classes of financial assets and financial liabilities, is as follows:

| Consolidated | Weighted Average effective Interest Rate | Floating Interest Rate | Non-interest Bearing | TOTAL |
|---|---|---|---|---|
| **2010** | | | | |
| **Financial Assets** | | | | |
| Cash and cash equivalents | 5% | 1,209,003 | - | 1,209,003 |
| Receivables | - | - | 1,376,590 | 1,376,590 |
| **Total Financial Assets** | | 1,209,003 | 1,376,590 | 2,585,593 |
| **Financial Liabilities:** | | | | |
| Trade and sundry payables | | - | 3,859,550 | 3,859,550 |
| Financial Liabilities | 8% | 89,258 | - | 89,258 |
| **Total Financial Liabilities** | | 89,258 | 3,859,550 | 3,948,808 |
| **Net Financial Assets** | | 1,119,745 | (2,482,960) | (1,363,215) |
| **2009** | | | | |
| **Financial Assets:** | | | | |
| Cash and cash equivalents | 3% | 4,225,590 | - | 4,225,590 |
| Receivables | - | - | 750,369 | 750,369 |
| **Total Financial Assets** | | 4,225,590 | 750,369 | 4,975,959 |
| **Financial Liabilities:** | | | | |
| Trade and sundry payables | - | - | 400,770 | 400,770 |
| **Total Financial Liabilities** | | - | 400,770 | 400,770 |
| **Net Financial Assets** | | 4,225,590 | 349,599 | 4,575,189 |

| **Reconciliation of Net Financial Assets to Net assets** | **2010 $** | **2009 $** |
|---|---|---|
| Net Financial Assets/(liabilities) (as above) | (1,363,215) | 4,575,189 |
| Non Financial Assets and Liabilities: | | |
| Prepayments | 1,016 | 1,575 |
| Condensate reserves | - | 13,000 |
| Exploration expenditure | 22,921,797 | 8,162,430 |
| Oil & gas development Assets | 8,688,003 | 3,912,026 |
| Plant and equipment | 160,382 | 81,467 |
| Deferred tax liability | (586,409) | (408,138) |
| Short/long term provisions | (2,301,112) | (2,265,586) |
| **Net Assets/(Liabilities) per statement of financial position** | 27,520,462 | 14,071,963 |

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

**(ii).** Net Fair Values

The net fair value of cash and cash equivalents and non interest bearing monetary financial assets and financial liabilities of the Group approximate their carrying value.

The net fair value of other monetary financial assets and financial liabilities is based on discounting future cash flows by the current interest rates for assets and liabilities with similar risk profiles. The balances are not materially different from those disclosed in the statement of financial position of the Group.

### NOTE 21: EVENTS AFTER THE BALANCE SHEET DATE

The Group obtained a $1 million overdraft facility with the ANZ bank. Subject to the exclusion referred to below the security for the facility is a first Registered Company Charge (Mortgage Debenture) over all the assets and undertaking of the Company. The charge is a fixed and floating charge over all present and future assets, undertaking (including goodwill) and unpaid/uncalled capital of the Company. The Katnook Gas Plant is excluded from this charge.

There are no other events subsequent to balance sheet date that require disclosure.

### NOTE 22: RELATED PARTY TRANSACTIONS

Transactions between related parties are on normal commercial terms and conditions no more favourable than those available to other parties unless otherwise stated.

**Transactions with related parties:**

**i. Transactions with Director-related Entities & Key Employees**

During the year, the Group purchased plant and equipment from Dorsch Engineering Services for the provision of equipment to assist the company's production operations. The equipment was sold at a commercial rate. Dorsch Engineering Services also was reimbursed for minor costs incurred on behalf of the Group. The cost of the plant and equipment and reimbursed expenses was $50,776 (2009: $38,853). Mr Carl Dorsch is the principal of Dorsch Engineering Services. At 30 June 2010 $399 (2009: $ nil) was payable to Dorsch Engineering Services.

