



# 2010 Annual Report

## DIRECTORY

### BOARD OF DIRECTORS

J.M.D. Willis (Chairman)  
E.G. Albers  
G.A. Menzies

### SECRETARY

J.G. Tuohy

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### AUDITOR

PKF  
Chartered Accountants  
Level 14  
140 William St  
Melbourne, Victoria 3000

### SHARE REGISTRY

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333 Collins Street  
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### STOCK EXCHANGE LISTING

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Level 3, 45 Exhibition Street, Melbourne, Vic 3000  
Level 2, 117 Scott Street, Newcastle, NSW 2300  
Website: [www.nsx.com.au](http://www.nsx.com.au)

### NSX CODE

**EXX** Ordinary Shares

### INCORPORATED IN VICTORIA

5 July 1979

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### FORWARD LOOKING STATEMENTS

This Financial Report includes certain forward-looking statements that have been based on current expectations about future acts, events and circumstances. These forward-looking statements are, however, subject to risks, uncertainties and assumptions that could cause those acts, events and circumstances to differ materially from the expectations described in such forward-looking statements.

These factors include, among other things, commercial and other risks associated with the meeting of objectives and other investment considerations, as well as other matters not yet known to the company or not currently considered material by the company.

### RISK FACTORS

Exploration for oil and gas is speculative, expensive and subject to a wide range of risks. There can be no assurance that any well drilled by the company will result in the discovery of oil or gas, nor that any discovery will prove to be commercially viable. Individual investors should consider these matters in light of their personal circumstances (including financial and taxation affairs) and seek professional advice from their accountant, lawyer or other professional adviser as to the suitability of an investment in the company.

**CHAIRMAN'S REVIEW**

Dear Shareholders

The financial year under review has seen Exoil Limited participate in the drilling of three offshore exploration wells, one in the Bass Basin and two in the Browse Basin. The latter two wells (Cornea-3 and Braveheart-1, ST1) were operated by the Company's wholly-owned subsidiary, Hawkestone Oil Pty Ltd. The financial year also saw the Company raise new capital in order to meet its funding obligations for the Browse Basin wells, while the third well (Spikey Beach-1) was 'free carried'.

Drilling an offshore exploration well is more often than not the end result of years of exploration activity that culminates in the hoped for discovery or a disappointment. For a company the size of Exoil to be involved in this level of drilling activity in one year is an achievement in itself. To also operate two of the wells adds greatly to that level of activity.

The first of the Browse Basin wells, Cornea-3, successfully defined the existence of a 23 metre oil column beneath the gas cap in the drilled segment of the Cornea Central feature – a significant exploration result. More detailed results from the well are provided in the Directors' Report that follows. However, and in summary, now that an oil column has been proved in Cornea-3 and useful data relating to the potential reservoir performance has been obtained, that information will enable the Cornea Joint Venture to develop an ongoing exploration strategy for the permit.

Disappointment came from the second Browse Basin well, Braveheart-1, ST1. While it was a feature with AVO support and for which the Company had high hopes, there was only minor evidence of residual hydrocarbons at the top of the reservoir interval. The well had to be sidetracked in order to reach the target reservoir and was also delayed because of a tropical low, adding considerably to its cost.

The results of the Bass Basin well, Spikey Beach-1, was reported in my 2009 Chairman's Review where it was noted that Beach Petroleum Ltd drilled the well in September 2009 but no hydrocarbons were encountered. The Company's 10% interest in that well was fully funded by Beach Petroleum Ltd.

The activities undertaken during the year in all the permits where the Company holds an interest are expanded on in more detail in the Directors' Report.

Meeting the Company's share of the costs of the Cornea-3 and Braveheart-1, ST1 wells was achieved through a combination of the sale of permit interests, raising new capital and joint venture funding arrangements. The sale of an aggregate 16.65% of WA-342-P, the permit in which the Cornea-3 well was to be drilled, raised an initial \$3.133 million. The non-renounceable pro rata entitlement issue of shares, made pursuant to the 9 November 2009 Offer Information Statement, then successfully raised \$3,077,526 before related underwriting and issue costs. The shares issued under the offer included the grant of 30 June 2012 options, with an exercise price of 12 cents, on the basis of four options for every five shares subscribed for.

**CHAIRMAN'S REVIEW (CONTINUED)**

The last financial year was one of intense exploration activity, with Exoil participating in multiple wells with a measure of success. The Company must now focus on developing a strategy to leverage on that 'measure of success', while at the same time progressing the exploration objectives in its remaining portfolio of permit interests.

Yours sincerely

A handwritten signature in black ink, appearing to read 'J.M.D. Willis', with a large loop at the start and a horizontal line extending to the right.

J.M.D. Willis  
Chairman  
30 September 2010

## **DIRECTORS' REPORT**

The directors present their report on the results of Exoil Limited ("the company" or "Exoil") and its wholly-owned subsidiaries ("consolidated entity" or "group") for the year ended 30 June 2010 and the auditor's report thereon.

### ***PRINCIPAL ACTIVITY***

The principal activity of the company during the course of the financial year was to acquire and explore areas prospective for oil in offshore waters within the jurisdiction of Australia.

### ***REVIEW AND RESULTS OF OPERATIONS***

#### *Company overview*

The statement of comprehensive income shows a consolidated net loss of \$3,107,076 (2009: \$1,316,688). This included the impairment of exploration assets of \$5,942,843 (2009: \$1,843,524).

### ***SIGNIFICANT CHANGES IN STATE OF AFFAIRS***

The company's issued capital increased by \$2,862,173, net of share issue costs, to \$5,821,228, following the issue of 30,775,260 ordinary shares in the company pursuant to an Offer Information Statement.

Except for the abovementioned, there were no significant changes in the state of affairs of the company during the year.

### ***LIKELY DEVELOPMENTS AND EXPECTED RESULTS***

The consolidated entity's strategy is to seek out substantial opportunities in the upstream oil and gas industry and to maximise the monetisation of the consolidated entity's current exploration interests and its investments in that sector.

The likely developments in the consolidated entity's operations in future years and the expected result from those operations are dependent on exploration success in the permit areas in which the consolidated entity holds an interest.

### ***REVIEW OF PETROLEUM EXPLORATION ACTIVITIES***

At the date of this report, Exoil, by itself and through its wholly-owned subsidiaries, holds interests in nine petroleum exploration permits, all of which are in the offshore waters of Australia. Four are located offshore of Western Australia; with three of those in the Browse Basin (WA-332-P, WA-333-P and WA-342-P) and one in Dampier Sub-basin within the Carnarvon Basin (WA-359-P). The other five are located offshore of south-eastern Australia; with two in the Otway Basin (EPP 34 and EPP 35), one in the Gippsland Basin (Vic/P45) and the remaining two in the Bass Basin (T/37P and T/38P) offshore of northern Tasmania.

During the financial year the company surrendered its interest in the Vic/P61 permit in the Otway Basin and, subsequent to year end, its interest in the Vic/P53 permit in the Gippsland Basin.

### **WA-342-P – BROWSE BASIN**

This permit is held by the Cornea Joint Venture consisting of the following parties (subject to various acquisition agreements):

Moby Oil & Gas Limited ( <i>ASX Code: MOG</i> )	22.375%
Cornea Oil & Gas Pty Ltd ( <i>subsidiary of Australian Oil &amp; Gas Corporation</i> )	17.000%
Cornea Petroleum Pty Ltd ( <i>subsidiary of Batavia Oil &amp; Gas Pty Ltd</i> )	14.875%
Cornea Resources Pty Ltd ( <i>subsidiary of Exoil Limited</i> )	13.100%



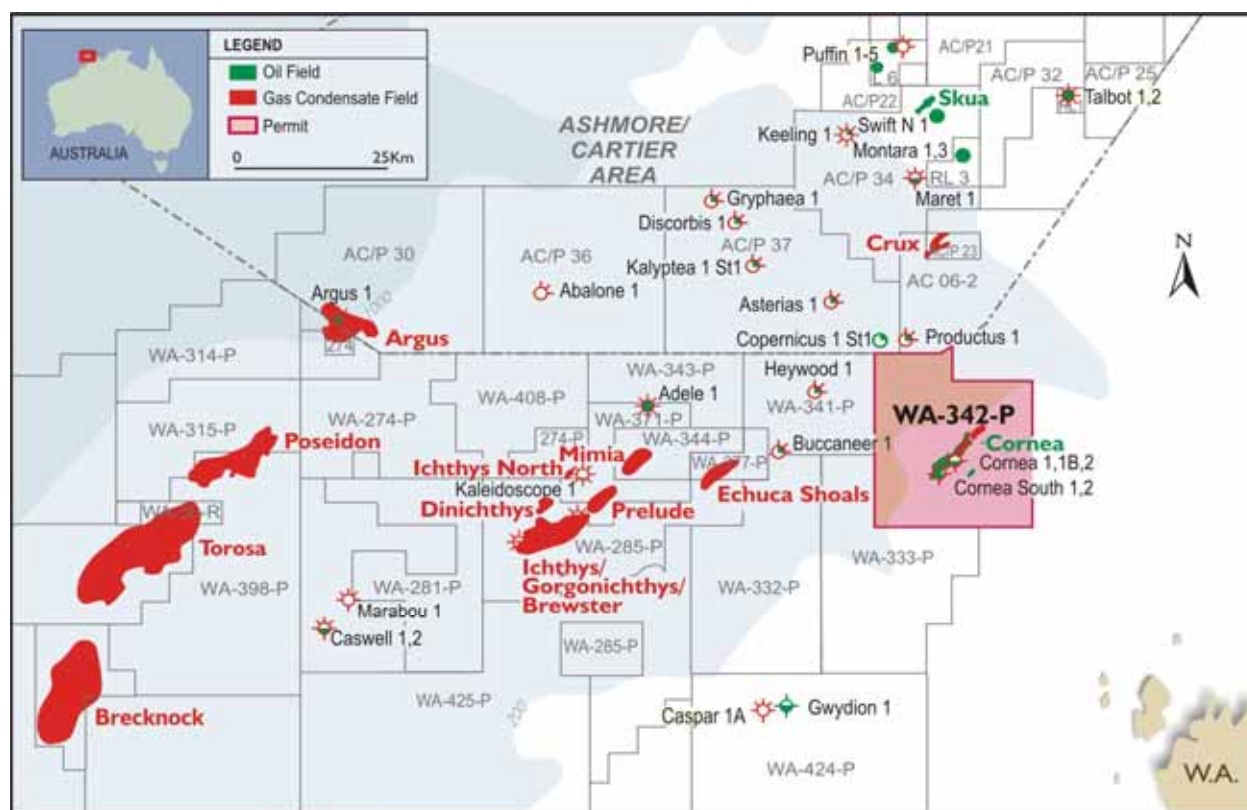
# EXOIL LIMITED

ABN 40 005 572 798

Octanex N.L. ( <i>ASX Code: OXX</i> )	10.250%
Cornea Energy Pty Ltd ( <i>subsidiary of Goldsbrough Limited</i> )	8.500%
Coldron Pty Ltd ( <i>subsidiary of Gascorp Australia Pty Ltd</i> )	7.500%
Auralandia N.L.	6.400%

The Operator of the Cornea Joint Venture is Hawkestone Oil Pty Ltd (“Hawkestone”), a wholly-owned subsidiary of Exoil.

Indications of oil and gas were discovered by Shell with the early exploration wells Cornea-1, 1B and 2. Together with the recent Cornea-3 well, the wells are considered to have established the presence of a 25m gas column and a 22.2m oil column in the Albian sandstones of the Jamieson Formation in this part of the Cornea feature. The field is thought to be a large drape feature. It is postulated to have accumulated 22 to 24 degree API oil derived from Early Cretaceous, Echuca Shoals Formation and possibly Late Jurassic source rocks in the Heywood Graben, located over 60 km to the west. The feature is split into three main structural components – Cornea South and Cornea Central, both with gas and oil indications, and Cornea North with gas and no underlying oil presence – see the following *WA-342-P Location Map*.



**WA-342-P Location Map**

During the financial year, Exoil sold data relating to the WA-342-P permit and 16.65% of its Participating Interest in the permit to raise funds to meet its share of the costs of the drilling of Cornea-3.

In December 2009, Cornea-3 was drilled by the Songa Venus semi-submersible rig. The objectives of the well were to prove the presence of oil and to define the location of hydrocarbon contacts and to obtain data relating to the potential reservoir qualities of the Middle Albian and Lower Jamieson Formation. The well penetrated the targeted Middle Albian and Lower Jamieson Formation B and C sand reservoir interval (2.2 metres deeper than predicted) but, as planned, just below the predicted gas oil contact.

The well was then deepened to penetrate exploration targets in the Early Albian and Aptian of the Lower Heywood Formation, before terminating at a total depth of 910.6 metres (measured depth below rotary table or MDRT). The data obtained while drilling indicated the intersection of a hydrocarbon bearing column in the Middle Albian, Lower Jamieson Formation. The secondary exploration targets in the Lower Heywood Formation did not contain hydrocarbons.

Following the conclusion of the drilling of Cornea-3, a series of logs were run, including a Magnetic Resonance log, as conventional logging tools are unable to resolve the reservoir properties due to the glauconitic nature of the rocks. In addition, a wireline formation tester was run to assess the pressure within the reservoir and to take fluid samples.

The results of the drilling and logging of Cornea-3 can be summarised as follows:

1. An oil column of 20.4m was intersected in Cornea-3 between the top Middle Albian reservoir sand at 788m MDRT and the free water level (as defined by logs and pressure data) at 808.4m MDRT.
2. A considerable number of pressure testing results were obtained which enabled the establishment of oil and water gradients and the free water level – a significant improvement on the position known in this vicinity before the well was drilled. With the assistance of further exploration wells, this information will better enable the exploration for hydrocarbons across the Cornea feature.
3. The condition of the hole through the hydrocarbon bearing section enabled the recovery of high quality log data from the Nuclear Magnetic Resonance (NMR) tool. This logging tool has, for the first time, enabled the determination of an average effective, free fluid porosity of 16.4% for the Middle Albian reservoir in this well. The average inferred permeability of the reservoir in Cornea-3 is 100 millidarcies. The NMR tool also indicated an average hydrocarbon saturation of 70% for the free fluid porosity.
4. Extensive efforts were made to sample the oil but the unconsolidated nature of the reservoir meant that, on every attempt, the MDT test tools became blocked with sand, preventing fluid sampling. However, the oil pressure gradient is consistent with 22 API oil and the NMR logging tool indicated an oil viscosity ranging from 4 centipose at the top of the column to 4.3 centipose at the base – this being less viscous than reported in samples recovered and interpreted by the previous wells in this vicinity.

The results of Cornea-3 clearly defined the existence of an oil column beneath the gas cap in this segment of the Cornea Central closure – a significant exploration result. A great deal has therefore been learned about how future exploration wells might be drilled in the greater Cornea closure. This has given the Joint Venture confidence about the ability to drill subsequent vertical and horizontal wells through the targeted sections and, to this end, the Joint Venture will investigate the best method to drill future wells.

Looking to the future, the data obtained from Cornea-3 will enable the Joint Venture to develop an ongoing exploration strategy, now that an oil column has been proved in Cornea-3 and useful data relating to the potential reservoir performance has been obtained. Continuing the current exploration phase with further exploration drilling, in an effort to prove other segments of the accumulation, is the necessary forerunner to any development strategy being formulated.

Prior to the end of the first term of the WA-342-P permit, the Cornea Joint Venture applied to renew the permit and is in discussions with the regulatory authorities concerning the form of the work programme to be undertaken during a renewed term.

#### **WA-332-P & WA-333-P – BROWSE BASIN**

These two permits are held by the Braveheart Joint Venture consisting of the following parties (subject to various acquisition agreements):

Moby Oil & Gas Limited	26.4375%
Braveheart Resources Pty Ltd (subsidiary of Exoil Limited)	25.3750%
Browse Petroleum Pty Ltd (subsidiary of Gascorp Australia Pty Ltd)	20.1875%
Braveheart Oil & Gas Pty Ltd (subsidiary of Australian Oil & Gas Corporation)	14.5000%

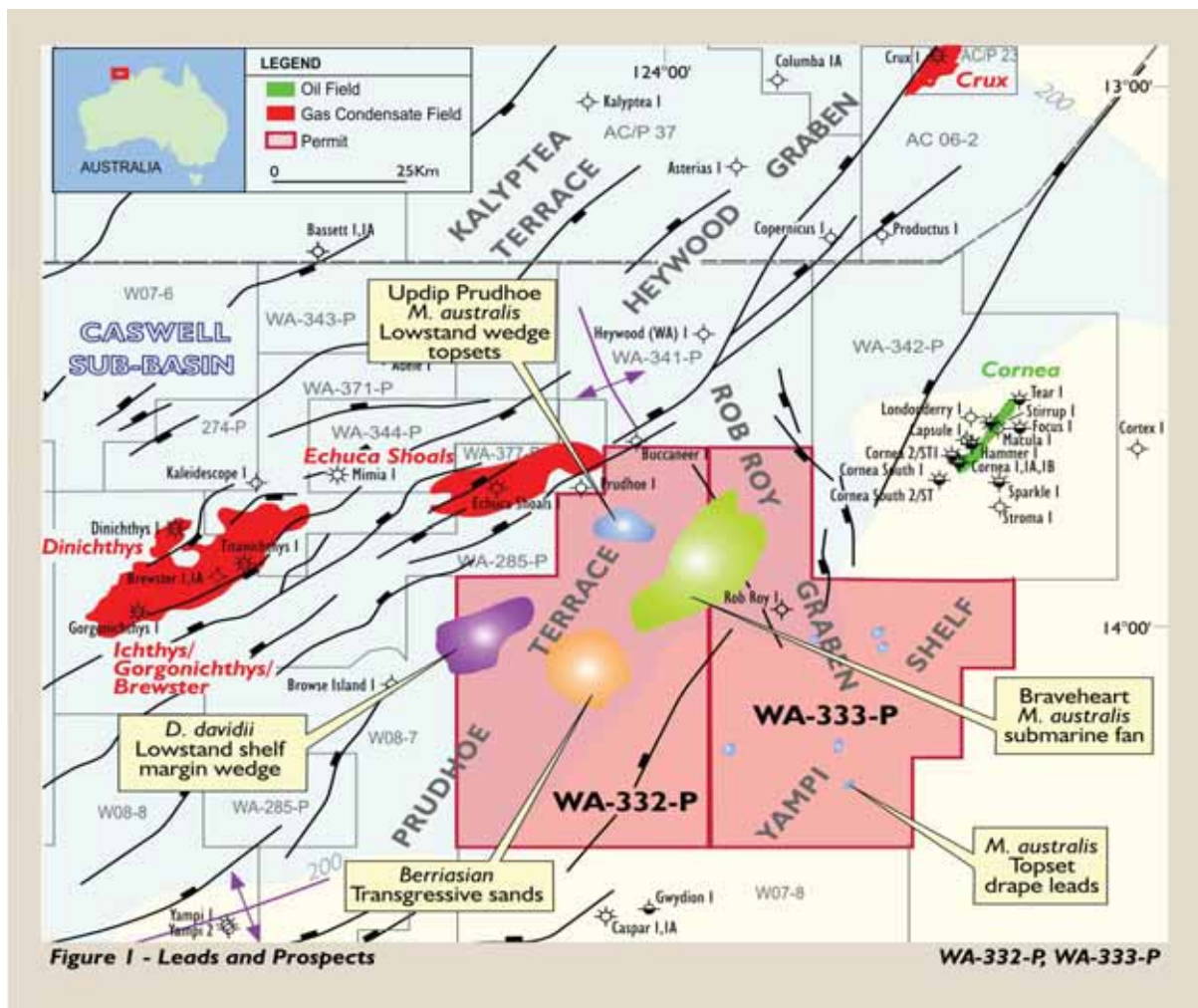
Braveheart Energy Pty Ltd (subsidiary of Goldsbrough Limited)	7.2500%
Braveheart Petroleum Pty Ltd (subsidiary of Batavia Oil & Gas Pty Ltd)	6.2500%

The Operator of the Braveheart Joint Venture is Hawkestone.

