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AED Oil Limited
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ASX Announcement

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AED Oil Limited (ASX: AED) announces \$16.75M Placement and \$4.5M Rights Issue

AED Oil Limited (ACN 110 393 292) (**AED**) is pleased to announce an equity capital raising program (**Capital Raising**) to raise gross proceeds of up to approximately \$21.25 million to assist fund ongoing capital requirements and the introduction of significant new investors with extensive industry experience.

This capital raising and restructuring provides an important funding package for AED to assist it meet its ongoing capital expenditure requirements and to provide a basis for growth. The Company is also wishing to attract new expertise and will do so by the appointment of new directors. The Company believes that this significant restructure will provide a sound base for future growth at a time when the requirement for capital is difficult to obtain in the current economic environment. AED has executed a term sheet with Sprott Private Wealth LP and ARF Amber Pte. Ltd. in respect of the Capital Raising, as described further below.

KEY HIGHLIGHTS

- \$2.25M to be raised by an immediate placement of up to 30 million shares at 7.5 cents
- \$14.5M to be raised by a placement of up to 193 million shares at 7.5 cents, conditional on shareholder approval and the requirements and other matters set out in this announcement
- A rights issue to be offered to eligible existing shareholders (including participants in the initial placement of 30 million shares) on the basis of 1 new share to be offered for each 4 shares held on the record date at an offer price of 7.5 cents
- One option to be issued for each share issued pursuant to the above transactions at no additional cost, such options to have a 5 year term and exercisable at 20 cents
- Access to a \$3M bridging facility (subject to satisfaction of certain conditions set out below)
- In-principle agreement with the holder of AED's US\$20M 6% unsecured convertible notes to effect certain amendments to the terms of those notes
- Potential changes to the Board of AED including a minimum 2 new director appointments
- This injection of substantial new capital allows AED to continue to pursue its 2011 work plans and to develop its longer term strategic plans
- Sprott's involvement gives AED access to considerable experience in the industry

AED Chief Executive Officer Mr John Imle said:

“AED will use the funds raised to support its capital requirements in the short to medium term assisting AED to maintain and properly develop its assets and for its broader strategic plans. The funds will be utilised by the Company to further pursue its 2011 exploration and appraisal programs and enable AED to pursue other attractive corporate development opportunities.”

“As outlined in my recent CEO update letter to shareholders, I strongly believe the Company’s appraisal/exploration portfolio is compelling and has significant potential. Our Brunei acreage is uniquely attractive in that it offers early and material value to AED with relatively low risk. In Indonesia, our acreage present exploration targets with unrisks prospective resources of several hundreds of millions of barrels of oil and tens of TCF of natural gas with an acceptable level of exploration risk. I am confident that the capitalization and farm-out actions being undertaken will enable AED to effectively evaluate our assets and unlock value for shareholders. AED will also continue to pursue other fund raising initiatives and transactional opportunities relevant to the period beyond its 2011 work plans.”

“While recent events and capital market conditions required us to look externally to our current register to obtain further capital, the rights issue component of the transaction means that our current shareholders will have the opportunity to participate in the Capital Raising, and we are hopeful that the other aspects of the Capital Raising will increase confidence in shareholders as to the strength of our portfolio. Sprott and their clients are experienced energy sector investors and their investment is a positive signal regarding the quality of the AED portfolio.”

Sprott Private Wealth L.P. has agreed to act as placement agent for the Capital Raising and also as financier for the \$3M bridging facility.

About Sprott Private Wealth LP and its Affiliates

Sprott Inc. is a leading independent asset manager dedicated to achieving superior returns for its clients over the long term. Sprott Inc. currently operates through four business units: Sprott Asset Management LP, Sprott Private Wealth LP, Sprott Consulting LP, and Sprott U.S. Holdings Inc. Sprott Asset Management is the investment manager of the Sprott family of mutual funds and hedge funds and discretionary managed accounts; Sprott Private Wealth provides wealth management services to high net worth individuals; and Sprott Consulting provides management, administrative and consulting services to other companies, including Sprott Resource Corp. (TSX: SCP), Sprott Resource Lending Corp. (TSX: SIL) (NYSE AMEX: SILU) and Sprott Power Corp. (TSX: SPZ). Sprott U.S. Holdings Inc. includes Global Resource Investments Ltd, Terra Resource Investment Management Inc., and Resource Capital Investments Inc. Sprott Inc. is headquartered in Toronto, Canada, and is listed on the Toronto Stock Exchange under the symbol “SII”.