During the year, the Group used the services of Dorsch Consultants Pty Ltd for the provision of administration consultancy services. The cost of these services was $15,037 (2009: $nil). Mr Carl Dorsch is the principal of Dorsch Consultants Pty Ltd. At 30 June 2010 $16,540.52 (2009: $nil) was payable to Dorsch Consultants Pty Ltd.

During the year, the Group used the services of Strzelecki Metals Limited for the provision of administration services at commercial rates. The cost of these services amounted to $614 (2009: $16,630). Messrs Carl Dorsch and Peter Hunt are Directors and shareholders of Strzelecki Metals Limited during the year. At 30 June 2010 $nil (2009: $nil) was payable to Strzelecki Metals Limited.

During the year, the Group used the services of Minter Ellison for the provision of legal services. The cost of these services amounted to $32,561 (2009: $139,000). Mr Neville Martin was a partner of Minter Ellison during the whole the year. At 30 June 2010 $272 (2009: $65,300) was payable to Minter Ellison.

During the year, the Group used the services of PKF Chartered Accountants for the provision of taxation services. The cost of these services amounted to $44,808 (2009: $23,644). Mr Peter Hunt was a PKF Chartered Accountants partner during the whole year. At 30 June 2010 $12,639l (2009: $Nil) was payable to PKF Chartered Accountants.

Ms Alwis is an employee and is remunerated by AE Administrative Services Pty Ltd as part of their service agreement. During the year ended 30 June 2010 AE Administrative Services Pty Ltd charged $56,944 (2009: $19,183). At balance date there was $6,600 (2009: $5,510) unpaid to AE Administrative Services Pty Ltd.

| NOTE 23: EXPLORATION EXPENDITURE COMMITMENTS RELATING TO UNINCORPORATED JOINT VENTURES AND WHOLLY-OWNED TENEMENTS | 2010 $ | 2009 $ |
|---|---|---|
| **Payables** | | |
| Less than one year | 9,450,000 | 3,500,000 |
| Between one and five years | 9,150,000 | - |
| More than five years | - | - |
| **Total** | 18,600,000 | 3,500,000 |

The Group has guaranteed obligations to perform minimum exploration work and expend minimum amounts of money pursuant to the terms of the granting of petroleum exploration permits in order to maintain rights of tenure. The commitments may be varied as a result of renegotiation of the terms of the exploration permits or alternatively upon their relinquishment.

It is the Group's intention to seek farm-in parties in respect of certain drilling prospects within its exploration licences under arrangements whereby farm-in parties contribute a proportion of the cost of drilling. The commitments set out above do not recognise recoverable amounts from potential joint venture partners.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

### NOTE 24: COMMITMENTS FOR EXPENDITURE

| (a) Non-cancellable operating lease rentals are payable as follows: | 2010 $ | 2009 $ |
|---|---|---|
| Less than one year | 134,712 | 53,042 |
| Between one and five years | 57,044 | - |
| More than five years | - | - |

| (b) Finance Lease commitments | $ | $ |
|---|---|---|
| Payable – minimum lease payments | | |
| – not later than 12 months | 26,295 | - |
| – between 12 months and 5 years | 79,442 | - |
| – greater than 5 years | - | - |
| Minimum lease payments | 105,737 | - |
| Less future finance charges | (16,479) | - |
| Present value of minimum lease payments | 89,258 | - |
| Finance Lease breakdown as follows: | | |
| Current | 16,951 | |
| Non-current | 72,307 | |
| Total | 89,258 | |

| (c) Capital commitments are payable as follows: | 2010 $ | 2009 $ |
|---|---|---|
| Less than one year | 250,000 | - |
| Between one and five years | - | - |
| More than five years | - | - |

The Group has no further capital or leasing commitments at 30 June 2010 or 30 June 2009.

### NOTE 25: CONTINGENT LIABILITES AND ASSETS

The Group is in dispute with a supplier over the cost of a tool which was lost down-hole. The disputed amount, of around $600k, is considered by the Board not to be owed by the Group and as such is a contingent liability only.