During December and January of the financial year, the Braveheart-1, ST1 exploration well was drilled into the Braveheart prospect by the Songa Venus semi-submersible rig from a location within WA-333-P. The well failed to encounter hydrocarbons and was plugged and abandoned. The mapped prospect straddled the two permits – see the following *WA-332-P & WA-333-P Location Map and Braveheart Prospect*.

There is some evidence of residual hydrocarbons at the top of the reservoir interval, but most of the cleaner sands are water filled. While this result was disappointing, the well results validated the depositional model relied upon to support the presence of a high quality reservoir interval at the Braveheart prospect.

After the drilling of the Braveheart-1, ST1 well, the Joint Venture intended to maintain both the WA-332-P and WA-333-P permits and continue exploration activities within them. Both permits are now in year-6 of their initial terms and the Joint Venture lodged an application in relation to each permit to vary their work programmes. The variation was only granted in relation to WA-333-P, so the necessary steps are underway to surrender and cancel the WA-332-P permit.



*WA-332-P & WA-333-P Location Map and Braveheart Prospect*



## WA-359-P – DAMPIER SUB-BASIN

The WA-359-P Joint Venture consists of:

Exoil Limited	50%
Cue Exploration Pty Ltd	50%
<i>(subsidiary of Cue Energy Resources Limited)</i>	

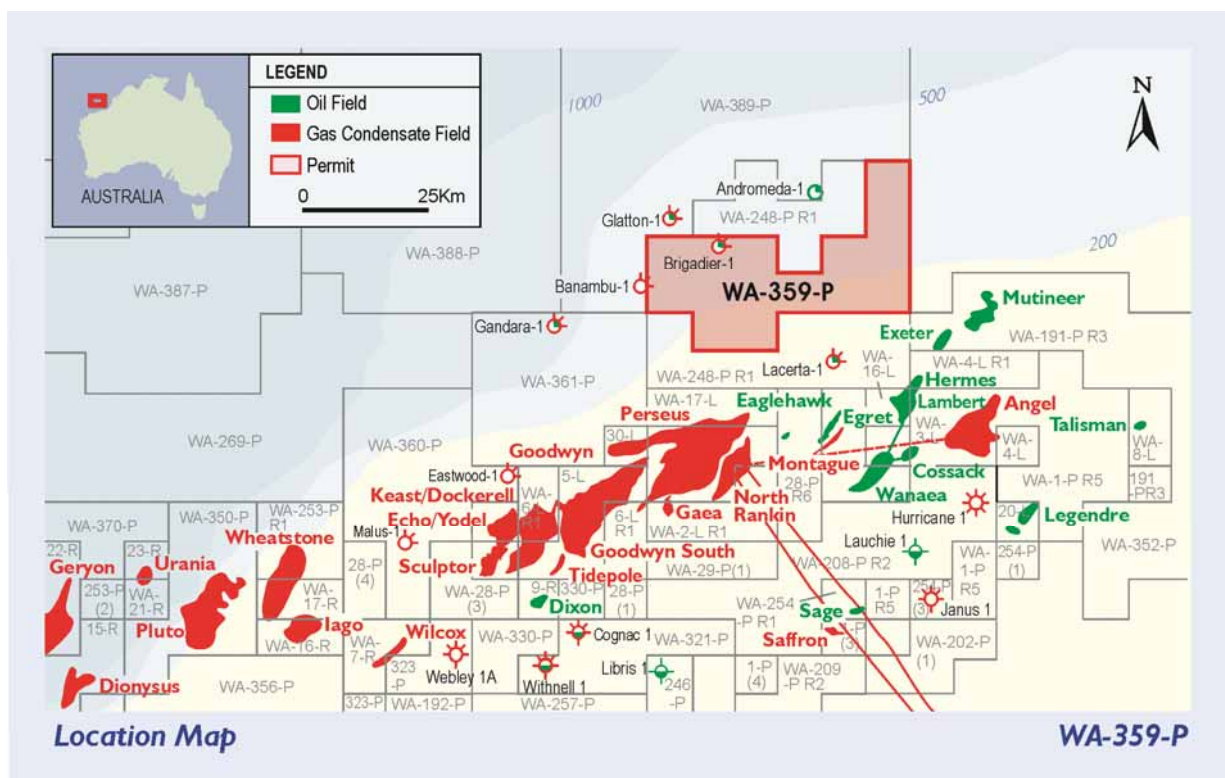
The Operator of the WA-359-P Joint Venture is Cue Energy Resources Limited (*ASX Code: CUE*).

WA-359-P is located in the Dampier Sub-basin offshore from Western Australia and covers an area of approximately 1,200 km<sup>2</sup> in water depths of less than 500 metres – see following map *Location of WA-359-P in Dampier Sub-basin*.

Interpretation of the existing seismic data in the permit has been completed, with regional time and depth maps having been constructed and integrated with well information. Prospect mapping is complete and prospect packages have been prepared. A scoping economic study for potential hydrocarbon accumulations has also been completed.

The WA-359-P Joint Venture has been granted a further variation to the terms of the permit that has removed the year-6 obligation to drill an exploration well and replaced it with geotechnical studies.

The Joint Venture has invited and is evaluating proposals from international companies with an interest in the permit.



*Location of WA-359-P in Dampier Sub-basin*

## Vic/P45 – GIPPSLAND BASIN

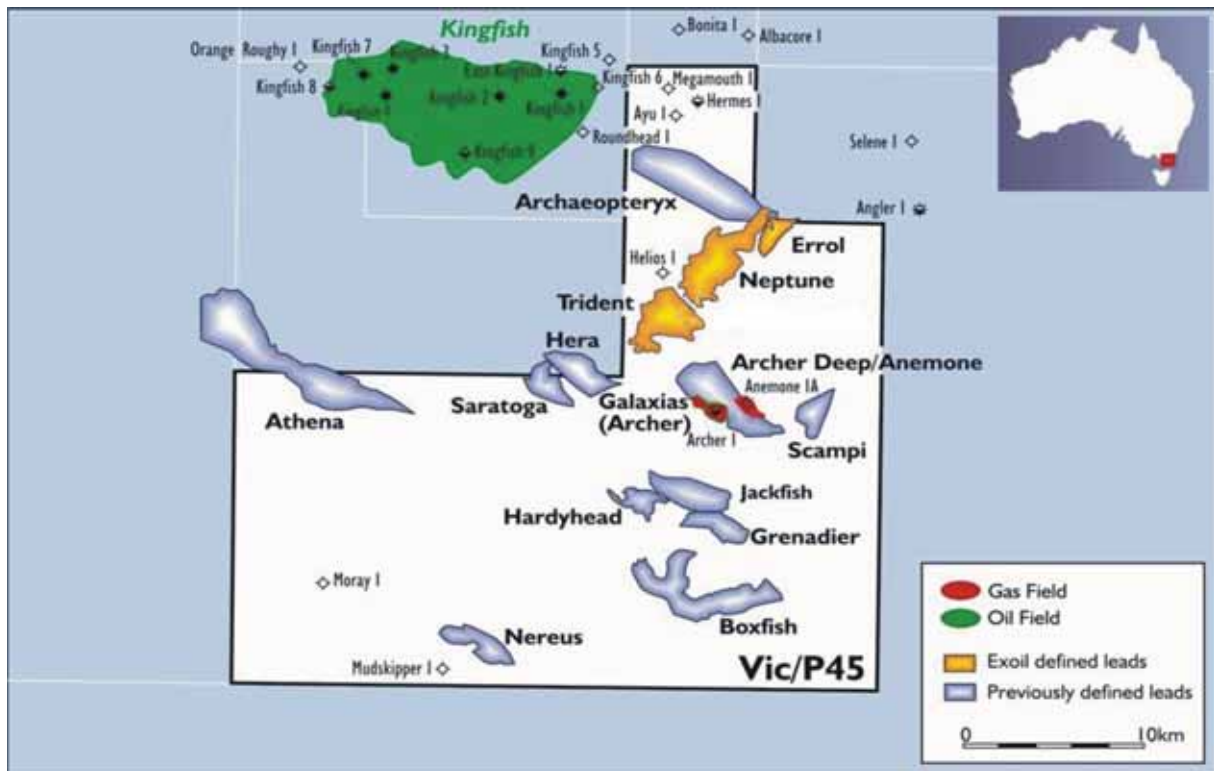
The Vic/P45 Joint Venture consists of:

Exoil Limited	50% and Operator
Moby Oil & Gas Limited	50%

Subsequent to the end of the financial year, the Vic/P45 Joint Venture was granted a further variation to the terms of the permit following the drilling of the unsuccessful Megamouth-1 and Coelacanth-1 wells. The variation has removed the remaining year-6 well obligation.

The year-6 work programme now requires completion of ongoing geotechnical studies and review of the remaining leads within the permit – see the following *Vic/P45 Prospects and Leads Map*.

These studies and the review need to be completed in conjunction with an evaluation of the data obtained in the permit, so as to assist the Joint Venture in making a decision on whether an application for a renewal will be made.



**Prospects and Leads Map – Vic/P45**

## Vic/P53 – GIPPSLAND BASIN

The Vic/P53 Joint Venture consists of:

Exoil Limited	50% and Operator
Moby Oil & Gas Limited	25%
Cue Petroleum Pty Ltd	25%

Subsequent to the end of the financial year, the Vic/P53 permit was surrendered and cancelled. This followed the unsuccessful drilling of Bazzard-1 during the previous financial year and was the result of no further worthwhile drilling targets being mapped in the permit.

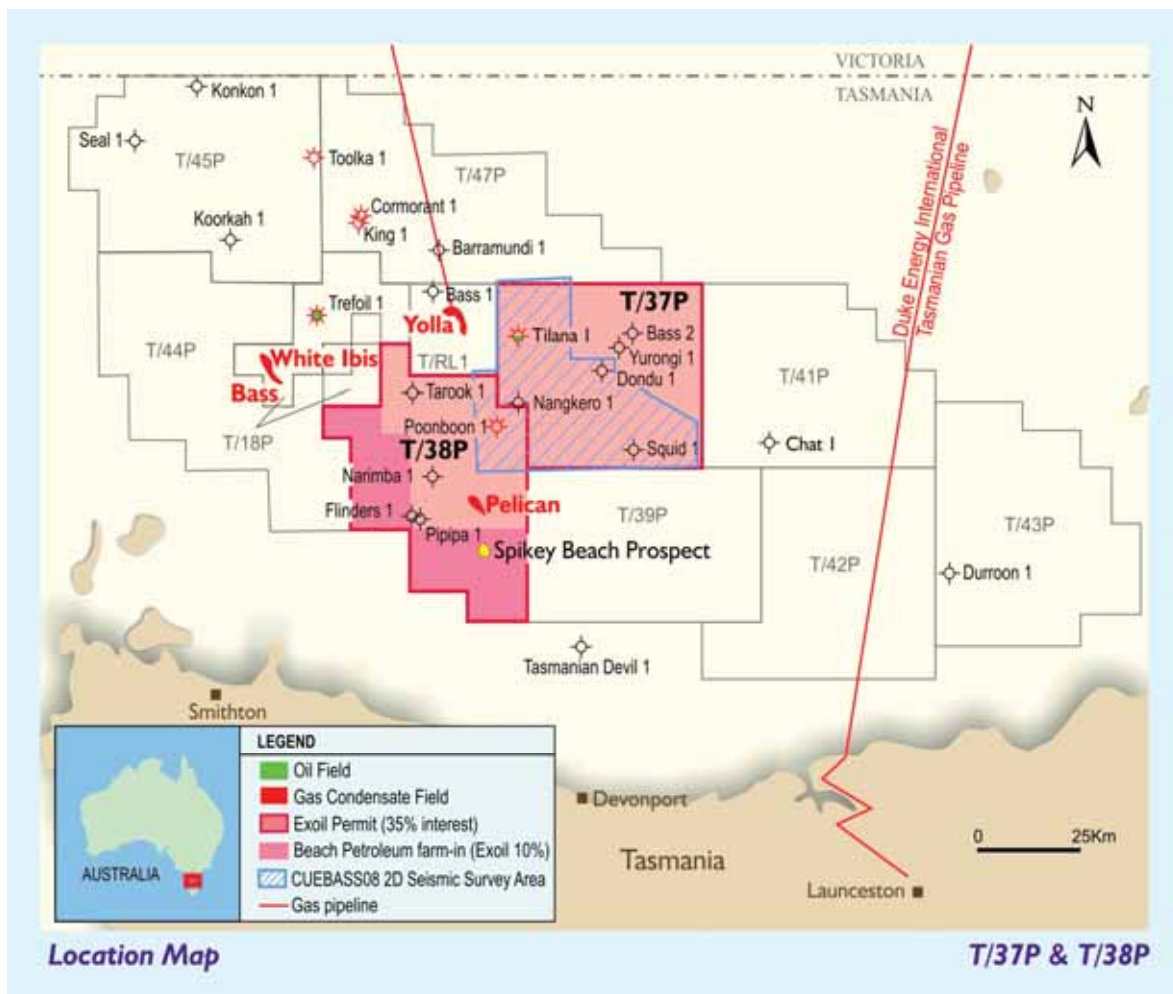
## T/37P and T/38P (REMAINDER) – BASS BASIN

The T/37P and T/38P Joint Ventures consist of:

Cue Energy Resources Ltd	50% and Operator
Exoil Limited	35%
Gascorp Australia Pty Ltd	15%

Exoil, with Cue Energy Resources Ltd (“Cue”) and Gascorp Australia Pty Ltd (“Gascorp”), hold the two adjacent permits T/37P and T/38P (Remainder) – see following *T/37P & T/38P Location Map*. The permits are located in the Bass Strait region, north of Tasmania and east of King Island and each consists of 40 graticular blocks; covering areas of approximately 2,670 km<sup>2</sup> (T/37P), and 2,655 km<sup>2</sup> (T/38P) inclusive of the Spikey Beach Blocks (see next section). Water depths across the permits are less than 75 metres. The T/37P permit is immediately adjacent to the east of the Yolla gas/condensate field which began production in mid 2007. The T/38P permit contains the Pelican gas/condensate discovery and is south of the Yolla field in the adjacent licence area.

The Joint Ventures joined with a group of companies which together mobilized a seismic vessel to the Gippsland, Bass and Otway areas. As a consequence, 3,000 line kms of new 2D seismic data was acquired in T/37P and 670 line kms acquired in T/38P. Interpretation of the seismic data has been completed and both time and depth maps constructed and integrated with existing well information. Leads have been identified and analysed.



## T/38P (SPIKEY BEACH BLOCKS) – BASS BASIN

The Spikey Beach Blocks are held by:

Beach Petroleum Limited	80% and Operator
Exoil Limited	10%
Cue Energy Resources Limited	10%

Beach Petroleum Limited (“Beach”) agreed to farm-in to part of T/38P to earn an 80% interest in a defined portion of the permit (“the Spikey Beach Blocks” - see the highlighted area in the *T/37P & T/38P Location Map* above) by paying for the drilling of the Spikey Beach-1 exploration well. The well was operated by Beach and was drilled in Q3 2009, but unfortunately no hydrocarbon shows were recorded in the well.

EPP 34 – OTWAY BASIN

Exoil Limited	15% and Operator
United Oil & Gas Pty Ltd	30%
Moby Oil & Gas Limited	20%
National Energy Pty Ltd	15%
Gascorp Australia Pty Ltd	10%
National Gas Australia Pty Ltd	10%

The map displays the offshore oil and gas fields in the Gulf of St. Vincent, South Australia. The map is divided into three main permit areas: EPP 33 (light blue), EPP 34 (light orange), and EPP 35 (light yellow). The BHP Prospects & Leads (1990) are shown in red. The map includes a legend, a scale bar (0 to 25 Km), and an inset map of Australia.