Use of Funds

AED will use the proceeds from the Placement and the Rights Issue for its current operations in Brunei, Rombebai (Indonesia), South Madura (Indonesia) and the Timor Sea (Australia).

Specific activities which the proceeds will be used for include:

- exploration and development activities in Brunei, including acquisition of 3D seismic for oil evaluation at the Jerudong oilfield and for evaluation of the Lempuyang gas discovery, along with pre-drilling costs for two or three wells to be drilled in early 2012;
- additional geological analysis and pore pressure work in Rombebai (Indonesia) and pre-drilling costs for the Kare-1 well in early 2012;
- geological & geophysical activity in South Madura (Indonesia), including seismic planning and interpretation of the Kujung platform leads and prospects in the South Madura PSC;

- continuing studies for the ongoing development of our field in the Timor Sea (Australia) and exploration studies focused on deeper Jurassic/Triassic prospective plays throughout our current licence areas; and
- working capital for corporate and other costs and expenses in the ordinary course of business.

CAPITAL RAISING DETAILS

AED has executed a binding terms sheet with Sprott and its major Unsecured Convertible Note Holder, ARF Amber Pte. Ltd. (**ARF**) in respect of the Capital Raising (**Terms Sheet**). Key aspects of the Terms Sheet are as follows:

- A placement of up to 30 million fully paid ordinary shares in AED (**Shares**) at an offer price of \$0.075 (**Placement Price**) to Sprott and its clients, to raise up to \$2.25 million (**First Tranche Placement**) expected to occur shortly after the date of this announcement. Subject to shareholder approval being obtained, 30 million new options over AED shares (**Placement Options**) will also be issued at no additional cost to placees.
- A placement of up to 193,333,334 Shares to Sprott and its clients to raise up to \$14.5 million at \$0.075 per share (**Placement Price**), and 193,333,334 million new Placement Options at no additional cost (**Second Tranche Placement**), in each case subject to the approval of AED's ordinary shareholders and the finalisation of the documentation with ARF contemplated below.
- A renounceable rights issue to existing eligible shareholders on the basis of 1 new fully paid Share (**New Share**) for every 4 Shares held at 7:00 pm AEST on the record date (expected to be in August 2011) (**Record Date**) at the price of \$0.075 per New Share to raise up to \$4.5 million (**Rights Issue**). Applicants for New Shares will also be issued 1 new option for every New Share subscribed for under the Rights Issue at no additional cost (**Rights Issue Options**).
- AED and ARF Amber Pte. Ltd (**ARF**) will work together to document amendments to the terms of the unsecured 6% US\$20 million convertible notes held by ARF (refer details below). Subject to the approval of AED's ordinary shareholders, AED will issue 46,666,667 ordinary shares in AED and 46,666,667 options over ordinary shares to ARF in part consideration for ARF entering into these arrangements with AED, for which no cash consideration will be payable.
- The agents for the Placement (being related entities of Sprott) will receive a 7% placement fee (calculated by reference to the amount raised by the Placement) (**Placement Fee**). The Placement Fee shall be payable at the agents' election in cash or satisfied by the further issue of AED shares and options over AED shares on the same terms as the placement Shares and Placement Options.
- To provide AED with access to additional funding, Sprott has offered to AED a bridge facility of up to A\$3 million. Key terms of the bridging facility are set out below, including conditions to establishment of the facility and terms regarding the payment of fees, which may be satisfied at Sprott's election by the further issue of AED shares and options over AED shares on the same terms as the placement Shares and Placement Options.
- The options issued pursuant to the above arrangements will have an exercise price of \$A0.20 and a term of five years. AED intends to apply to have these options listed on the ASX.

- In addition, the agents will receive 5,500,000 “broker options” allowing the holder to subscribe for AED shares at A\$0.10 per share, will have a two year term, and will be issued at or about the date of the issue of the Placement Shares. AED does not intend to have the broker options listed on ASX.
- Following completion of the transactions set out above, and assuming full subscription of all aspects of the Capital Raising):
 - the total number of AED shares on issue (excluding any shares issued on conversion of options or shares issued in lieu of payment of fees) is expected to be up to approximately 540 million; and
 - the total number of options on issue following completion of the above transactions (including the broker options (but excluding any options issued in lieu of fees, as discussed below)), would be up to approximately 350 million, which could provide up to approximately \$70 million in additional funding to the Company if and when exercised during their term.