The acquisition of the Otway Production Assets requires the company to undertake well restoration. The SA Minister for Mineral and Resource Development has a charge in his favour over the Katnook Gas Plant for this restoration.

The Group has no other contingent assets or liabilities at the 30 June 2010 or 30 June 2009.

### NOTE 26: BUSINESS COMBINATION

On 6 January 2010 Australian Unconventional Gas Pty Ltd ("AUG") was formed. Adelaide Energy Limited owns 100% of the share capital of AUG.

On 12 March 2010, the Group finalised the acquisition of Deka Resources Pty Ltd ("Deka') and Well Traced Pty Ltd ("Well Traced"). AUG acquired 100% of Deka and Well Traced by purchasing all the shares in Deka and Well Traced for $4,100,000. The $4,100,000 was funded through the issue of 15,000,000 fully paid ordinary shares in the Company at $0.14 per share and $2,000,000 cash.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

### NOTE 26: BUSINESS COMBINATION (CONT)

The acquisition had the following effect on the consolidated entity's assets and liabilities on acquisition date:

| | 2010 |
|---|---|
| Exploration and Evaluation Costs – Deka | 2,050,000 |
| Exploration and Evaluation Costs – Well Traced | 2,050,000 |
| | |
| Cash consideration | 2,000,000 |
| Script consideration | 2,100,000 |
| Consideration paid, satisfied in shares and cash | 4,100,000 |

### NOTE 27: PARENT ENTITY FINANCIAL INFORMATION

| **Statement of Financial Position** | Parent entity | |
|---|---|---|
| | 30 June 2010 $ | 30 June 2009 $ |
| Current Assets | 2,595,038 | 4,990,534 |
| Non-current assets | 31,841,453 | 12,155,923 |
| Total assets | 34,436,491 | 17,146,457 |
| | | |
| Current liabilities | 4,029,062 | 591,707 |
| Non-current liabilities | 2,807,692 | 2,482,787 |
| Total liabilities | 6,836,754 | 3,074,494 |
| | | |
| Net Assets | 27,599,737 | 14,071,963 |
| | | |
| Shareholders' equity | | |
| Contributed equity | 29,118,397 | 13,776,470 |
| Retained earnings | (1,518,660) | 295,493 |
| Capital and reserves attributable to owners | 27,599,737 | 14,071,963 |

## DIRECTORS' DECLARATION

The Directors of the Company declare that:

1. The financial statements and notes, as set out on pages 24 to 45 are in accordance with the ***Corporations Act 2001***:
    a. comply with Accounting Standards and the ***Corporations Regulations 2001***; and
    b. give a true and fair view of the financial position as at 30 June 2010 and of the performance for the year ended on that date of the Company;
    c. also comply with International Financial Reporting Standards as outlined within Note 1
2. The Managing Director and Chief Finance Officer have each declared that:
    (a) the financial records of the Company for the financial year have been properly maintained in accordance with section 286 of the Corporations Act 2001;
    (b) the financial statements and notes for the financial year comply with the Accounting Standards; and
    (c) the financial statements and notes for the financial year give a true and fair view.
3. In the Directors' opinion there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the Board of Directors.

**Neville Martin**
Chairman

Dated this 30th day of September 2010.

Grant Thornton

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# INDEPENDENT AUDITOR'S REPORT
# TO THE MEMBERS OF ADELAIDE ENERGY LIMITED

## Report on the financial report

We have audited the accompanying financial report of Adelaide Energy Limited (the "Company"), which comprises the statement of financial position as at 30 June 2010, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date, a summary of significant accounting policies, other explanatory notes to the financial report 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 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 are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. The directors also state, in the notes to the financial report, in accordance with Accounting Standard AASB 101 Presentation of Financial Statements, that compliance with the Australian equivalents to International Financial Reporting Standards ensures that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards.

## Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards which require us to 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.