**Legend:**

- Oil Field (Green square)
- Gas Condensate Field (Red square)
- BHP Prospects & Leads (1990) (Red star)
- Permit (Red outline)

**Map Labels:**

- South Australia**
- EPP 33**
- EPP 34**
- EPP 35**
- Lead E Dundee**
- Lead C Pearl**
- Lead A Socrates**
- Lead D**
- Oil Fields:** Nunga-Mia 1, Killanoola 1, Penola 1, Sawpit 1, Wynn 1, Hazelgrove, Redman 1, Limestone Ridge, Katnook, Ladbroke Grove, Nangwarry, Mt Gambier, Fahley 1, Breaksea Reef 1, Normanby 1.
- Gas Condensate Fields:** Crayfish A1, Sophia Jane 1, Troas 1, Copa 1, Geltwood Beach 1, Snuggery, Mt Salt 1, Caroline 1.
- Other Labels:** PEL 136, PEL 186, PEL 154, PEL 155, PEL 72, PEL 151, PEP 160, VIC/P46, VIC/P50, SOUTH AUSTRALIA, VICTORIA.

The EPP 34 permit is in year-6 of the initial term where the work programme calls for geotechnical studies. The Joint Venture was granted a variation to the original year-6 work programme that moved the well obligation to the initial term of a renewal of the permit, should such a renewal be applied for. The variation was sought to enable the completion of the current phase of integration and interpretation of the new Trocopa 2D seismic data and reprocessed old seismic data, prior to a decision then being made on what would be the appropriate next step in exploring the permit.



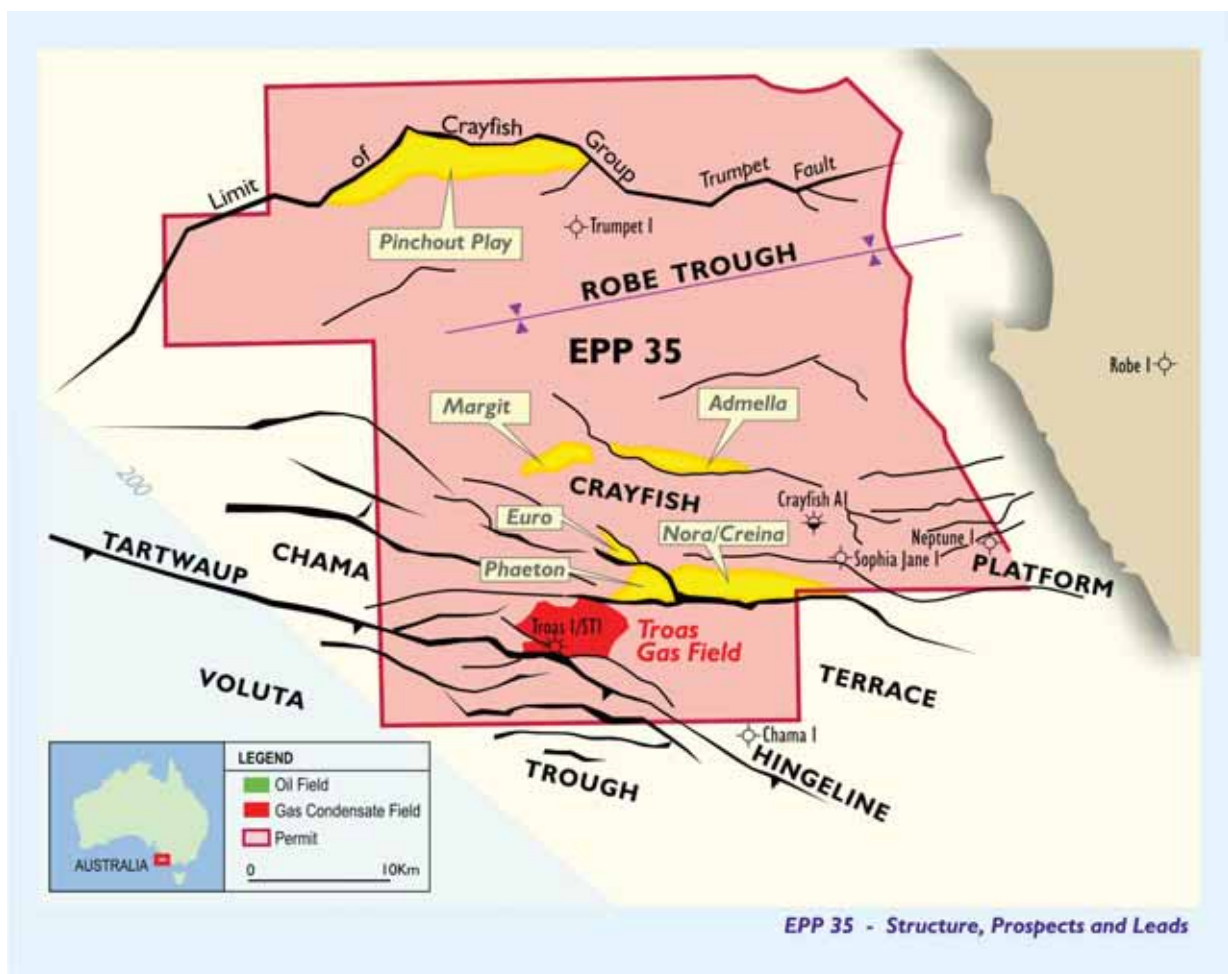
## EPP 35 – OTWAY BASIN

The EPP 35 (Troas) Joint Venture consists of:

Exoil Limited	30% and Operator
Gascorp Australia Pty Ltd	30%
National Energy Pty Ltd	20%
Moby Oil & Gas Limited	20%

EPP 35 contains the Troas gas accumulation, where gas indications were noted over more than 1,000 metres of sedimentary section during drilling of the Troas-1, ST1 well. The permit therefore has a proven hydrocarbon system in place. The focus of the EPP 35 Joint Venture has thus been on the Troas Deep Prospect. The permit is located approximately 100 km from the gas pipeline to Adelaide and is endowed with a wide range of potential prospects, with 'fair to good' seismic and well data coverage – see the following *EPP 35 Structure, Prospects and Leads Map*.

The Joint Venture has been granted a 12 month extension to year-3 in order to complete the acquisition and processing of the new 325 km<sup>2</sup> 3D seismic survey; although that is yet to be acquired. The delay in acquiring the survey relates to the difficulty of mapping the heavily faulted strata, the lack of availability of existing seismic data acquired by earlier explorers that requires reprocessing and then review prior to finalising the design of the new survey. The environmental consent process is also a limiting consideration in terms of the short period each year within which a survey can be acquired and meet the various requirements of the consents.



**DIRECTORS**

The directors of the company in office at any time during or since the end of the financial year and to the date of this report are as follows;

**JMD Willis** LL.M (Hons), Dip Acc

*Chairman*

*Non-Executive Director*

Until his resignation from the practice in 2007, Mr Willis had been a partner in the leading New Zealand law firm of Bell Gully for more than 25 years. His practice speciality was in the upstream oil and gas area, particularly relating to issues concerning gas contracting and the development of oil and gas reserves, joint ventures and upstream petroleum related acquisitions. He has acted for the leading participants in the upstream petroleum industry in New Zealand. In 2007 Mr Willis relocated to Australia to take up the role of Managing Director of the Albers Group.

Mr Willis is a director of ASX-listed Octanex N.L. and was a director of MEO Australia Limited until July 2008, a position he had held for 10 years during a crucial period of its growth. With Mr Albers he was co-founder and later a director of Southern Petroleum NL. Mr Willis has been a director of Exoil since 8 September 2004.

**EG Albers** LL.B, FAICD

*Executive Director*

Mr Albers has over 35 years experience as a director and administrator in corporate law, petroleum exploration and resource sector investment. He is a law graduate of the University of Melbourne and, after being admitted in 1969 as a Solicitor of the Supreme Court of Victoria, held a corporate practicing certificate in Victoria until 2001.

In 1977 Mr Albers first became involved in oil exploration. At that time, companies associated with him applied for and were awarded exploration permits in the offshore Gippsland and Bass Basins. Exploration in one of these permits, T/14P, led directly to the discovery of the Yolla Gas/Condensate Field in Bass Strait, which is now being produced by Origin Energy Limited and others.

In the early 1980's Mr Albers formed Cue Energy Resources Limited and Southern Petroleum N.L. in New Zealand. Cue is ASX-listed and has a significant interest in the Maari oilfield development in New Zealand, the unitised S E Gobe oilfield in PNG and the Oyong oil and gas development in offshore Indonesia. Mr Albers was a director of Cue until August 2009. Southern Petroleum became a successful production company through its interest in the Waihapa oilfield and is now a subsidiary of Shell New Zealand.

Mr Albers founded Octanex N.L. and is a substantial shareholder in that company. He was also a founder of ASX-listed MEO Australia Limited and is a former director of that company. MEO is pursuing the development of a \$2 billion gas processing plant on Tassie Shoal in the Timor Sea, 300 kms north-west of Darwin. He then founded Bass Strait Oil Company Ltd, an ASX-listed company which has developed a portfolio of interests in the offshore Gippsland Basin and is a niche explorer in that basin. Mr Albers was a director of Bass from its formation until August 2009.

In 2004 Mr Albers was instrumental in the formation of ASX-listed Moby Oil & Gas Limited, which has extensive interests in various permits in offshore Australia. He is a director of and substantial shareholder in Moby. In addition, Mr Albers is a substantial shareholder in Exoil and is a director and has interests in a number of unlisted public and private companies active in exploration for oil and gas in Australian offshore waters. He is a member of the Petroleum Exploration Society of Australia and has been a director of Exoil since incorporation of the company on 5 July 1979.

**GA Menzies** LL.B

*Independent Non-Executive Director*

Mr Menzies is a barrister and solicitor. He graduated from Melbourne University in 1971 and qualified for admission to the degree of Master of Laws in 1975. He was admitted to practice in 1972. Since 1987 he has carried on practice as a sole practitioner under the name of Menzies & Partners. In the course of his legal practice Mr Menzies has been involved in a wide range of activities, including takeovers, litigation in respect thereof, numerous capital raisings and corporate reconstructions. He has been involved as a lawyer in the listing of a large number of public companies ranging from junior explorers to substantial mining companies. Over recent years his activities have focused primarily on corporate reconstructions and capital raisings.

Mr Menzies is a director of Moby Oil & Gas Limited, Octanex N.L. and ASX-listed Papyrus Australia Limited, as well as a number of private and unlisted public companies. He has been a director of Exoil since 16 September 2004.

**PJ Albers**

*Non-Executive Director until 16 September 2009.*

Mrs Albers has had more than 35 years of commercial experience including co-ownership and management of a significant primary production operation. She has been a director of a number of corporations, including public companies, over the last 15 years. Mrs Albers has a background in human resources, health and safety and in public relations. Mrs Albers was a director from 2 October 1984 until 16 September 2009.

**COMPANY SECRETARY****JG Tuohy** BCA, CA

For all but two years since 1986, Mr Tuohy has acted as Company Secretary to public listed companies in New Zealand. The first half of that period he spent in the oil and gas sector, initially administering three oil and gas exploration companies in which Messrs Albers and Willis were directors and which they had originally taken to listing. He then acted for only one of them, Southern Petroleum N.L., when it became a successful production company. Following the privatisation of Southern Petroleum, Mr Tuohy acted in a forensic accounting capacity in a multi party legal action, then returning to a public company secretarial position in the motor vehicle industry where he spent 10 years.

In these positions Mr Tuohy has been involved in the various aspects of public and private company administration, especially as this relates to the oil and gas exploration sector and to public listed company activities, obligations and requirements. In 2008 he relocated to Australia and acts as Company Secretary for a number of listed and unlisted public companies: including Moby Oil & Gas Limited and Octanex N.L.

He is a director of Bass Strait Oil Company Limited and Goldsborough Limited. Mr Tuohy is a chartered accountant in New Zealand.

**DIRECTORS' MEETINGS**

The number of directors meetings and number of meetings attended by each of the directors during the financial period were:

<b>Director</b>	<b>Board of Directors</b>		<b>Audit Committee</b>	
	<b>Held</b>	<b>Attended</b>	<b>Held</b>	<b>Attended</b>
JMD Willis	4	4	3	3
EG Albers	4	4	3	3
GA Menzies	4	4	3	3

**DIRECTORS' INTERESTS**

As of 30 June 2010 and at the date of signing this report the relevant interest of each of the directors is as follows:

*Ordinary shares*

EG Albers	56,496,252
JMD Willis	1,406,250
GA Menzies	-

*Listed Options over ordinary shares*

EG Albers	15,697,008
JMD Willis	200,000
GA Menzies	-

*Unlisted Options over ordinary shares*

EG Albers	-
JMD Willis	500,000
GA Menzies	300,000

**REMUNERATION REPORT**

This remuneration report is audited.

The board of directors is responsible for determining and reviewing compensation arrangements for the directors, the chief executive officer and the company secretary. The board assesses the appropriateness of the nature and amount of emoluments on a periodic basis by reference to relevant employment market conditions with the overall objective of ensuring maximum stakeholder benefit from the retention of a high quality board and executive.

Remuneration levels for directors and executives of the company are competitively set to attract and retain appropriately qualified and experienced directors and executives.

The remuneration structures explained below are designed to attract suitably qualified candidates, reward the achievement of strategic objectives, and achieve the broader outcome of creation of value for shareholders. The remuneration structure takes into account:

- the capability and experience of the directors and senior executives.
- the ability of directors and senior executives to control the entity's performance.
- the requirement that directors apply a portion of their remuneration to the purchase of shares in the company at market price, so as to align the interest of directors with that of shareholders.

During the year directors were remunerated a total of \$501 (2009: \$22,500).

There is no performance related remuneration. Remuneration paid to directors covers all board activities including serving on committees. The directors and other company officers do not receive employee benefits such as annual leave and long service leave, but remuneration may include the grant of options over shares of the company to align directors' and other company officers interests with that of the shareholders.

	Year	Short Term Employment Benefits		Post Employment	Equity Settled	Total
		Directors Fees	Other Fees	Salary	Superannuation and other fees	Options at grant
		\$	\$	\$	\$	\$
Directors						
EG Albers	2010	-	-	-	-	-
	2009	-	-	-	3,750	-
PJ Albers (2)	2010	-	-	-	-	-
	2009	-	-	-	3,750	-
JMD Willis	2010	-	-	-	-	313
	2009	-	-	-	7,500	-
GA Menzies	2010	-	-	-	-	188
	2009	-	7,500	-	-	-
Total Directors	2010	-	-	-	-	501
	2009	-	7,500	-	15,000	-
Company Secretary						
JG Tuohy	2010	-	30,525 <sup>1</sup>	-	-	188
	2009	-	31,900	-	-	44
General Manager						
MA Muzzin (3)	2010	-	-	-	-	-
	2009	-	-	-	15,000	-
TOTAL	2010	-	30,525	-	-	689
	2009	-	39,400	-	30,000	44

<sup>1</sup> \$30,525 paid in lieu of salary is included (JG Tuohy was appointed as company secretary 27 October 2008 and replaced EG Albers at that date). Of the \$30,525 paid in 2010 (2009: 31,900), \$11,500 (2009: \$12,100) was for company secretarial services and \$19,025 (2009: \$19,800) was for general consulting services.

<sup>2</sup> PJ Albers resigned as a director on 16 September 2009 and was not replaced.

<sup>3</sup> MA Muzzin resigned on 31 December 2008 and was not replaced.



**Interests in unlisted options (exercisable by 30 June 2011 at 20 cents)**

	Held at	Granted as	Exercised	Other	Held at	Vested	Vested and
		compensation		Changes	30 June	during	exercisable at
						the year	30 June
	1 July 2009				2010		2010
JMD Willis	-	500,000	-	-	500,000	500,000	500,000
GA Menzies	-	300,000	-	-	300,000	300,000	300,000
JG Tuohy	-	300,000	-	-	300,000	300,000	300,000
	-	1,100,000	-	-	1,100,000	1,100,000	1,100,000

(i) On 23 December 2009 the options were granted, subject to members' approval, and are exercisable from grant date.

(ii) The options were valued using the Black-Scholes-Merton model. The follow inputs were used:

Exercise price:	20 cents
Share price at grant date:	3 cents
Maximum option life	1.5 years
Expected volatility	81%
Risk free interest rate	4.6%

Expected volatility was based on the average volatility of a peer group of eleven companies within the oil and gas exploration industry. The implied volatility of the companies was in the range of 30% to 142%. The fair value of this share based payment was \$689.

**Interests in options (exercisable by 31 December 2009 at 15 - 20 cents per share)**

All 1,200,000 options held by directors at 30 June 2009 expired at 31 December 2009. All 600,000 options held by the company secretary at 30 June 2009 expired at 31 December 2009. These options vested in prior financial periods and consequently no option remuneration expense was recorded for these options in the current or prior financial years,

**Service Contracts**

There are no service contracts in place or proposed with any of the directors of the company as at the date of signing this report.

**End of Remuneration Report****SHARE CAPITAL***Issue of Ordinary Shares*

At a general meeting of members held on 22 October 2009 an ordinary resolution was passed reconstructing the fully paid issued ordinary shares in the company. The reconstruction saw a reduction in the number of fully paid ordinary shares on issue on the basis that for every two (2) shares then held, one (1) new share was issued; such that the issued capital of the company comprised 50,775,263 ordinary fully paid shares on 5 November 2009 when the reconstruction was effected.

The company issued 30,775,260 ordinary fully paid shares on 23 December 2009 pursuant to the terms of the Offer Information Statement dated 9 November 2009.

***SHARE OPTIONS - LISTED***

Attached to the issue of the ordinary fully paid shares made on 23 December 2009 under the Offer Information Statement dated 9 November 2009, the company granted 24,620,208 options over unissued ordinary shares in Exoil. The exercise price of these options is 12 cents each with an expiry date of 30 June 2012. The options remain on issue at the date of this report.

***SHARE OPTIONS - UNLISTED******31 December 2009 Options - unlisted***

At a general meeting of shareholders held on 22 October 2009 an ordinary resolution was passed reconstructing the fully paid issued ordinary shares in the company. The reconstruction saw a reduction in the number of fully paid ordinary shares on issue on the basis that for every two (2) shares then held, one (1) new share was issued.