Extraordinary General Meeting

AED will convene an extraordinary general meeting of shareholders (**EGM**) expected to be held in mid September 2011 to approve the various transactions described above. It is expected that the notice to convene the EGM will be accompanied by, amongst other things, the report of an independent expert opining on the fairness and reasonableness of the proposed transactions, in particular as Sprott and the relevant investors may, in aggregate, obtain relevant interests in AED shares in excess of 20%. That approval will be sought notwithstanding that Sprott has advised AED that it will not or may not be associated with these investors for the purposes of relevant laws in Australia. A detailed plan for the future activities of the company is being developed, and the notice of EGM will also acquaint shareholders with material aspects of that plan.

Certain changes to the composition of the Board are also likely. In particular, Sprott (acting on behalf of participants in the Capital Raising) shall have the right to nominate up to 2 directors to the Board of the Company.

In-principle agreement to amendments to Unsecured 6% Convertible Notes

The Terms Sheet requires that AED and ARF work together to finalise documentation of a formal standstill, waiver and subscription agreement, pursuant to which (and subject to the approval of AED's ordinary shareholders to the transactions contemplated by this announcement):

- (a) ARF shall waive certain rights it may have in respect of any breach or default under the terms of its convertible notes and rights to uplift / yield to maturity or other payments other than:
 - a. the repayment of A\$20,000,000 on maturity of the ARF Notes; and
 - b. payments of interest on the ARF Notes at the revised interest rate of 3% (payable at maturity);
- (b) the maturity date of the ARF Notes shall be 19 March 2014 (and all rights to early redemption shall be waived);

- (c) ARF shall agree to an adjustment to the conversion price for the convertible notes in AED held by it to A\$0.50; and
- (d) AED will issue 46,666,667 ordinary shares in AED and 46,666,667 options over ordinary shares in AED on the same terms as the options issued in the First Tranche Placement and Second Tranche Placement to ARF in part consideration for ARF entering into the above arrangements with AED, for which no cash consideration will be payable.

Bridging Facility

Sprott has offered to provide a subsidiary of AED with access to a bridging facility of up to A\$3M, subject to final documentation and subordination of the convertible notes held by ARF to Sprott's satisfaction.

Subject to drawdown on the bridging facility occurring, the borrower shall be required to pay Sprott:

- a structuring and placement fee equal to 2% of the facility limit at the issue of the Second Tranche Placement securities to Sprott or to its direction and at Sprott's election in cash or in shares and options in AED (on the basis of A\$0.075 for one share and one option); and
- a 3% drawdown fee, payable on the total amount drawn down on the bridging facility at the issue of the Second Tranche Placement securities and at Sprott's election in cash or in shares and options in AED (on the basis of A\$0.075 for one share and one option).

Funds drawn under the bridging facility shall accrue interest at the rate of 1% per month on the maximum amount drawn down during the term, with accrued interest payable on the last Business Day of each calendar month.

The term of the bridging facility shall be the lesser of 90 days or until such date as the subscription funds for the Second Tranche Placement have been received by AED, unless AED's shareholders do not vote in favour of the proposed transactions contemplated above, in which case the bridging facility shall become payable. There will be no early re-payment penalty.

Further information

Further details of the Capital Raising (and in particular the Rights Issue), including eligibility criteria to participate in the Rights Issue, the ability of eligible shareholders to apply for additional shares in excess of their entitlement, and the indicative timetable for the Rights Issue will be notified to the market promptly once finalised by the Company, expected to be within the next few days. The notice of meeting in respect of the EGM contemplated above will set out further relevant details in respect of the Capital Raising.

One or more prospectuses will also be prepared in respect of the various aspects of the Capital Raising, which shall contain further details of the terms of the Capital Raising.

This news release is not an offer of securities for sale in the United States. The securities described herein have not been and will not be registered under the U.S. Securities Act of 1933, as amended, and may not be offered or sold in the United States absent registration or an applicable exemption from registration. This press release shall not constitute an offer to sell or solicitation of an offer to buy nor shall there be any sale of the above described securities in any jurisdiction in which such offer, solicitation or sale would be unlawful.

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