Grant Thornton

**INDEPENDENT AUDITOR'S REPORT**
**TO THE MEMBERS OF ADELAIDE ENERGY LIMITED** Cont

**Auditor's responsibility** Cont
An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error.

In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

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

**Independence**
In conducting our audit, we have complied with the independence requirements of the Corporations Act 2001.

**Auditor's opinion**
In our opinion,

a the financial report of Adelaide Energy Limited is 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 of its performance for the year ended on that date; and

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

b the financial report also complies with International Financial Reporting Standards as disclosed in the notes to the financial statements.

**Report on the remuneration report**
We have audited the Remuneration Report included in 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.

**INDEPENDENT AUDITOR'S REPORT**
**TO THE MEMBERS OF ADELAIDE ENERGY LIMITED** Cont

**Auditor's opinion on the remuneration report**

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

GRANT THORNTON
South Australian Partnership
Chartered Accountants

S J Gray
Partner

Adelaide, 30 September 2010

## SHAREHOLDER INFORMATION

Additional Information required by the Australian Securities Exchange Listing Rules and not disclosed elsewhere in this report is set out below. The information is as at 13 October 2010

### Substantial shareholders

Auckland Trust Company Limited: 19.85%
Beach Energy Limited: 5.70%.

There were no other substantial shareholders as at 13 October 2010.

### Voting Rights

Fully paid ordinary shares

Subject to any rights or restrictions attached to any class of shares, at a meeting of members, on a show of hands, each member present (in person, by proxy, attorney or representative) has one vote and on a poll, each member present (in person, by proxy, attorney or representative) has one vote for each fully paid share they hold.

Unlisted Options

Option holders will be entitled on the payment of the exercise price to be allotted one ordinary fully paid share in the Company for each Option exercised. The exercise price and expiry date of Options are as follows:

| Options | Exercise Price | Expiry Date |
|---|---|---|
| 2011 A Class Options | $0.40 | 30 June 2011 |
| 2012 Options | $0.20 | 31 January 2012 |
| 2013 Options | $0.15 | 31 December 2013 |

Any Options not exercised before the expiry date will lapse.

### Distribution of equity security holders

| Category | Holders of Ordinary Shares | Holders of Options |
|---|---|---|
| 1 – 1000 | 45 | 0 |
| 1,001 – 5,000 | 136 | 0 |
| 5,001 – 10,000 | 201 | 0 |
| 10,001 – 100,000 | 785 | 3 |
| 100,001 – and over | 320 | 8 |
| Total number of security holders | 1,487 | 11 |

## SHAREHOLDER INFORMATION

**Twenty largest shareholders**

The names of the 20 largest holders of fully paid ordinary shares constituting a class of quoted equity securities on the Australian Securities Exchange Limited including the number and percentage held by those at 13 October 2010 are as follows:

| Rank | Name | Units | % of Units |
|---|---|---|---|
| 1. | AUCKLAND TRUST COMPANY LIMITED | 45,200,000 | 19.85 |
| 2. | BEACH ENERGY LIMITED | 12,983,697 | 5.70 |
| 3. | BLUE DOG ENERGY PTY LTD <B16 ENERGY FAMILY A/C> | 7,500,000 | 3.29 |
| 4. | MR DENNIS MILTON HARRISON + MRS KATHLEEN MARGARET HARRISON <DM & KM HARRISON FAMILY A/C> | 7,500,000 | 3.29 |
| 5. | MR NEVILLE WAYNE MARTIN | 6,014,947 | 2.64 |
| 6. | DAYCORP CAPITAL PTY LTD <DAYCORP CAPITAL A/C> | 5,729,927 | 2.52 |
| 7. | MR CARL WILLIAM DORSCH | 4,811,957 | 2.11 |
| 8. | MR RODERIC JOHN SMILY HOLLINGSWORTH <RJS HOLLINGSWORTH FAMILY A/C> | 4,000,000 | 1.76 |
| 9. | MR STEVEN MARINOFF | 2,608,697 | 1.15 |
| 10. | VOBE RESOURCES PTY LTD <SUPERANNUATION FUND A/C> | 2,179,541 | 0.96 |
| 11. | MR MICHAEL KEVIN RICKETTS + MRS CATHERINE ALICE RICKETTS <THE SPIKER SUPER FUND A/C> | 2,144,572 | 0.94 |
| 12. | MR LARRY WERECKY <SUPER FUND A/C> | 1,821,197 | 0.80 |
| 13. | TRIMS SUPERANNUATION FUND PTY LTD <TRIMS FIN CO P/L S/FUND A/C> | 1,681,848 | 0.74 |
| 14. | KIMBRIKI NOMINEES PTY LTD <KIMBRIKI HAMILTON SF A/C> | 1,500,000 | 0.66 |
| 15. | MR PETER HAYDEN HUNT | 1,186,957 | 0.52 |
| 16. | MR JOHN DARROCH + MRS GLORIA DARROCH + MR RICHARD DARROCH + MS HELEN DARROCH <J N DARROCH PRIVATE S/F A/C> | 1,159,157 | 0.51 |
| 17. | MRS PAMELA FRANCES CARTER | 1,120,209 | 0.49 |
| 18. | MR RODERIC JOHN SMILY HOLLINGSWORTH | 1,086,957 | 0.48 |
| 19. | MR JOHANNES JACOBUS KNOOPS | 1,047,362 | 0.46 |
| 20. | HOUMAR NOMINEES PTY LIMITED <MARTIN SUPER FUND A/C> | 1,021,098 | 0.45 |
| | **Totals: Top 20 holders of ORDINARY & ESCROWED SHARES** | **112,298,123** | **49.33** |
| | **Total Remaining Holders Balance** | **115,360,912** | **50.67** |

**Unlisted Option holders**

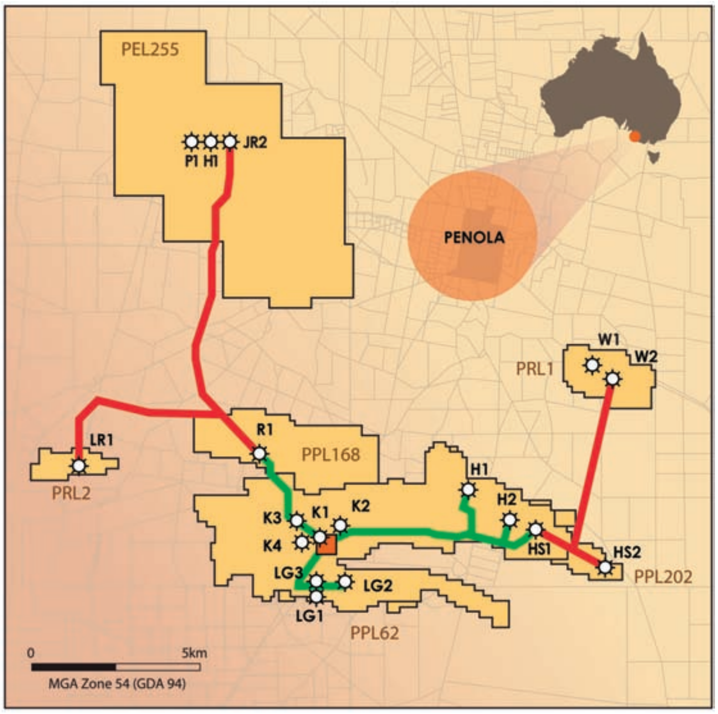
The names of the holders of Unlisted Options constituting a class of unquoted equity securities on the Australian Securities Exchange Limited including the number and percentage held by those at 13 October 2010 are as follows:

| | | | |
|---|---|---|---|
| 1. | MENZIES LIMITED | 10,000,000 | 30.50 |
| 2. | MR CARL WILLIAM DORSCH | 5,984,495 | 18.25 |
| 3. | MR RODERIC JOHN SMILY HOLLINGSWORTH <RJS HOLLINGSWORTH FAMILY A/C> | 4,651,163 | 14.19 |
| 4. | MARBEL CAPITAL PTY LTD | 4,651,163 | 14.19 |
| 5. | MR NEVILLE WAYNE MARTIN | 4,651,162 | 14.19 |
| 6. | MR PETER HAYDEN HUNT | 1,395,349 | 4.26 |
| 7. | BADETTE PTY LTD <WARNER FAMILY A/C> | 1,000,000 | 3.05 |
| 8. | MR RUSSELL CAMPBELL | 200,000 | 0.61 |
| 9. | MR WILLIAM ROBERT FAWCETT | 100,000 | 0.31 |
| 10. | MR SIMON GERARD MOONEY | 100,000 | 0.31 |
| 11. | MRS JOANNA EVA TREPA | 50,000 | 0.15 |
| | **Totals: Top 11 holders of ESCROWED OPTIONS** | **32,783,332** | **100.00** |
| | **Total Remaining Holders Balance** | **0** | **0.00** |

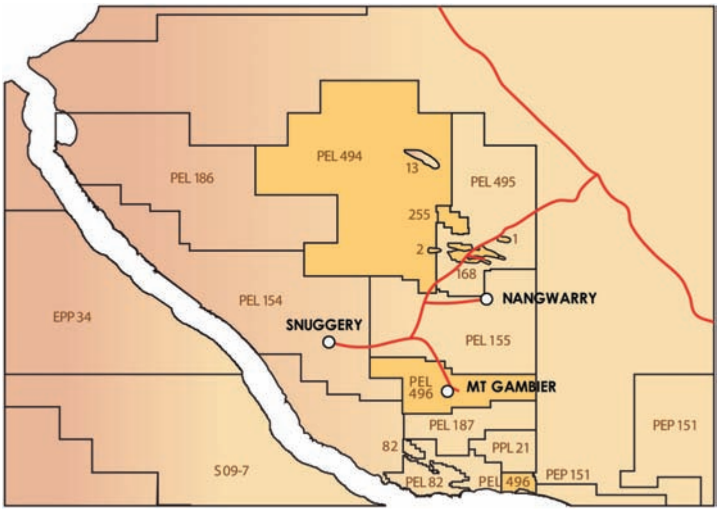
Otway Basin

- Katnook Gas Plant
- Existing Pipeline
- ADE Pipeline (tied-in- March 2010)
- PPL Petroleum Production Licence
- PRL Petroleum Retention Licence
- PEL Petroleum Exploration Licence
- Petroleum WELL

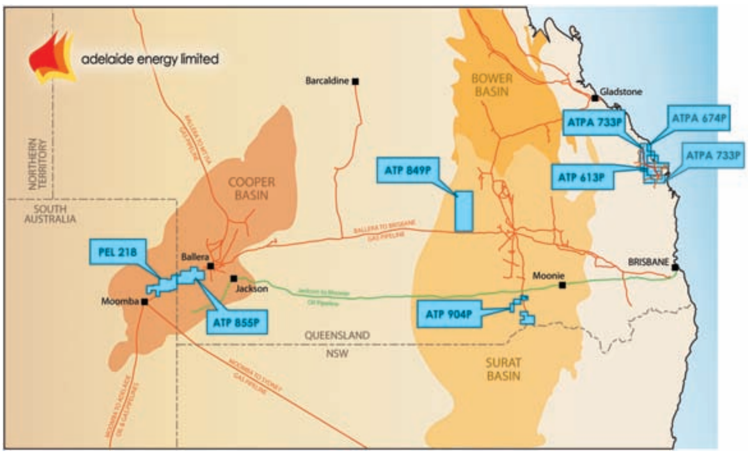
LR - Limestone Ridge
K - Katnook
LG - Ladbroke Grove
W - Wynn
H - Haselgrove
HS - Haselgrove South
R - Redman
JR - Jacaranda Ridge
P - Patrick
H - Hollick




Otway Exploration Permits




Maryborough Cooper and Surat Permits



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