In the same way, the number of unlisted options on issue was halved and this required their exercise prices of those options to be doubled. Following the reconstruction, the number of unlisted options on issue were as follows:

31 December 2009 unlisted options exercisable at \$0.30 (30 cents) 1,175,000; and

31 December 2009 unlisted options exercisable at \$0.40 (40 cents) 975,000.

All these unlisted options expired on 31 December 2009.

***30 June 2011 Options - unlisted***

On 23 December 2009 the directors granted 5,500,000 unlisted options to two directors and to other eligible persons of the company. The options have an exercise price of 20 cents each with an expiry date of 30 June 2011 and remain on issue at the date of this report.

These options do not entitle the holder to participate in any share issue of the company or any other body corporate and expire on the earlier of their expiry date, if the holder ceases to be an "Eligible Person", or six months (or such longer period as the directors may determine) from when the holder ceases to be an Eligible Person due to retrenchment or normal retirement from the workforce. An Eligible Person is defined as executive officers of Exoil Limited including employees, directors, secretaries and seconded personnel who take part in the management of Exoil Limited.

***DIVIDENDS***

No dividends have been paid, provided or recommended for payment by the company during the financial year and to the date of this report.

***ENVIRONMENT, HEALTH AND SAFETY***

The Company has adopted an environmental, health and safety policy and conducts its operations in accordance with the APPEA Code of Practice.

The company's petroleum exploration and development activities are subject to environmental conditions specified in the Offshore Petroleum Act (2006), associated Regulations and Directions, as well as the Environment Protection and Biodiversity Conservation Act (1999). During the year there were no known contraventions by the company, or by any operator of permits in which an interest is held, of any relevant environmental regulations.

The company believes all injuries are avoidable and has policies and procedures to ensure employees and contractors manage safety accordingly. The company monitors and evaluates its procedures. During the year there were no known contraventions of health and safety by the consolidated entity reported health and safety incidents.

***INDEMNIFICATION AND INSURANCE OF DIRECTORS AND AUDITORS***

During the year and to the date of this report, the company did not pay premiums in respect of contracts insuring directors or auditors of the company against liabilities arising from their position of directors of the company. No indemnifications have been provided by the company to the auditors.

***CORPORATE GOVERNANCE***

The ASX Corporate Governance Council has issued “Corporate Governance Principles and Recommendations” (the CGC Paper) requiring ASX listed companies to report their corporate governance practices against those principles and recommendations.

The board has elected that the company adopt those principles and recommendations set out in the CGC Paper, appropriate to a company of the size and stage of development of Exoil.

***SUBSEQUENT EVENTS***

There have been no significant events occur subsequent to the end of the financial year and to the date of signing of this report.

***PROCEEDINGS ON BEHALF OF THE COMPANY***

No proceedings have been brought or intervened in on behalf of the company with leave of the Court under section 237 of the Corporations Act 2001.

***AUDITOR’S INDEPENDENCE DECLARATION AND NON-AUDIT SERVICES***

The auditor’s independence declaration, as required under section 307C of the Corporations Act 2001, is attached to this report.

During the year no amounts were paid to the auditors for non-audit services.

Signed in accordance with a resolution of the directors in Melbourne on 13 September 2010.



JMD Willis  
Director

**DIRECTORS' DECLARATION**

The directors of the company declare that:

1. The financial statements, comprising the statement of comprehensive income, statement of financial position, statement of cash flows, statement of changes in equity, and accompanying notes, are in accordance with the Corporations Act 2001 and:
  - (a) comply with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001;
  - (b) give 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
  - (c) the financial report also complies with International Financial Reporting Standards issued by the International Accounting Standards Board (IASB) as disclosed in Note 1(a).
2. 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.
3. The remuneration disclosures included in pages 14 to 15 of the directors' report (as part of audited Remuneration Report) for the year ended 30 June 2010, comply with section 300A of the Corporations Act 2001.
4. The directors have been given the declarations by the chief executive officer and chief financial officer required by section 295A for the year ended 30 June 2010.

This declaration is made in accordance with a resolution of the Board of Directors and is signed for and on behalf of the directors by:



J.M.D. Willis  
Director

Melbourne, 13 September 2010



**STATEMENT OF COMPREHENSIVE INCOME**  
**YEAR ENDED 30 JUNE 2010**

	NOTE	<b>Consolidated</b>	
		<b>2010</b>	<b>2009</b>
		<b>\$</b>	<b>\$</b>
Revenue	2	3,319,276	645,746
Depreciation expense		(12,759)	(13,427)
Other expenses	3	(6,460,240)	(2,476,221)
		<hr/>	<hr/>
Loss before tax		(3,153,723)	(1,843,902)
Income tax benefit	5	46,647	527,214
		<hr/>	<hr/>
Loss after tax		(3,107,076)	(1,316,688)
Other comprehensive income		-	-
		<hr/>	<hr/>
Total comprehensive income for the year, net of tax		(3,107,076)	(1,316,688)
		<hr/>	<hr/>
Basic loss per share (cent per share)	23	(0.0368)	(0.0130)
Diluted loss per share (cent per share)	23	(0.0368)	(0.0130)

The Statement of Comprehensive Income is to be read in conjunction with the Notes to the Financial Statements

**STATEMENT OF FINANCIAL POSITION  
AT 30 JUNE 2010**

		<b>Consolidated</b>	
	<b>NOTE</b>	<b>2010</b>	<b>2009</b>
		<b>\$</b>	<b>\$</b>
<b>CURRENT ASSETS</b>			
Cash and cash equivalents		647,612	548,415
Trade and other receivables	6	169,017	97,430
		<hr/>	<hr/>
<b>TOTAL CURRENT ASSETS</b>		<b>816,629</b>	<b>645,845</b>
		<hr/>	<hr/>
<b>NON-CURRENT ASSETS</b>			
Exploration and evaluation assets	7	3,875,035	2,274,926
Property, plant and equipment	8	56,190	66,624
Other financial assets	9	70	70
		<hr/>	<hr/>
<b>TOTAL NON-CURRENT ASSETS</b>		<b>3,931,295</b>	<b>2,341,620</b>
		<hr/>	<hr/>
<b>TOTAL ASSETS</b>		<b>4,747,924</b>	<b>2,987,465</b>
		<hr/>	<hr/>
<b>CURRENT LIABILITIES</b>			
Trade and other payables	10	2,302,243	253,676
		<hr/>	<hr/>
<b>TOTAL CURRENT LIABILITIES</b>		<b>2,302,243</b>	<b>253,676</b>
		<hr/>	<hr/>
<b>NON-CURRENT LIABILITIES</b>			
Deferred tax liabilities	11	-	46,647
		<hr/>	<hr/>
<b>TOTAL NON-CURRENT LIABILITIES</b>		<b>-</b>	<b>46,647</b>
		<hr/>	<hr/>
<b>TOTAL LIABILITIES</b>		<b>2,302,243</b>	<b>300,323</b>
		<hr/>	<hr/>
<b>NET ASSETS</b>		<b>2,445,681</b>	<b>2,687,142</b>
		<hr/>	<hr/>
<b>EQUITY</b>			
Issued capital	12	5,821,228	2,959,055
Reserves	13	84,719	81,277
Accumulated losses		(3,460,266)	(353,190)
		<hr/>	<hr/>
<b>TOTAL EQUITY</b>		<b>2,445,681</b>	<b>2,687,142</b>
		<hr/>	<hr/>

The Statement of Financial Position is to be read in conjunction with the Notes to the Financial Statements

**STATEMENT OF CHANGES IN EQUITY**  
**YEAR ENDED 30 JUNE 2010**

	<b>Issued Capital \$</b>	<b>Option Reserves \$</b>	<b>Accumulated Losses \$</b>	<b>Total Equity \$</b>
<b>CONSOLIDATED</b>				
At 1 July 2009	2,959,055	81,277	(353,190)	2,687,142
Share issued	3,075,526	-	-	3,075,526
Costs of issue	(213,353)	-	-	(213,353)
Fair value of share options granted	-	3,442	-	3,442
Total comprehensive income for the year, net of tax	-	-	(3,107,076)	(3,107,076)
	<u>5,821,228</u>	<u>84,719</u>	<u>(3,460,266)</u>	<u>2,445,681</u>
At 30 June 2010	<u>5,821,228</u>	<u>84,719</u>	<u>(3,460,266)</u>	<u>2,445,681</u>
At 1 July 2008	2,959,055	81,277	963,498	4,003,830
Total comprehensive income for the year, net of tax	-	-	(1,316,688)	(1,316,688)
	<u>2,959,055</u>	<u>81,277</u>	<u>(353,190)</u>	<u>2,687,142</u>
At 30 June 2009	<u>2,959,055</u>	<u>81,277</u>	<u>(353,190)</u>	<u>2,687,142</u>

The Statement of Changes in Equity is to be read in conjunction with the Notes to the Financial Statements

**STATEMENT OF CASH FLOWS**  
**YEAR ENDED 30 JUNE 2010**

		<b>Consolidated</b>	
	<b>NOTE</b>	<b>2010</b>	<b>2009</b>
		<b>\$</b>	<b>\$</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Interest received		9,514	11,932
Administration fee received		216,477	173,851
Proceeds from sale of tenement information		3,133,000	540,000
Payments to suppliers of exploration services		(5,534,100)	(538,638)
Payments to other suppliers and employees		(584,567)	(607,699)
Net cash used in operating activities	(i)	(2,759,676)	(420,554)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Payment for office & computer equipment		(3,300)	(2,018)
Net cash used in investing activities		(3,300)	(2,018)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Proceeds from issue of ordinary shares		3,075,526	-
Share issue costs		(213,353)	-
Proceeds of advances		130,671	-
Repayment of advances		(130,671)	-
Net cash provided by financing activities		2,862,173	-
Net increase (decrease) in cash assets		99,197	(422,572)
Cash and cash equivalents at beginning of period		<u>548,415</u>	<u>970,987</u>
<b>CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>		<u><b>647,612</b></u>	<u><b>548,415</b></u>
<b>(i) RECONCILIATION OF NET CASH FROM OPERATING ACTIVITIES WITH LOSS AFTER INCOME TAX</b>			
Loss after income tax		(3,107,076)	(1,316,688)
<i>Adjusted for non cash items:</i>			
Depreciation of plant and equipment		12,759	13,427
Net movement in value of investments		-	24,997
Impairment of exploration assets		5,942,843	1,843,524
Loss on scrapping of assets		976	-
Share based payments: fair value of options grant date		3,442	-
<i>Changes in assets and liabilities:</i>			
(Increase) decrease in receivables		(71,587)	201,952
(Decrease) in tax liabilities		(46,647)	(527,214)
Increase (decrease) in payables		513,877	(274,758)
(Increase) in exploration expenditure		(6,008,263)	(385,794)
Net Cash used in Operating Activities		<u><b>(2,759,676)</b></u>	<u><b>(420,554)</b></u>

The Statement of Cash Flows is to be read in conjunction with the Notes to the Financial Statements



**NOTES TO THE FINANCIAL STATEMENTS**  
**30 JUNE 2010****NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Exoil Limited is a public company incorporated and domiciled in Australia with its registered office and principal place of business located at level 21, 500 Collins Street, Melbourne, Victoria 3000. The consolidated financial report is for Exoil Limited and its 100% owned subsidiaries, Hawkestone Oil Pty Ltd, Braveheart Resources Pty Ltd and Cornea Resources Pty Ltd (together referred to as the 'consolidated entity' or 'Exoil'). Subsidiary companies are domiciled and incorporated in Australia.

Separate financial statements for Exoil Limited as an individual entity are no longer presented as the consequence of a change to the Corporations Act 2001, however, limited financial information for Exoil Limited as an individual entity is included in Note 22.

The financial report was authorised by the directors for issue on 10 September 2010.

**(a) Statement of compliance**

The consolidated financial report is a general purpose financial report which has been prepared in accordance with Australian Accounting Standards, including Australian Accounting Interpretations and other authoritative pronouncements of the Australian Accounting Standards Board ('AASB') and the Corporations Act 2001. The consolidated financial statements and notes comply with International Financial Reporting Standards and interpretations adopted by the International Accounting Standards Board.

**(b) Basis of preparation**

The financial report is presented in Australian dollars and has been prepared on an accruals basis and is based on historical costs modified by the revaluation of selected financial assets for which the fair value basis of accounting has been applied.

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

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

Judgements made by management in the application of Australian Accounting Standards that have a significant effect on the financial report and estimates with a significant risk of material adjustment in the next year are discussed in note 1(p).

The accounting policies set out below have been applied consistently to all periods presented in the financial report.

**(c) Going concern**

For the year ended 30 June 2010 the consolidated entity incurred a loss after tax of \$3,107,076 (2009: \$1,316,688), had negative cashflows from operating activities of \$2,759,676 (2009: 420,554) and at 30 June 2010 had net current liabilities of \$1,485,614. Furthermore, the consolidated entity's only regular source of income is recharging director-related entities for office expenditure. The consolidated entity is also reliant on equity capital and/or loans from third parties or the proceeds of either partial sale or farm-out of its permit interests to meet its operating costs. These conditions indicate a material uncertainty that may cast significant doubt about the consolidated entity's ability to continue as a going concern.

The ability of the consolidated entity to continue as a going concern is dependent upon a number of factors, one being the continuation and availability of funds. The consolidated entity is expecting to fund ongoing obligations beyond the net current liability position at 30 June 2010 as follows:

**NOTES TO THE FINANCIAL STATEMENTS  
30 JUNE 2010****NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****(c) Going concern (continued)**

- The consolidated entity has cash calls of \$1,534,689 outstanding at 30 June 2010 to the Braveheart joint venture which are included in trade and other payables at 30 June 2010. These calls are dealt with by the Braveheart Omnibus Facility Agreement with Gascorp Australia Pty Ltd, a director-related entity of EG Albers, GA Menzies and JMD Willis and with Browse Petroleum Pty Ltd, a director-related entity of EG Albers, and with the other members of the Braveheart joint venture. Gascorp Australia Pty Ltd with the approval of the other members of the Braveheart joint venture, has agreed that these calls will not be required to be paid to the Braveheart joint venture until 7 July 2011 or when Exoil has sufficient funds available, whichever is earlier. Under certain conditions the payment date may be extended to 15 September 2011;

- Expenditure commitments include obligations arising from farm-in arrangements, and minimum work obligations arising for the initial three year period of exploration permits and thereafter annually. Minimum work obligations, may, subject to negotiation and approval, be varied and/or satisfied by farmout, sale, relinquishment or surrender of a permit;

-The consolidated entity has limited financial resources and will need to raise additional capital from time to time. Any such fund raisings will be subject to factors beyond the control of the consolidated entity and its directors. When Exoil requires further funding for its programs, then it is its intention that the additional funds would be raised in a manner deemed most expedient by the Board of directors at the time, taking into account working capital, exploration results, budgets, share market conditions, capital raising opportunities and the interest of other entities in co-participation in the consolidated entity's programs. It is Exoil's plan that this capital will be raised by any one or a combination of the following: placement of shares to excluded offerees, pro-rata issue to shareholders, the exercise of outstanding options, and/or a further issue of shares to the public; and

-Included in Exoil's cash flow forecast during the period of 12 months from the date of signing the financial statements is a capital raising to provide additional working capital of \$500,000.

Should these methods not be considered to be viable, or in the best interests of shareholders, then it would be the Exoil's intention to meet its obligations by either partial sale of the consolidated entity's interests or farmout, the latter course of action being part of Exoil's overall strategy and all of which have been implemented successfully in the last few years.

Cash flow forecasts prepared by management demonstrate that the consolidated entity has sufficient cash flows to meet its commitments over the next twelve months based on the above factors, and for that reason the financial statements have been prepared on the basis that the company and the consolidated entity are a going concern, which contemplates the continuity of normal business activity, realisation of assets and the settlement of liabilities in the normal course of business.

Should the consolidated entity be unable to continue as a going concern, it may be required to realise assets and extinguish liabilities other than in the ordinary course of business, and at amounts that differ from those stated in the financial statements. The financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts or to the amounts and classification of liabilities that might be necessary should the company and consolidated entity not continue as going concerns.

**(d) Principles of consolidation**

The consolidated financial statements have been prepared by Exoil in accordance with paragraph Aus 9.1 of AASB 127, Consolidated and Separate Financial Statements.

**NOTES TO THE FINANCIAL STATEMENTS  
30 JUNE 2010****NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****(d) Principles of consolidation (continued)****(i) Subsidiaries**

Subsidiaries are entities controlled by the company. Control exists when the company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable or convertible are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. Investments in subsidiaries are carried at their cost of acquisition in the company's financial statements.

**(ii) Jointly controlled operations and assets**

The interests of the company and of the consolidated entity in unincorporated joint ventures and jointly controlled assets are brought to account by recognising in the financial statements the assets it controls, the liabilities that it incurs, the expenses it incurs and its share of income that it earns from the sale of goods or services by the joint venture.

**(iii) Transactions eliminated on consolidation**

Intragroup balances and any unrealised gains and losses or income and expenses arising from intragroup transactions, are eliminated in preparing the consolidated financial statements.

**(e) Taxes***Income Tax*

Income taxes are accounted for using the comprehensive statement of financial position liability method whereby:

- The tax consequences of recovering (settling) all assets (liabilities) are reflected in the financial statements;
- Current and deferred tax is recognised as income or expense except to the extent that the tax related to equity items or to a business combination;
- A deferred tax asset is recognised to the extent that it is probable that future taxable profit will be available to realise the assets; and
- Deferred tax asset and liabilities are measured at the tax rates that are expected to apply to the period where the asset is realised or the liability settled.

*Tax Consolidation*

The company and its wholly owned resident entities are part of a tax-consolidated group. As a consequence, all members of the tax-consolidated group are taxed as a single entity. The head entity within the tax-consolidated group is Exoil Limited.

Current tax expense / income, deferred tax liabilities and deferred tax assets arising from temporary differences of the members of the tax-consolidated group are recognised in the separate financial statements of the members of the tax-consolidated group using the 'separate taxpayer within group' approach by reference to the carrying amounts of the assets and liabilities in the separate financial statements of each entity and the tax values applying under tax consolidation.

Any current tax liabilities (or assets) and deferred tax assets arising from unused tax losses of the subsidiaries are assumed by the head entity in the tax-consolidated group and are recognised by the Company as amounts payable (receivable) to / (from) other entities in the tax-consolidated group in conjunction with any tax funding arrangement amounts. Any difference between these amounts is recognised by the Company as an equity contribution or distribution.

The Company recognises deferred tax assets arising from unused tax losses of the tax-consolidated group to the extent that it is probable that future taxable profits of the tax-consolidated group will be available against which the asset can be utilised.

Any subsequent period adjustments to deferred tax assets arising from unused tax losses as a result of revised assessments of the probability of recoverability is recognised by the head entity only.

**NOTES TO THE FINANCIAL STATEMENTS  
30 JUNE 2010****NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****(e) Taxes (continued)***Goods and Services 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 taxation authority. In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated with the amount of GST included. The net amount of GST recoverable from, or payable to, the taxation authority is included as a current asset or liability in the statement of financial position.

Cash flows are included in the statement of cash flows on a gross basis. The GST components of cash flows arising from investing and financing activities which are recoverable from, or payable to, the ATO are classified as operating cash flows.

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

**(f) Receivables**

Trade and other receivables are stated at their amortised cost less impairment losses.

**(g) Cash and cash equivalents**

Cash and cash equivalents comprise cash balances and at call deposits. Bank overdrafts that are repayable on demand and form an integral part of the company's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

**(h) Payables**

Trade and other payables are stated at their amortised cost. Trade payables are non-interest bearing and are normally settled on 60-day terms.

**(i) Property, plant and equipment**

Items of property, plant and equipment are stated at cost or deemed cost less accumulated depreciation and impairment losses.

Depreciation is charged to the statement of comprehensive income on a straight line basis over the estimated useful lives of each class of property, plant and equipment. The estimated useful lives in the current and comparative year are as follows:

- |                          |              |
|--------------------------|--------------|
| • Computer equipment     | 4 years      |
| • Office equipment       | 4 - 20 years |
| • Leasehold improvements | 10 years     |

**(j) Investments**

Financial instruments classified as held for trading are measured at fair value through the profit or loss. All resultant gain or loss is recognised in the current year's profit or loss.

The fair value of financial instruments is their closing quoted bid price at the balance date, excluding expected transaction costs.

**(k) Share Capital**

Ordinary share capital is recognised at the fair value of the consideration received by the company. Transactions costs arising on the issue of ordinary shares are recognised directly in equity as a reduction of the consideration received, net of any income tax benefit.

**NOTES TO THE FINANCIAL STATEMENTS**  
**30 JUNE 2010****NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****(l) Impairment**

The carrying amounts of the consolidated entity's assets, other than deferred tax are reviewed at each balance date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is determined and impairment losses are recognised in the statement of comprehensive income where the asset's carrying value exceeds its recoverable amount.

*Calculation of recoverable amount*

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

*Reversals of impairment*

Impairment losses are reversed when there is an indication that the impairment loss may no longer exist and there has been a change in the estimate used to determine the recoverable amount.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised. No reversal of impairment loss occurs in relation to goodwill.

**(m) Exploration costs**

Exploration and evaluation costs, including the costs of acquiring licences, are capitalised as exploration and evaluation assets on an area of interest basis.

Exploration and evaluation costs are only recognised if the rights of the area of interest are current and either:

- (i) the expenditures are expected to be recouped through successful development and exploitation of the area of interest; or
- (ii) activities in the area of interest have not at the reporting date, reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves and active and significant operations in, or in relation to, the area of interest are continuing.

Exploration and evaluation costs are assessed for impairment 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.

**(n) Restoration, rehabilitation and environment expenditure**

Restoration, rehabilitation and environmental costs necessitated by exploration and evaluation activities are provided for as part of the cost of those activities. Costs are estimated on the basis of current legal requirements, anticipated technology and future costs that have been discounted to their present value. Estimates of future costs are reassessed at each reporting date.

**(o) Revenue**

Revenue is recognised at the fair value of consideration received or receivable. Amounts disclosed as revenue are net of returns, trade allowances and duties and taxes paid. The following specific recognition criteria must also be met before revenue is recognised:

*Sale of interest in exploration permits and held for trading investments*

Revenue from sale of interest in exploration permits and held for trading investments is recognised when the significant risks and rewards of ownership have passed to the buyer and can be reliably measured. Risks and rewards are considered passed to buyer when the exploration permit title or the investment instrument have been delivered to the customer.



**NOTES TO THE FINANCIAL STATEMENTS**  
**30 JUNE 2010****NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****(o) Revenue (continued)***Interest*

Revenue is recognised as interest accrues using the effective interest method. The effective interest method uses the effective interest rate which is the rate that exactly discounts the estimated future cash receipts over the expected life of the financial asset.

**(p) Accounting estimates and judgements**

Management determine the development, selection and disclosure of the company's critical accounting policies and estimates and the application of these policies and estimates. There are no estimates and judgements that are considered to have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

There is, however, a risk that actual expenditure to achieve minimum work obligations could differ from estimates disclosed in the notes to the financial statements (see Note 14). The estimated amounts represent the higher end of possible future expenditure. Work requirements achieved by farm-ins materially reduce the level of expenditure incurred by the company to comply with work program commitments.

Per Note 1(l) and 1(m) management exercise judgement as to the recoverability of exploration expenditure. Any judgment may change as new information becomes available. If, after having capitalised exploration and evaluation expenditure, management concludes that the capitalised expenditure is unlikely to be recovered by future sale or exploitation, then the relevant capitalised amount will be written off through the statement of comprehensive income.

**(q) Fair value**

Fair values for financial instruments traded in active markets are based on quoted market prices at statement of financial position date. The quoted market price for financial assets is the current bid price and/or the quoted market price.

The fair value of financial instruments that are not traded in an active market are determined using valuation techniques. Assumptions used are based on observable market prices and rates at balance date. Estimated discounted cash flows are used to determine fair value of the remaining financial instruments.

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

**(r) Share-based payment transactions**

The company provides benefits to executive, non-executive directors of the company and eligible persons in the form of share-based payment transactions, whereby officers and eligible persons render services in exchange for shares or rights over shares ('equity-settled transactions').

Arrangements that provide these benefits:

- (i) the Senior Executives and Officers Option Plan, which provides benefits to directors and senior executives, and
- (ii) the contractual arrangements with individual employees, consultants and senior executives.

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. A valuation model is used to determine the fair value of equities with no active market.

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

**NOTES TO THE FINANCIAL STATEMENTS**  
**30 JUNE 2010****NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****(r) Share-based payment transactions (continued)**

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

The cumulative expense recognised for equity-settled transactions at each reporting date until vesting date reflects

- (i) the extent to which the vesting period has expired; and
- (ii) the number of awards that, in the opinion of the directors of the company, will ultimately vest.

This opinion is formed based on the best available information at balance date. No adjustment is made for the likelihood of market performance conditions being met as the effect of these conditions is included in the determination of fair value at grant date.

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

Where the terms of an equity-settled award are modified, an expense is recognised as if the terms had not been modified. In addition, the company recognises the effect of modifications that increase the total fair value of the share-based payment arrangement as an increased expense.

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

The dilutive effect, if any, of outstanding options is reflected as additional share dilution in the computation of diluted earnings per share.

**(s) Earnings per Share***Basic earnings per share*

Basic earnings per share is calculated by dividing the profit attributable to members of Exoil by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares during the year.

*Diluted earnings per share*

Earnings used to calculate diluted earnings per share are calculated by adjusting the basic earnings by the after-tax effect of dividends and interest associated with dilutive potential ordinary shares. The weighted average number of shares used is adjusted for the weighted average number of ordinary shares that would be issued on the conversion of all the dilutive potential ordinary shares into ordinary shares.

**NOTES TO THE FINANCIAL STATEMENTS  
30 JUNE 2010****NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****(t) Accounting standards issued not yet effective****(i) New accounting standards and interpretations**

The consolidated entity has adopted all of the new and/or revised Accounting Standards and Interpretations issued by the AASB relevant to its operations and effective for annual reporting periods beginning on 1 July 2009.

Those adopted are

- AASB 3 - Business Combinations
- AASB 7 - Financial Instruments: Disclosure
- AASB 8 - Operating Segments
- AASB 101 - Presentation of Financial Statements
- AASB 127 - Consolidated and Separate Financial Statements
- AASB 2008-1 - Share-based Payments: Vesting Conditions and Cancellations
- AASB 2009-2 - Improving Disclosures about Financial Instruments

Where the adoption of the Standard or Interpretation is deemed to have an impact on the financial statements or performance of the consolidated entity, its impact is described below:

**AASB 101 – Presentation of Financial Statements**

Adoption of AASB 101 has impacted the disclosures included in the financial statements. The revised standard separates owner and non-owner changes in equity. The Statement of Changes in Equity includes only details of transactions with owners, with non-owner changes in equity presented in a reconciliation of each component of equity and included in the new Statement of Comprehensive Income. The consolidated entity has elected to present all items of recognised income and expense in one single Statement of Comprehensive Income.

**(ii) Accounting standards and interpretations issued not yet effective**

The following new/amended accounting standards and interpretations have been issued, but are not mandatory for the financial year ended 30 June 2010. They have not been adopted in preparing the financial report for the year ended 30 June 2010 and are expected to impact the consolidated entity in the period of initial application.

AASB No.	Title	Details of New Standard / Amendment / interpretation	Issue Date	Operative Date (Annual reporting periods beginning on or after)
9	Financial Instruments	This standard includes the requirements for the classification and measurement of financial assets resulting from Phase 1 of the project to replace AASB 139 Financial Instruments: Recognition and Measurement.	Dec 2009	1 Jan 2013
2009 – 5	Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project [AASB 5, 8, 101, 107, 117, 118, 136 & 139]	The amendments affect various AASBs resulting in minor changes for presentation, disclosure, recognition and measurement purposes.	May 2009	1 Jan 2010

AASB No.	Title	Details of New Standard / Amendment / interpretation	Issue Date	Operative Date (Annual reporting periods beginning on or after)
2009 – 8	Amendments to Australian Accounting Standards – Group Cash-settled Share-based Payment Transactions [AASB 2]	The amendments resolve diversity in practice regarding the attribution of cash-settled share-based payments between different entities within a group. As a result of the amendments AI 8 Scope of AASB 2 and AI 11 AASB 2 – Group and Treasury Share Transactions will be withdrawn from the application date.	Jul 2009	1 Jan 2010
2009 – 10	Amendments to Australian Accounting Standards – Classification of Rights Issues [AASB 132]	The 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.	Oct 2009	1 Feb 2010
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]	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 IFRSs by the IASB.  The Standard also amends AASB 8 to require entities to exercise judgement 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.	Dec 2009	1 Jan 2011
2010 – 2	Amendments to Australian Accounting Standards arising from Reduced Disclosure Requirements	This Standard gives effect to Australian Accounting Standards – Reduced Disclosure Requirements. AASB 1053 provides further information regarding the differential reporting framework and the two tiers of reporting requirements for preparing general purpose financial statements.	June 2010	1 Jul 2013
2010 – 3	Amendments to Australian Accounting Standards arising from the Annual Improvements Project [AASB 3, AASB 7, AASB 121, AASB 128, AASB 131, AASB 132 & AASB 139]	The subjects of the principal amendments to the Standards are set out below:  AASB 3 Business Combinations <ul style="list-style-type: none"> <li>• Measurement of non-controlling interests</li> <li>• Un-replaced and voluntarily replaced share-based payment awards</li> <li>• Transition requirements for contingent consideration from a business combination that occurred before the effective date of the revised AASB 3 (2008)</li> </ul>	June 2010	1 Jul 2010

AASB No.	Title	Details of New Standard / Amendment / interpretation	Issue Date	Operative Date (Annual reporting periods beginning on or after)
2010 – 4	Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project [AASB 1, AASB 7, AASB 101 & AASB 134 and Interpretation 13]	<p>The subjects of the principal amendments to the Standards are set out below:</p> <p>AASB 1 First-time Adoption of Australian Accounting Standards</p> <ul style="list-style-type: none"> <li>Accounting policy changes in the year of adoption</li> <li>Revaluation basis as deemed cost</li> <li>Use of deemed cost for operations subject to rate regulation</li> </ul> <p>AASB 7 Financial Instruments: Disclosures</p> <ul style="list-style-type: none"> <li>Clarification of disclosures</li> </ul> <p>AASB 101 Presentation of Financial Statements</p> <ul style="list-style-type: none"> <li>Clarification of statement of changes in equity</li> </ul> <p>AASB 134 Interim Financial Reporting</p> <ul style="list-style-type: none"> <li>Significant events and transactions</li> </ul> <p>Interpretation 13 Customer Loyalty Programmes</p> <ul style="list-style-type: none"> <li>Fair value of award credits</li> </ul>	June 2010	1 Jul 2011

#### Interpretations

Int No.	Title	Details of New Standard / Amendment / interpretation	Issue Date	Operative Date (Annual reporting periods beginning on or after)
19	Extinguishing Financial Liabilities with Equity Instruments	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.	Dec 2009	1 Jul 2010

The consolidated entity does not anticipate early adoption of any of the above reporting requirements and does not expect these requirements to have any material effect on the consolidated entity's financial statements.



**NOTES TO THE FINANCIAL STATEMENTS  
30 JUNE 2010**

	NOTE	2010 \$	Consolidated 2009 \$
<b>NOTE 2 REVENUE</b>			
Interest income		9,514	11,932
Recovery of administration costs	17	216,477	173,851
Profit on sale of tenement information	17(iv)	3,093,285	459,963
		<u>3,319,276</u>	<u>645,746</u>
<b>NOTE 3 OTHER EXPENSES</b>			
Audit fees	4	42,000	41,000
Consulting fees		86,408	146,468
Directors fees		-	22,500
Legal fees		8,833	25,000
Management fees		60,465	96,348
Office costs		79,348	94,895
Other expenses		62,741	12,944
Rent		174,160	168,501
Impairment of investments		-	24,997
Impairment of exploration assets	7	5,942,843	1,843,524
Share based payments: fair value of options			
at grant date - directors and company secretary	16	689	44
- eligible persons	21	2,753	-
		<u>6,460,240</u>	<u>2,476,221</u>
<b>NOTE 4 AUDITOR'S REMUNERATION</b>			
Fees for auditor reviews of the financial report		42,000	41,000
		<u>42,000</u>	<u>41,000</u>

**NOTES TO THE FINANCIAL STATEMENTS**  
**30 JUNE 2010**

	<b>Consolidated</b>	
	<b>2010</b>	<b>2009</b>
	<b>\$</b>	<b>\$</b>
<b>NOTE 5 INCOME TAX</b>		
<b>Components of income tax benefit</b>		
<i>Current tax expense</i>		
Current period	-	-
<i>Deferred tax expense</i>		
Origination and reversal of temporary differences	46,647	527,214
Total income tax benefit	<u>46,647</u>	<u>527,214</u>
Loss before tax	(3,153,723)	(1,843,902)
Income tax benefit using statutory income tax rate of 30% (2009: 30%)	946,117	553,171
Tax effect of:		
Non deductible items	(126,291)	(591,394)
Reversal of deferred tax liability on impairment of cost capitalised	125,256	567,068
Non assessable items	-	(1,697)
Prospectus costs	19,858	-
Deferred tax asset brought to account	-	66
Deferred tax asset not brought to account	(918,293)	-
Income tax benefit	<u>46,647</u>	<u>527,214</u>
Estimated potential future income tax benefit arising from tax losses and temporary differences calculated at a rate of 30% not brought to account at balance date as realisation of the benefit is not probable.		
Tax revenue losses carried forward	2,091,851	386,885
Less: Deferred tax liability not brought to account for exploration costs capitalised	(1,162,510)	(334,607)
Add: Other temporary differences not brought to account	41,230	-
Tax capital losses carried forward	360,000	360,000
	<u>1,330,571</u>	<u>412,278</u>

The group formed an income tax consolidated group effective from 1 July 2008. The tax consolidated group has entered into 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 (Note 1(e)).

**NOTES TO THE FINANCIAL STATEMENTS**  
**30 JUNE 2010**

	NOTE	2010 \$	Consolidated 2009 \$
<b>NOTE 6 TRADE AND OTHER RECEIVABLES</b>			
CURRENT			
Receivables from director related entities	17	65,455	53,640
Other receivables		103,562	43,790
		<u>169,017</u>	<u>97,430</u>

The carrying amount of all receivables is equal to their fair value as they are short term. None of the receivables are impaired or past due. The maximum credit risk for the company is the gross value of all receivables. All receivables are non-interest bearing.

**NOTE 7 EXPLORATION AND EVALUATION ASSETS**

Exploration costs capitalised at beginning of period		2,274,926	3,732,656
Costs for the period		7,582,667	465,830
Impairment of exploration assets		(5,942,843)	(1,843,524)
Recoupment of costs from sale of information and permit (1)		(39,715)	(80,036)
Exploration costs capitalised at end of period	15	<u>3,875,035</u>	<u>2,274,926</u>

(1) On the 12 December 2009 \$1,928,000 was received from Octanex NL, a director-related entity of EG Albers, JMD Willis and GA Menzies, per the WA-342-P Sale of Information agreement and for the sale of a 10.25% interest in the WA-342-P permit. Costs of \$24,440 were recouped from this sale. (Note 17)

On the 12 December 2009 \$1,205,000 was received from Auralandia NL, a director-related entity of EG Albers per the WA-342-P Sale of Information agreement and for the sale of a 6.40% interest in the WA-342-P permit. Costs of \$15,275 were recouped from this sale (Note 17).

On the 23 March 2009 \$540,000 was received from Gascorp Australia Pty Ltd, a director-related entity of EG Albers, JMD Willis and GA Menzies, per the VIC P/45 Sale of Information agreement. Costs of \$80,036 were recouped from this sale (Note 17).

Ultimate recovery of exploration costs carried forward is dependent upon exploration success and/or the company maintaining appropriate funding to support continued exploration activities.

**Impairment**

The impairment loss recognised in the year ended 30 June 2010 relates to components of permits WA-332-P, WA-333-P, WA-342-P, Vic/P53, Vic/P61 and EPP 36. (2009: Vic/P53, Vic/P1 and EPP36) The impairment loss was determined by analysing the costs with respect to each permit, that were capitalised during the year and in previous periods, to identify any of these costs that relate to previously identified prospects the company now considers to be less commercially feasible than previously determined.

**NOTES TO THE FINANCIAL STATEMENTS  
30 JUNE 2010**

	<b>Consolidated</b>	
	<b>2010</b>	<b>2009</b>
	<b>\$</b>	<b>\$</b>
<b>NOTE 8 PROPERTY, PLANT &amp; EQUIPMENT</b>		
Office Equipment		
At cost	22,902	22,634
Accumulated depreciation	(8,382)	(7,880)
	<u>14,520</u>	<u>14,754</u>
Computer Equipment		
At cost	31,268	31,268
Accumulated depreciation	(25,406)	(21,260)
	<u>5,862</u>	<u>10,008</u>
Leasehold Improvement		
At cost	51,465	51,465
Accumulated depreciation	(15,657)	(9,603)
	<u>35,808</u>	<u>41,862</u>
Total property, plant and equipment	<u>56,190</u>	<u>66,624</u>
Reconciliations of each class of property, plant & equipment is set out below:		
<i>Office Equipment</i>		
Balance at beginning of period	14,754	15,074
Additions	3,300	2,018
Disposals	(976)	-
Depreciation	(2,558)	(2,338)
Balance at end of period	<u>14,520</u>	<u>14,754</u>
<i>Computer Equipment</i>		
-Balance at beginning of period	10,008	15,044
-Depreciation	(4,146)	(5,036)
-Balance at end of period	<u>5,862</u>	<u>10,008</u>
<i>Leasehold Improvement</i>		
-Balance at beginning of period	41,862	47,915
-Depreciation	(6,054)	(6,053)
-Balance at end of period	<u>35,808</u>	<u>41,862</u>

**NOTES TO THE FINANCIAL STATEMENTS**  
**30 JUNE 2010**
**Consolidated**

NOTE	2010 \$	2009 \$
<b>NOTE 9 OTHER FINANCIAL ASSETS</b>		
<i>Investment held for trading at fair value through the profit or loss</i>		
Listed equities at cost	112,506	112,506
Impairment in value	(112,436)	(112,436)
	<u>70</u>	<u>70</u>
Total other financial assets	<u>70</u>	<u>70</u>
<i>Listed shares comprise:</i>		
Other	70	70
	<u>70</u>	<u>70</u>

Details of market price risk and sensitivity can be found in Note 18.

**NOTE 10 TRADE AND OTHER PAYABLES**

<b>CURRENT</b>		
Trade creditors and accruals	694,815	169,015
Director-related entity other payables 17	1,607,428	84,661
	<u>2,302,243</u>	<u>253,676</u>

Trade and other payables are current liabilities of which the fair value is equal to the current carrying amount. Information about the company's exposure to foreign exchange risk in relation to trade payables, including sensitivities to changes in foreign exchange rates, is provided in Note 18.

**NOTE 11 DEFERRED TAX LIABILITIES**

	<b>Assets</b>		<b>Liabilities</b>		<b>Net</b>	
	2010 \$	2009 \$	2010 \$	2009 \$	2010 \$	2009 \$
<b>Consolidated</b>						
Investment revaluations	-	(33,731)	-	-	-	(33,731)
Exploration costs	-	-	-	347,870	-	347,870
Accrued expenses	-	(6,000)	-	-	-	(6,000)
Tax Losses	-	(261,492)	-	-	-	(261,492)
	<u>-</u>	<u>(301,223)</u>	<u>-</u>	<u>347,870</u>	<u>-</u>	<u>46,647</u>

**NOTES TO THE FINANCIAL STATEMENTS**  
**30 JUNE 2010**

	Consolidated			
	2010 Shares	2009 Shares	2010 \$	2009 \$
<b>NOTE 12 CONTRIBUTED EQUITY</b>				
<b>Issued Capital</b>				
Ordinary shares fully paid	81,550,523	101,550,526	5,821,228	2,959,055
<b>Ordinary Shares</b>				
Ordinary shares on issue at 1 July	101,550,526	50,775,263	2,959,055	2,959,055
Shares reconstruction <sup>(1)</sup>	(50,775,263)	-	-	-
Shares subdivision <sup>(3)</sup>	-	50,775,263	-	-
Issued pursuant to Offer Information Statement <sup>(2)</sup>	30,775,260	-	3,075,526	-
Costs of issue	-	-	(213,353)	-
Ordinary shares on issue at 30 June	81,550,523	101,550,526	5,821,228	2,959,055

(1) At a general meeting of shareholders held on 22 October 2009 an ordinary resolution was passed reconstructing the fully paid issued ordinary shares in the company. The reconstruction resulted in a reduction in the number of fully paid ordinary shares on issue on the basis that for every two (2) shares currently held, one (1) new share was issued with the effect that issued capital of the company comprised 50,775,263 ordinary fully paid shares on 5 November 2009 when the reconstruction was completed.

(2) Per the terms of the Offer Information Statement dated 9 November 2009 the allotment of the 30,775,260 fully paid 10 cent ordinary shares and accompanying 24,620,208 free 30 June 2012 options was completed on 23 December 2009.

(3) At a general meeting of shareholders held on 3 September 2008 an ordinary resolution was passed subdividing the fully paid issued ordinary shares in the company into two ordinary shares each credited as fully paid up ordinary shares with the effect that the issued capital of the company comprised 101,550,526 ordinary fully paid shares from that date.

The company has unlimited authorised capital with no par value.

**Terms and Conditions of Contributed Equity**

Ordinary shares confer on the holder the right to receive dividends as declared and, in the event of a winding up of the company, to participate in the proceeds from the sale of all surplus assets in proportion to the number of shares held (irrespective of the amounts paid up). Ordinary shares entitle their holder to one vote, either in person or by proxy, at a meeting of the company.

**Options over Unissued Shares**

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

**30 June 2012 Listed Options – exercisable at 12 cents**

	2010 Options	2009 Options
Balance at beginning of year	-	-
Options issued	24,620,208	-
Balance at end of year	24,620,208	-



**NOTES TO THE FINANCIAL STATEMENTS  
30 JUNE 2010****NOTE 12 CONTRIBUTED EQUITY (CONTINUED)****Options over Unissued Shares (continued)***30 June 2011 Unlisted Options – exercisable at 20 cents*

	2010 Options	2009 Options
Balance at beginning of year	-	-
Options granted – 23 December 2009 - directors	800,000	-
Options granted – 23 December 2009 – eligible persons	4,700,000	-
	<u>5,500,000</u>	<u>-</u>
Balance at end of year	<u>5,500,000</u>	<u>-</u>

See Note 16 for details of options granted to Directors and Note 21 for details of options granted to eligible persons. The options granted to Directors were valued on the same basis as those granted to eligible persons.

*31 December Unlisted Options – exercisable at 15 and 20 cents*

All 31 December 2009 options disclosed at 30 June 2009 expired at 31 December 2009. This was subsequent to a share reconstruction saw a reduction in the number of options over ordinary shares on issue on the basis that for every two (2) options currently held, one (1) new options has been issued with the effect that issued capital of the company comprised 50,775,263 ordinary fully paid shares on 5 November 2009 when the reconstruction was completed.

**NOTE 13 OPTION RESERVE**

An option reserve was established to hold the value of options granted as remuneration to directors and eligible persons of the Company. This treatment is in line with AIFRS requirements for share based payments to be recognised in the statement of comprehensive income when made.

**NOTE 14 COMMITMENTS**

	2010 \$	Consolidated 2009 \$
<b>Estimated joint venture work program commitments (exclusive of contracted drilling commitments)</b>		
Payable not later than one year (1)	337,500	4,111,750
Payable later than one year but before five years	-	1,200,000
	<u>337,500</u>	<u>5,311,750</u>

(1) In 2009 the consolidated entities work program commitment, payable not later than one year, of \$4,111,750 included Exoil's share of a well to be drilled in WA-332-P (Braveheart Joint Venture) of \$3,806,250. No drilling contract had been signed for this work program commitment at 30 June 2009. It was only to be drilled if there was success in the well drilled in WA-333-P per the drilling contract commitment shown below. The well drilled in WA-333-P in December 2009 was a not a success and no commitment exists for drilling of a well at WA-332-P at 30 June 2010.

Exploration work program commitments may, with approval from the designated authority, be deferred or varied, or avoided by sale, farmout or relinquishment of permit interests. Work program commitments on exploration permits are commitments to undertake particular exploration activities; not financial commitments. There is no minimum spending obligation. The work program commitment numbers above reflect the company's share of the estimated cost of the work program. Contracted drilling costs are excluded from the work program commitments as they are shown below as a separately identifiable financial commitment.

**NOTES TO THE FINANCIAL STATEMENTS**  
**30 JUNE 2010**
**NOTE 14 COMMITMENTS (CONTINUED)**

	<b>Consolidated</b>	
	<b>2010</b>	<b>2009</b>
	<b>\$</b>	<b>\$</b>
<b>Estimated joint venture drilling contract commitments (not included above as work program commitments)</b>		
Payable not later than one year(1)	-	4,567,500
Payable after one year and before three years	-	-
	<u>-</u>	<u>4,567,500</u>
	<u>=====</u>	<u>=====</u>

(1) In July 2008 Exoil, along with a number of other non-related companies in a drilling consortium, signed a drilling contract. The contract was for the drilling of a well in the WA-333-P permit (Braveheart Joint Venture) in early calendar year 2010. The estimated cost of the well under the contract was \$18,000,000. Exoil's share of this cost was \$4,567,500 (25.375% of \$18,000,000). This well was drilled in December 2009 and no drilling contract commitment exists at 30 June 2010.

**Office lease commitments**

Payable not later than one year	173,203	167,346
Payable after one year and before five years	239,701	412,904
	<u>412,904</u>	<u>580,250</u>
	<u>=====</u>	<u>=====</u>

**NOTE 15 INTEREST IN JOINT VENTURES**

The consolidated entity has an interest in the assets, liabilities and output of joint venture operations for the exploration and development of petroleum in Australia. The consolidated entity has taken up its share of joint venture transactions based on the consolidated entity's contributions to the joint ventures. Expenditure commitments in respect of the joint ventures are disclosed in Note 14. Details of the consolidated entity's interests in the joint ventures are:

<b>Joint Venture</b>	<b>Note</b>	<b>Interest 2010</b>	<b>Interest 2009</b>	<b>Permits Held</b>
Braveheart	17	25.375%	25.375%	WA-332-P& WA-333-P
Cornea (i)	17	13.10%	29.75%	WA-342-P
T/37P & T/38P (ii)	17	35%	35%	
Vic/P45	17	50%	50%	
Vic/P53	17	-	16.7%	Permit Relinquished
Vic/P61	17	-	30%	Permit Relinquished
WA-359-P	17	50%	20%	
Western Otway Joint Venture	17	15%	15%	EPP34
Troas (iii)	17	30%	30%	EPP35
EPP36	17	-	30%	Permit Relinquished

(i) Cornea

Exoil sold 16.65% of its permit interests to director related entities in December 2009 (Note 17).

(ii) T/38P Farmin

A defined portion of the T/38P permit was farmed out to Beach Petroleum on 1 October 2007.

**NOTES TO THE FINANCIAL STATEMENTS**  
**30 JUNE 2010**
**NOTE 15 INTEREST IN JOINT VENTURES (CONTINUED)**
(iii) Troas - Farmin

Exoil signed a farm-out agreement with Gascorp, effective 30 June 2008, in relation to EPP35. In return for Gascorp funding seismic survey costs for EPP35 Exoil has agreed to farm-out a 10% interest in the permit.

Whilst Gascorp has committed to the farmin obligation as at 30 June 2008, the farmin work has not been performed or the funds outlaid as at the date of signing this report. When the seismic program is complete Exoil's interest in the permit will be 20%.

Assets and liabilities of the joint venture operations are included in the financial statements as follows:

	NOTE	2010	Consolidated 2009
			\$ \$
CURRENT ASSETS			
Cash assets		373,584	142,603
Trade & other receivables		84,790	8,482
NON-CURRENT ASSETS			
Exploration and evaluation assets	7	3,875,035	2,274,926
CURRENT LIABILITIES			
Trade & other payables		666,732	61,306

**NOTE 16 KEY MANAGEMENT PERSONNEL**
**Key management personnel disclosures**
*Non-executive Directors*

GA Menzies

JMD Willis

*Executive Director*

EG Albers

*Company Secretary*

JG Tuohy

PJ Albers resigned as a non-executive director on 16 September 2009 and was not replaced.

**Individual compensation disclosures**

Information regarding individual directors compensation is provided in the remuneration report section of the directors' report. There are no employees who meet the definition of key management personnel other than the directors and company secretary. A summary of the remuneration report is shown below.

Year	Short Term Employment Benefits			Post Employment		Total
	Directors Fees	Other Fees	Salary	Superannuation and other fees	Options at Grant	
	\$	\$	\$	\$	\$	\$
<b>TOTAL</b>						
2010	-	30,525	-	-	689	31,214
2009	-	39,400	-	30,000	44	69,444

**NOTES TO THE FINANCIAL STATEMENTS  
30 JUNE 2010****NOTE 16 KEY MANAGEMENT PERSONNEL (CONTINUED)****Ordinary shares issued by Exoil Limited to Key Management Personnel**

	Opening Balance	Received as Remuneration	Options Exercised	Other(1)	Closing Balance
<b>2010</b>					
JMD Willis	2,312,500	-	-	(906,250)	1,406,250
EG Albers	73,481,816	-	-	(16,985,564)	56,496,252
PJ Albers(2)	73,072,184	-	-	(73,072,184)	-

(1) At a general meeting of shareholders held on 22 October 2009 an ordinary resolution was passed reconstructing the fully paid issued ordinary shares in the company. The reconstruction resulted in a reduction in the number of fully paid ordinary shares on issue on the basis that for every two (2) shares currently held, one (1) new share was been issued. No shares were granted to key management personnel during the reporting year as compensation

(2) PJ Albers resigned as a director on 16 September 2009 and was not replaced.

**2009**

JMD Willis	1,156,250	-	-	1,156,250	2,312,500
EG Albers *	40,059,992	-	-	33,421,824	73,481,816
PJ Albers *	40,059,992	-	-	33,012,192	73,072,184
MA Muzzin(1)	1,556,250	-	-	(1,556,250)	-

\* Ordinary shares in which more than one director holds an interest – 73,061,196

(1) MA Muzzin resigned in the 30 June 2009 financial year.

**Listed Options (exercisable by 30 June 2012 12 cents per share)**

	Opening Balance	Options Granted	Options Expired	Other	Closing Balance
<b>2010</b>					
EG Albers	-	15,697,008	-	-	15,697,008
GA Menzies	-	200,000	-	-	300,000
	-	15,897,008	-	-	15,897,008

These options were granted from the directors participation in the share issue made under the terms of the Offer Information Statement dated 9 November 2009.

**Unlisted Options (exercisable by 30 June 2011 20 cents per share)**

	Opening Balance	Options Granted	Options Expired	Other	Closing Balance
<b>2010</b>					
JMD Willis	-	500,000	-	-	500,000
GA Menzies	-	300,000	-	-	300,000
JG Tuohy	-	300,000	-	-	300,000
	-	1,100,000	-	-	1,100,000

On 23 December, 2009 the options were granted as compensation, subject to members' approval, and are exercisable from grant date.

**NOTES TO THE FINANCIAL STATEMENTS**  
**30 JUNE 2010****NOTE 16 KEY MANAGEMENT PERSONNEL (CONTINUED)****Unlisted Options (exercisable by 31 December 2009 at 15-20 cents per share)**

	Opening Balance	Options Granted	Options Expired	Other	Closing Balance
<b>2010</b>					
JMD Willis	400,000	-	(400,000)	-	-
EG Albers	200,000	-	(200,000)	-	-
PJ Albers	200,000	-	(200,000)	-	-
GA Menzies	400,000	-	(400,000)	-	-
JG Tuohy	600,000	-	(600,000)	-	-
	<u>1,800,000</u>	<u>-</u>	<u>(1,800,000)</u>	<u>-</u>	<u>-</u>
<b>2009</b>					
JMD Willis	200,000	-	-	200,000	400,000
EG Albers	100,000	-	-	100,000	200,000
PJ Albers	100,000	-	-	100,000	200,000
GA Menzies	200,000	-	-	200,000	400,000
JG Tuohy	-	600,000	-	-	600,000
MA Muzzin (1)	375,000	-	-	(375,000)	-
	<u>975,000</u>	<u>600,000</u>	<u>-</u>	<u>225,000</u>	<u>1,800,000</u>

(1) On the 31 December 2008 MA Muzzin resigned and was not replaced.

**NOTE 17 RELATED PARTY DISCLOSURES****Ultimate Parent**

Great Australia Corporation Pty Ltd is the immediate parent company and its ultimate parent company is Seaquest Petroleum Pty Ltd.

Details of subsidiary companies of Exoil Limited are included Note 1.

*Director-related Entities*

Companies in which an Exoil director holds office, or that a director holds shares in, or that provide services to the company, or that the company provides services to, or to a joint venture in which the company has an interest or that also hold an interest in those joint ventures.

*(i) Providers of Services*

During the period services were provided under normal commercial terms and conditions by:

Capricorn Mining Pty Ltd, ("Capricorn"), a director-related entity of EG Albers

Gascorp Australia Pty Ltd ("Gascorp") is a director-related entity of EG Albers, GA Menzies and JMD Willis.

Setright Oil & Gas Pty Ltd, ("Setright"), a director-related entity of EG Albers and PJ Albers

Upstream Consulting Pty Ltd ("Upstream"), a director-related entity of JMD Willis

National Gas Australia Pty Ltd ("NGA"), a director-related entity of EG Albers and PJ Albers

Gresham Management Pty Ltd ("Gresham"), a director-related entity of GA Menzies

**NOTES TO THE FINANCIAL STATEMENTS**  
**30 JUNE 2010**
**NOTE 17 RELATED PARTY DISCLOSURES (CONTINUED)**

	<b>Service Provided to Exoil</b>	<b>2010</b>	<b>2009</b>
		<b>\$</b>	<b>\$</b>
Capricorn	Management of exploration tenements	47,711	52,206
Capricorn	Corporate management and administration	30,000	35,000
Gascorp	Short-term funding provided to joint ventures	130,671	-
Setright	Accounting, project management and company secretarial services	34,215	58,660
Setright	Accounting, project management of joint ventures	13,711	27,620
Upstream	Management and consulting services to the company	4,000	37,200
Upstream	Management and consulting to joint ventures	23,039	26,411
NGA	Provision of office services to joint venture in WA	29,066	24,550
Gresham	Management and consulting services to the company	31,900	-
Gresham	Management and consulting services to joint ventures	3,172	-

*(ii) Services Provider*

During the year office services and amenities were provided by the company under normal commercial terms and conditions to:

Moby Oil & Gas Ltd, ("Moby"), a director-related entity of EG Albers and GA Menzies

Capricorn, a director-related entity of EG Albers

Octanex N.L., ("Octanex"), a director-related entity of EG Albers, JMD Willis and GA Menzies

Strata Resources Pty Ltd ("Strata"), a director-related entity of EG Albers, JMD Willis and GA Menzies

Auralandia NL, ("Auralandia"), a director-related entity of EG Albers and PJ Albers

NGA, a director-related entity of EG Albers and PJ Albers

Setright, a director-related entity of EG Albers and P J Albers

Gascorp, a director-related entity of EG Albers, GA Menzies and JMD Willis.

Goldsborough Limited ("Goldsborough"), a director-related entity of EG Albers

RMMI Australia Pty Ltd ("RMMI"), a director-related entity of EG Albers

	<b>Consolidated</b>	
	<b>2010</b>	<b>2009</b>
	<b>\$</b>	<b>\$</b>
Moby	25,468	22,661
Capricorn	31,835	28,326
Octanex	50,936	39,482
Strata	-	2,920
Auralandia	19,101	16,996
NGA	-	17,518
Setright	25,468	28,500
Gascorp	38,202	16,473
Goldsborough	25,467	13,902
RMMI* credit adjustment	-	(12,927)
<b>Total</b>	<b>216,477</b>	<b>173,851</b>



**NOTES TO THE FINANCIAL STATEMENTS**  
**30 JUNE 2010****NOTE 17 RELATED PARTY DISCLOSURES (CONTINUED)***(iii) Joint Venture Participants*

The company holds interests in petroleum exploration joint ventures with certain director-related entities:

- As a participant of the Bass Basin Joint Venture (T37/P and T38P) with operator Cue Energy Resources Ltd ("Cue"), a former director-related entity of EG Albers and Gascorp a director-related entity of EG Albers, JMD Willis and GA Menzies.
- As operator of the Braveheart Joint Venture with Braveheart Petroleum Pty Ltd, Braveheart Oil & Gas Pty Ltd, Browse Petroleum Ltd, Gascorp and Braveheart Energy Pty Ltd, all director-related entities of EG Albers. Browse Petroleum Ltd is also a director-related entity of GA Menzies and JMD Willis.
- As operator of the Cornea Joint Venture with Cornea Petroleum Pty Ltd, Cornea Oil & Gas Pty Ltd, Gascorp, Cornea Energy Pty Ltd, Octanex NL and Auralandia NL all director-related entities of EG Albers. Gascorp and Octanex NL are also a director-related entity of GA Menzies and JMD Willis.
- As the operator of the Western Otway (EPP 34) Joint Venture with National Energy Pty Ltd, a director-related entity of EG Albers, and United Oil and Gas Pty Ltd, Gascorp and Moby all three director-related entities of EG Albers and GA Menzies. Gascorp is also a director-related entity of JMD Willis.
- As operator of the Vic/P45 Joint Venture with Moby, a director-related entity of EG Albers and GA Menzies.
- As operator of the Vic/P53 Joint Venture with Moby a director-related entity of EG Albers and GA Menzies
- As the operator of the Vic/P61 Joint Venture with Gascorp, Moby Oil & Gas Limited and Octanex NL, all director-related entities of EG Albers and GA Menzies. JMD Willis is also a director of Gascorp and in August 2009 became a director in Octanex NL.
- As a participant of the WA359P with operator Cue a former director-related entity of EG Albers.
- As the operator of both the EPP35 and EPP36 joint ventures with Moby, Gascorp and National Energy Pty Ltd all director related entities of EG Albers. GA Menzies and JMD Willis are also directors of Gascorp.

	<b>Consolidated</b>	
	<b>2010</b>	<b>2009</b>
	<b>\$</b>	<b>\$</b>

Amounts payable by and payable to related parties including those under joint venture arrangements:

**Receivables**

Moby Oil & Gas Limited	7,701	6,311
Auralandia NL	5,775	4,733
Octanex NL	15,401	12,620
Capricorn Mining Pty Ltd	9,626	7,888
Goldsborough Limited	7,701	6,311
Setright Oil & Gas Pty Ltd	7,701	6,311
Gascorp Australia Pty Ltd	11,550	9,466
	<u>65,455</u>	<u>53,640</u>

**Payables**

Setright Oil & Gas Pty Ltd	12,827	10,073
Upstream Consulting Pty Ltd	5,866	16,845
Capricorn Mining Pty Ltd	39,181	43,897
National Gas Australia Pty Ltd	14,865	13,846
Hawkestone Oil Pty Ltd (on behalf of Braveheart joint venture)	1,534,689	-
	<u>1,607,428</u>	<u>84,661</u>

**NOTES TO THE FINANCIAL STATEMENTS  
30 JUNE 2010**
**NOTE 17 RELATED PARTY DISCLOSURES (CONTINUED)**
*(iv) Sale of permit information to director-related entities*

On the 12 December 2009 amounts of \$1,926,848 and \$1,152 were received from Octanex NL, a director-related entity of EG Albers, JMD Willis and GA Menzies, per the WA-342-P Sale of Information agreement and for the sale of a 10.25% interest in the WA-342-P permit respectively. A profit of \$1,903,560 was recognised in the statement of comprehensive income after costs of \$24,440 were recouped from this sale.

On the 12 December 2009 amounts of \$1,204,280 and \$720 were received from Auralandia NL, a director-related entity of EG Albers per the WA-342-P Sale of Information agreement and for the sale of a 6.40% interest in the WA-342-P permit respectively. A profit of \$1,189,725 was recognised in the statement of comprehensive income after costs of \$15,275 were recouped from this sale.

On the 23 March 2009 \$540,000 was received from Gascorp Australia Pty Ltd, a director-related entity of EG Albers, JMD Willis and GA Menzies, per the VIC P/45 Sale of Information agreement. A profit of \$459,963 was recognised in the statement of comprehensive income after costs of \$80,036 were recouped from this sale.

*(v) Provision of legal fees by director.*

During the year ended 30 June 2010 consulting services were provided by GA Menzies through his company Gresham Management Pty Ltd and are disclosed above. During the year-ended 30 June 2009 legal fees of \$25,000 were paid to GA Menzies for his work on the Information Memorandum issued for the listing of the company on the NSX.

*(vi) Braveheart Omnibus Facility Agreement*

On 7 May 2010 Exoil Limited and its subsidiary companies Hawkestone Oil Pty Ltd and Braveheart Resources Pty Ltd signed the Braveheart Omnibus Facility Agreement with Gascorp Australia Pty Ltd, a director-related entity of EG Albers, GA Menzies and JMD Willis and with Browse Petroleum Pty Ltd, a director-related entity of EG Albers. The facility enabled cash calls required by the Braveheart joint venture to be met.

*(vii) Underwriting Fees to director-related entity*

During the year-ended 30 June 2010 fees of \$163,488 were paid to Great Missenden Holdings Pty Ltd for the management and underwriting of the share issue made under the Offer Information Statement dated 9 November 2009. Great Missenden Holdings Pty Ltd is a director-related entity of EG Albers. No fees were paid in 2009.

Director-related transactions disclosed above were on normal terms and conditions.

	NOTE	Consolidated	
		2010	2009
		\$	\$

**NOTE 18 FINANCIAL INSTRUMENTS**
**Categories of Financial Instruments**
**Financial Assets**

Investments held for trading			
at fair value through the profit or loss	9	70	70
Loans and receivables (including cash and cash equivalents)		816,629	645,845
		<u>816,699</u>	<u>645,915</u>

**Financial Liabilities**

Trade and other payables	10	<u>2,302,243</u>	<u>253,676</u>
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**NOTES TO THE FINANCIAL STATEMENTS**  
**30 JUNE 2010****NOTE 18 FINANCIAL INSTRUMENTS (CONTINUED)****Recognition and derecognition**

The regular way purchases and sales of financial assets and financial liabilities are recognised on the trade date being the date on which the consolidated entity commits to purchase or sell the financial assets or financial liabilities. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the group has transferred substantially all the risks and rewards of ownership.

Exposure to credit, liquidity, interest rate, foreign currency and equity price risks arises in the normal course of the consolidated entity's business. The consolidated entity's overall risk management approach is to identify the risks and implement safeguards which seek to minimise potential adverse effects on the financial performance of the consolidated entity's business. The board of directors are responsible for monitoring and managing the financial risks of the consolidated entity.

As of 1 July 2009, Exoil Limited has adopted the amendment to AASB 7 Financial Instruments: Disclosures which requires disclosure of fair value measurements by level of the fair value measurement hierarchy. All financial assets and financial liabilities for Exoil are level 1 where quoted prices (unadjusted) in active markets for identical assets or liabilities are used.

**Credit risk**

Credit risk is the risk of financial loss to the company if a customer or counterparty to a financial instrument fails to meet its contractual obligations. At the statement of financial position date there were no significant concentrations of credit risk as the consolidated entity has no trade sales or trade receivables. The maximum exposure to credit risk of financial assets is represented by the carrying amounts of each financial asset in the statement of financial position.

**Liquidity risk**

Liquidity risk is the risk that the group will not be able to meet its financial obligations as they fall due. Liquidity risk is monitored to ensure sufficient monies are available to meet contractual obligations as and when they fall due. All liabilities at balance date are current are due in less than one month.

**Interest rate risk**

All financial liabilities and financial assets at floating rates expose the consolidated entity to cash flow interest rate risk. The consolidated entity has no exposure to interest rate risk at balance date, other than in relation to cash and cash equivalents which attract an interest rate.

*Sensitivity Analysis*

At balance date a 1% (100 basis point) increase/decrease in the interest rate would increase/decrease the consolidated entity post tax profit and net assets by \$4,533 (2009: \$3,839).

The sensitivity analysis above has been determined based on the exposure to interest rates for both derivative and non-derivative instruments at the reporting date and the stipulated change taking place at the beginning of the financial year and held constant throughout the period. A 1 percent increase or decrease in the interest rate is used and represents management's assessment of the possible change in interest rates and historically is within a range of rate movements.

**Foreign currency risk**

The consolidated entity is exposed to foreign currency risk arising from purchases of goods and services that are denominated in a currency other than the Australian dollar functional currency.

The consolidated entity incurs seismic, exploration and well drillings costs in US dollars. To this extent, the consolidated entity is exposed to exchange rate fluctuations between the Australian and US dollar.

There was no material exposure to foreign currency in 2010 or 2009.

**NOTES TO THE FINANCIAL STATEMENTS  
30 JUNE 2010****NOTE 18 FINANCIAL INSTRUMENTS (CONTINUED)****Equity price risks**

Equity price risk arises from available for sale investments held by the parent and consolidated entity in the form of investments in listed equities. The portfolio of investments is managed internally by Exoil management who buy and sell equities based on their own analyses of returns.

Available for sale investments in listed equities of \$70 (2009: \$70) for the consolidated entity and the parent entity are subject to movements in prices of the investment markets.

The consolidated entity and company investments in listed equities are listed on the Australian Securities Exchange and in the United States on the Over-the Counter Bulletin Board (OTC-BB). A 10% (2009: 10%) increase / decrease at the reporting date in closing share price of each share held would have increased/decreased consolidated equity by \$7 (2009: \$7). There would have been no effect on profit.

**Capital Management**

When managing capital, management's objective is to ensure the entity continues as a going concern as well as to maintain optimal returns to shareholders and benefits for other stakeholders.

It is the company's and consolidated entity's plan that capital will be raised by any one or a combination of the following manners: placement of shares to excluded offerees, pro-rata issue to shareholders, the exercise of outstanding options, and/or a further issue of shares. Should these methods not be considered to be viable, or in the best interests of shareholders, then it would be the consolidated entity's intention to meet its exploration obligations by either partial sale of its interests or farmout, the latter course of action being part of its overall strategy.

The company and consolidated entity are not subject to any externally imposed capital requirements.

**NOTE 19 SEGMENT INFORMATION**

The group has adopted AASB 8 Operating Segments from 1 July 2009 whereby segment information is presented using a 'management approach', i.e. segment information is provided on the same basis as information used for internal reporting purposes by the board of directors

At regular intervals the board is provided management information at a group level for the group's cash position, the carrying values of exploration permits and a group cash forecast for the next twelve months of operation.

On this basis, no segment information is included in these financial statements.

All interest received has been derived in Australia. All exploration and evaluation assets are held in Australia.

**NOTE 20 EVENTS SUBSEQUENT TO BALANCE DATE**

There are no significant events subsequent to balance date and to the signing of this report.

**NOTE 21 SHARE BASED PAYMENT**

	2010 \$	2009 \$
<b>Share-based payment expense recognised during the financial year</b>		
Options issued to eligible persons under the incentive plan	2,753	-

The directors may grant options to eligible persons who are defined as executive officers of Exoil Limited including employees, directors, secretaries and seconded personnel who take part in the management of Exoil Limited.

**NOTES TO THE FINANCIAL STATEMENTS  
30 JUNE 2010****NOTE 21 SHARE BASED PAYMENT (CONTINUED)**

	<b>2010</b>	<b>2009</b>
	<b>Options</b>	<b>Options</b>
<b>30 June 2011 Unlisted Options – exercisable at 20 cents</b>		
Balance at the beginning of the year	-	-
Options granted 23 December 2009 – eligible persons	4,400,000	-
	<u>4,400,000</u>	<u>-</u>
	=====	=====

(i) On 23 December, 2009 the options were granted, pursuant to members' approval, and are exercisable from grant date.

(ii) The options were valued using the Black-Scholes-Merton model. The follow inputs were used:

Exercise price	20 cents
Share price at grant date	3 cents
Maximum option life	1.5 years
Expected volatility	81%
Risk free interest rate	4.6%

Expected volatility was based on the average volatility of a peer group of eleven companies within the oil and gas exploration industry. The implied volatility of the companies was in the range of 30% to 142%. The fair value of this share based payment was \$2,753.

Share based payments issued to directors and the company secretary as remuneration are disclosed in the Remuneration Report.

**NOTE 22 PARENT ENTITY INFORMATION**

The following details information related to the parent entity, Exoil Limited at 30 June 2010. The information presented here has been prepared using consistent accounting policies as presented in Note 1.

	<b>2010</b>	<b>2009</b>
	<b>\$</b>	<b>\$</b>
Current asset	413,629	626,894
Non-current assets	1,315,686	2,560,489
	<u>1,729,315</u>	<u>3,187,383</u>
	=====	=====
Total assets	1,729,315	3,187,383
	<u>126,374</u>	<u>213,918</u>
Current liabilities	126,374	213,918
Non-current liabilities	566,105	95,147
	<u>692,479</u>	<u>309,065</u>
	=====	=====
Total liabilities	692,479	309,065
	<u>1,036,836</u>	<u>2,878,318</u>
	=====	=====
Net assets	1,036,836	2,878,318
	<u>5,821,228</u>	<u>2,959,055</u>
Contributed equity	5,821,228	2,959,055
Reserves	84,719	81,277
Retained earnings	(4,869,111)	(162,014)
	<u>1,036,836</u>	<u>2,878,318</u>
	=====	=====
Total equity	1,036,836	2,878,318
	=====	=====

**NOTES TO THE FINANCIAL STATEMENTS  
30 JUNE 2010****NOTE 22 PARENT ENTITY INFORMATION (CONTINUED)**

	<b>2010</b>	<b>2009</b>
	<b>\$</b>	<b>\$</b>
Loss for the year	(4,707,094)	(1,316,909)
Other comprehensive income for the year	-	-
	<hr/>	<hr/>
Total comprehensive income for the year	(4,707,094)	(1,316,909)
	<hr/>	<hr/>

The parent entity has no contingent liabilities other than in the form of a rental bank guarantee of \$43,450.

The parent entity has no exploration expenditure commitments.

	<b>Consolidated</b>
	<b>2010</b>
	<b>2009</b>
	<b>\$</b>
	<b>\$</b>

**NOTE 23 LOSS PER SHARE**

The following reflects the income and share data used in the calculations of basic and diluted loss per share:

Net loss	3,702,773	1,316,688
----------	-----------	-----------

The weighted average number of shares used for the purposes of calculating basic and diluted loss per share

	<b>Number of Shares</b>	<b>Number of Shares</b>
Basic earnings per share	84,517,065	50,775,263(ii)

**(i) Options not dilutive**

Listed and unlisted options outstanding during the year (Refer Note 12) are not dilutive at the 30<sup>th</sup> June 2010 as the exercise price is higher than the average share price for the year then ended.

(ii) The comparative balance of weighted average number of ordinary shares of 101,550,526 was adjusted to reflect the 2:1 share reconstruction.



**AUDITOR'S INDEPENDENCE DECLARATION**

As lead auditor for the audit of Exoil 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.

This declaration is in respect of Exoil Limited and the entities it controlled during the year.



**David J Garvey**  
**Partner**  
**PKF**

13 September 2010  
Melbourne

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## INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF EXOIL LIMITED

### Report on the Financial Report

We have audited the accompanying financial report of Exoil Limited, 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 and other explanatory notes and the directors' declaration of the consolidated entity comprising Exoil Limited 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 is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 1(a), the directors also state, in accordance with Accounting Standard AASB 101 Presentation of Financial Statements, that compliance with Australian Accounting Standards ensures that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards.

#### *Auditor's Responsibility*

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

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

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

#### *Independence*

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

#### *Auditor's Opinion*

In our opinion:

- (a) the financial report of Exoil 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 consolidated financial statements and notes also comply with International Financial Reporting Standards as disclosed in Note 1(a).

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*Emphasis of Matter - Material Uncertainty Regarding Continuation as a Going Concern*

Without qualifying our opinion, we draw attention to Note 1(c) in the financial report which indicates that for the year ended 30 June 2010 the consolidated entity had a loss after tax of \$3,107,076 (2009: \$1,316,688), and negative cash flows from operating activities of \$2,759,676 (2009: \$420,554). In addition the consolidated entity had net current liabilities of \$1,485,614. These conditions, along with other matters as set forth in Note 1(c), indicate the existence of a material uncertainty which may cast significant doubt about the consolidated entity's ability to continue as a going concern, and, therefore, whether it will realise its assets and extinguish its liabilities in the normal course of business and at the amounts stated in the financial report. The financial report has been prepared on a going concern basis and therefore does not include any adjustments relating to the recoverability and classification of recorded asset amounts or to the amounts and classification of liabilities that might be necessary should the consolidated entity not continue as a going concern.

**Report on the Remuneration Report**

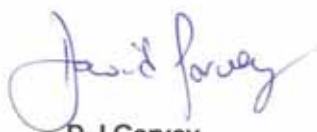
We have audited the Remuneration Report included in pages 14 to 15 of the directors' report for the period ended 30 June 2010. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the Corporations Act 2001. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

**Auditor's Opinion**

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

PKF

PKF

13 September 2010  
Melbourne**D J Garvey**  
Partner

**5 YEAR SUMMARY OF PERFORMANCE  
30 JUNE 2010**

		2006	2007	2008	2009	2010
Gross Revenue	\$	3,010,585	314,286	312,518	645,746	3,319,276
Net profit (loss) before tax	\$	2,022,119	73,568	(152,930)	(1,843,902)	(3,153,723)
Total assets	\$	5,121,432	5,439,993	5,106,124	2,987,465	4,747,924
Total liabilities	\$	530,709	1,374,867	1,102,294	300,323	2,302,243
Shareholders funds	\$	4,590,723	4,065,126	4,003,830	2,687,142	2,445,681
Earnings (loss) per share	Cents	3.83	0.00	0.00	(0.01)	(0.04)
Dividends per share	Cents	N/A	N/A	N/A	N/A	N/A
Net tangible assets (deficiency)	\$	248,389	(1,036,998)	271,174	412,216	(1,429,354)
Price earnings ratio		*	*	*	**	**

\* Not Listed

\*\* Not Applicable (loss)

N/A Not Applicable

**CORPORATE GOVERNANCE**

The Directors are responsible for the strategic direction of the Company, the identification and implementation of corporate policies and goals and monitoring of the business and affairs of the Company on behalf of the Shareholders.

This section of the Annual Report includes information on how the Company and the Board address, on an ongoing basis, the specific requirements of NSX in relation to corporate governance in general. More specifically, it addresses the operation of the Board itself, Board committees and their charters, the Company's code of ethics and its share transaction policy for designated officers (as those individuals are defined).

Important to a culture of actively addressing the area of corporate governance is the Board's ongoing review of the Company's relevant and existing policies and practice. To this end, the Board annually reviews the Company's corporate governance activities by benchmarking against the latest Corporate Governance Principles and Recommendations ("principles & recommendations") issued by the ASX Corporate Governance Council ("Council"). The Board has adopted the elements of the eight principles & recommendations that are appropriate to the Company. Details of the governance practices applied by the Company, and specific instances where the Company has followed alternatives to the Council's eight principles & recommendations, are set out below.

Given the size of the Company to date, with limited activities, limited resources and having a Board of three Directors, it is not able to practically establish a series of separate committees to address specific areas of corporate governance. Consequently, corporate governance is (generally) dealt with by the Board under the terms of reference of its own charter. It also acts as committees in relation to the various areas or issues required to be considered, utilising formal terms of reference for the activities of those committees.

As noted, the capacity of the Company to comply with the principles & recommendations is limited because of the present size and structure of the Board. At the date of this Annual Report, the Board comprises Mr EG Albers, an executive director who is not independent, and Mr JMD Willis and Mr GA Menzies, non-executive directors who are not independent. Mr Albers is the Chief Executive Officer ("CEO") and is not independent because he and his associates have substantial shareholdings in the Company. Messrs Willis and Menzies are not independent because of past and present professional and commercial relationships with the Company.



Separate from its own charter (the main terms of which are detailed below), the Board has developed formal charters that incorporate the terms of reference under which it addresses the areas and functions of audit, compliance, remuneration and nominations - these are also explained below. The charters introduce a formal structure of objectives and functions for the Board to apply when addressing these aspects of the Company's corporate governance, in anticipation of an expanded Board being able to address these functions via committees constituted with the recommended personnel.

The Board has established itself as two committees to separately address the areas of audit & compliance and remuneration & nominations - each of the Directors is a member of those committees. The Board has not established separate committees to address risk management or health, safety and environment, with such issues currently dealt with by the Board as a whole.

In relevant situations, any interested Director(s) are expected to abstain or be absent from Board or committee deliberations as required either by the Corporations Act 2001 ("Act") or as necessary to avoid conflict or possible breach of their fiduciary duties.

## **BOARD CHARTER**

The Company's charter for its Board ("Charter") provides that the Directors are appointed by the Shareholders and are (individually and collectively) responsible for the activities of the Company in accordance with legal and regulatory requirements and the Company's Constitution.

The Charter sets out that the primary role of the Board is to create shareholder wealth (with a long term bias) and, in that context, to have due regard to the interests of other stakeholders. The Board is to achieve this by:

- providing leadership of the Company through setting the Company's direction, strategies and financial objectives within a framework of prudent and effective controls which enable risk to be recognised, assessed and managed;
- ensuring the Company has effective processes and systems in place to enable the Board to plan strategically, review current strategy, consider alternative strategies, monitor corporate performance and capabilities and recognise and oversee the management of risk;
- setting, overseeing and maintaining the Company's values, corporate governance framework, compliance with regulatory and ethical standards and ensuring that these are adhered to in the interests of the Company's shareholders, employees, customers, suppliers and the communities in which it operates;
- safeguarding the reputation of the Company;
- ensuring there is an effective balance between the delegation of responsibility for the day-to-day operation and management to the CEO and the role of the Board in monitoring, guiding and providing oversight;
- ensuring that the necessary financial and human resources are in place for the Company to meet its objectives;
- ensuring that the performance of Management, and the Board itself, is regularly assessed and monitored;
- promoting a culture where transparent and timely information is shared between management and the Board and where there is opportunity to advance proposals, challenge views, assumptions and beliefs in an environment of trust, respect and openness;
- ensuring effective communication with Shareholders; and
- appointing, terminating and reviewing the performance of the CEO.

The Charter also provides specific provisions and guidance to the Board in relation to:

- Composition of the Board;
- Selection of Directors;
- Board committees and their makeup;
- Board authorities and accountabilities;

- Taking independent advice;
- Individual responsibilities;
- Conduct of Board meetings and record-keeping; and
- Review of Board and Director performance.

The Board reviews the Charter at least once a year to ensure it remains consistent with the Board's objectives and responsibilities.

#### **AUDIT & COMPLIANCE COMMITTEE**

The function of an Audit & Compliance Committee is to give additional assurance regarding the quality and reliability of financial information used by the Board and regarding the financial information provided by the Company pursuant to its statutory reporting requirements.

Aspects of the audit and compliance function to be addressed by this Committee, as part of its terms of reference, are:

- to consider any matters relating to the financial affairs of the Company;
- compliance with statutory requirements;
- adherence to applicable Listing Rules; and
- issues relating to internal and external audit.

Additional to those aspects, the Board examines any other matters of an audit or compliance nature that come to its attention or are referred to it.

At least annually, the non-executive Directors on this Committee may meet separately with the (external) Auditors.

#### **REMUNERATION & NOMINATIONS COMMITTEE**

The core remuneration function of this Committee is reviewing the remuneration policies and practices of the Company. Where relevant, this review covers compensation arrangements for executives, superannuation arrangements, the requirements for an employee share and option plan, performance reviews, succession planning and the fees of non-executive Directors.

When addressing these areas, the non-interested Directors who carry out these functions have access to independent advice and comparative studies on the appropriateness of remuneration arrangements.

In the event of exploration success or expansion of the Company's operations beyond those currently capable of being undertaken, the remuneration levels of Directors may increase; but not beyond the approved limit for directors' fees set from time to time by the Shareholders in general meeting. It should be noted that directors' remuneration as fixed in general meeting does not include salary (and associated benefits, including superannuation) payable to executive Directors.

The functions of the Committee in relation to nominations are:

to identify and recommend candidates to fill Board vacancies as and when they arise;

before recommending an appointment, to evaluate the balance of skills, knowledge and experience on the Board and, in the light of that evaluation, to determine the role and capabilities required for the appointment;

to make recommendations to the Board with respect to the:

- (a) re-appointment of any non-executive Director at the conclusion of their specified term of office; and



- (b) re-election by Shareholders of any Director under the retirement by rotation provisions in the Company's Constitution;

to formulate succession plans for both non-executive and executive Directors, taking into account the expertise required on the Board in the future;

to review the structure, size and composition of the Board; and

to consider such other matters relating to Board nomination or succession issues as may be referred to it by the Board.

## **ADHERENCE TO THE ASX PRINCIPLES AND RECOMMENDATIONS OF CORPORATE GOVERNANCE**

### **Principle 1 – Lay Solid Foundations for Management and Oversight**

The Board's primary role is the stewardship of the shareholders' funds with the objective of creating long term shareholder value. In fulfilling this role, the Board accepts overall responsibility for corporate governance. A board charter, which outlines the framework for its operation and of those functions delegated to the management, has been outlined above.

At the date of this Annual Report, the Company's only senior executives were the CEO, the Company Secretary, the Chief Financial Officer ("CFO") and a Consultant Exploration Manager. Where necessary, the Company utilises non-executive directors and contractors to provide expertise for technical, legal and administrative services.

The performance evaluation of each Director is undertaken together with the other members of the Board. This evaluation comprises a board performance appraisal and director self-assessments that are reviewed by the Chairman.

### **Principle 2 – Structure the Board to Add Value**

#### *Board Composition*

At the date of this Annual Report, the Board comprised three Directors: Mr JMD Willis (Chairman) and Mr GA Menzies, who are non-executive Directors but not independent Directors, and Mr EG Albers (CEO), an executive Director who is not an independent Director.

The Chairman administers the procedure for Directors to seek independent professional advice, at the Company's expense, to assist them to fulfil their duties and obligations.

#### *Independence*

At the present stage of the Company's development and given its current size and structure, the resources available to the Board to carry out the Company's activities have been limited. As such, the Company does not have a majority of independent directors so the Company is unable to comply with this Principle in terms of board composition.

The Board determined that, where these are available, the specific skills of the non-executive Directors may be called upon from time to time to assist the Management. The Board has established a level of remuneration paid for those services as a materiality threshold to determine a Director's non-executive status.

#### *Role of the Chairman*

Mr Willis is not an independent Director. The Board considers that his lack of independence and him carrying out duties in a non-executive capacity for the Company does not hinder the effective performance of his role as Chairman. The Company does not therefore comply with this Principle in terms of independent chairmanship.

Given the size of the Board and the scope of the Company's activities, the Company does not have a separate nominations committee, with the functions of such a committee being undertaken by the Board under the terms of reference of the Remuneration & Nominations Committee.

As noted in Principle 1, ‘board performance appraisals’ and ‘director self-assessments’ have been undertaken during the reporting period.

### **Principle 3 – Promote Ethical and Responsible Decision-making**

The Board has established a:

- board charter, outlining the responsibilities and activities of the board and individual directors within legal and regulatory requirements and the Company’s Constitution;
- code of ethics, setting out the standards of ethical behaviour required of Directors and employees;
- share transaction policy, setting out the position of the Company on trading in the Company’s securities by designated officers (as these individuals are defined); and
- committee charters, describing the terms of reference for the operation of the Audit & Compliance and the Remuneration & Nominations Committees.

### **Principle 4 – Safeguard Integrity in Financial Reporting**

For each financial year, the CEO and CFO have formally recorded that the Company’s financial reports present a true and fair view of the Company’s financial condition and operational results and are in accordance with accounting standards.

Given the size of the Board and the scope of the Company’s activities, the Board acts as the Audit Committee, with the functions being undertaken under the terms of reference of that Committee’s charter. As noted above, because the Company has no independent directors, the composition of the Audit Committee does not comply with this Principle in terms of composition.

The number of meetings of the Audit Committee held during each reporting period and the names of the attendees are set out in the relevant Directors’ Report.

The Audit Committee has a formal charter that incorporates its terms of reference. As required by that charter, the Board annually reviews the performance and ongoing independence of the (external) Auditors. The need (or not) for rotation of the lead partner or of the Auditors themselves forms part of that annual review.

### **Principle 5 – Make Timely and Balanced Disclosure**

The Board has established policies and procedures designed to ensure compliance with all applicable Listing Rule disclosure requirements (and consequently continuous disclosure requirements under the Act) such that:

- all investors have equal and timely access to material information concerning the Company, including its financial position, performance, ownership and governance; and
- Company announcements are factual and presented in a clear and balanced way.

The Chairman, a Director or the Company Secretary authorises all disclosures necessary to ensure compliance with disclosure requirements under the Listing Rules and the Act.

### **Principle 6 – Respect the Rights of Shareholders**

The Board has established a policy for communicating with the Company’s shareholders by:

- sending each of them the Annual Report;
- placing all shareholder related information and Stock Exchange announcements promptly onto the Company’s website in an accessible manner;

- ensuring shareholder participation in meetings by use of the Council's guidelines for meetings and notices; and
- encouraging shareholders at the annual general meeting to question both the Directors (about the Company's governance and business) and the external Auditors (about the conduct of the audit and the content of the audit report).

**Principle 7 – Recognise and Manage Risk**

The Board is responsible for overseeing the effectiveness of risk management so as to:

- identify, assess, monitor and manage risk; and
- inform investors of the nature of, and material changes to, the Company's risk profile.

The Company's activities are currently centred on advancing its inherently high-in-risk exploration projects. Apart from geological risk, material business risks include financial, operational, environmental and technological risk.

The Board considers the existing policies and procedures for risk oversight to be appropriate for the Company's current stage of development.

At each major milestone of the Company's projects, specific risk oversight and management policies are developed consistent with activities at that time. The Board categorises the various types of risks facing the Company by assessing their likelihood (as high, medium or low), gauging their consequences (as severe, significant or minor) and seeking to mitigate the related risk (by sharing risk with others (farmout or sale), raising of additional equity capital, employment of consultants, outsourcing, insurance or management process).

In relation to any financial reporting period, the Board receives formal assurance from the CEO and CFO that the declaration provided in accordance with section 295A of the Act is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks.

**Principle 8 – Remunerate Fairly and Responsibly**

Given the size of the Board and the scope of the Company's activities, the Board acts as the Remuneration Committee, with the functions being undertaken by the Board under the terms of reference of that Committee's charter.

The Board reviews the remuneration packages of Directors and executives on an annual basis.

The Company's policy for determining the nature and amount of emoluments of Directors, non-executive and executive, is as follows:

- fees for non-executive Directors are based on the demands and responsibilities of their role. In determining these fees, regard is had for similar fee structures paid to non-executive directors in peer group companies;
- the remuneration structure for executive Directors is determined having regard to industry practice, market trends and company performance;
- performance related incentive payments are based on share price performance targets but may also become based partly on other performance criteria established from time to time; and
- there is no provision of retiring allowances for Directors.

The audited Remuneration Report (that is included in each Annual Report) details all forms of remuneration provided to the Directors during the relevant reporting period.

## **CODE OF ETHICS**

The Company has in place a Code of Ethics (“Code”) which is the framework of standards under which the Directors, officers and employees of the Company are expected to conduct their professional lives. The Code is not intended to prescribe an exhaustive list of acceptable and non-acceptable behaviour; rather it is intended to facilitate decisions that are consistent with the Company’s values, business goals and legal and policy obligations, thereby enhancing performance outcomes.

The Code is subject to annual review by the Board and is based around articles covering the areas of:

- Conflicts of interest;
- Gifts;
- Corporate opportunity;
- Confidentiality;
- Behaviour;
- Proper use of the Company’s assets and information;
- Compliance with laws and policies;
- Delegated authority;
- Additional director responsibilities;
- Information for the Board; and
- Reporting concerns.

## **SHARE TRANSACTION POLICY**

The Company’s share transaction policy provides guidelines for designated officers with regard to trading of the Company’s securities. A designated officer conducting a trade is responsible and accountable for ensuring any trade they conduct complies with the law and this policy.

The share transaction policy covers:

- Who are designated officers;
- Trading windows;
- Trading black-outs;
- Trading at other times;
- Trading in financial products issued or created over the Company’s securities by third parties; and
- Trading in associated products which operate to limit the economic risk of security holdings in the Company.

Although the Company is listed on NSX, the Board is currently reviewing this share transaction policy with a view to updating it, where necessary, to comply with the recently amended ASX Listing Rules that require listed entities to have a defined ‘trading policy’ in place by 1 January 2011.

**SHAREHOLDER AND OTHER INFORMATION**

COMPILED AS AT 30 SEPTEMBER 2010

**VOTING RIGHTS**

At meetings of members or classes of members:

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

subject to any rights or restrictions attached to any shares or class or classes of shares.

**DISTRIBUTION OF ORDINARY SHARES**

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

Ordinary Shares	No. of Holders	No. of Shares
1 – 1,000	2	16
1,001 – 5,000	1	1,584
5,001 – 10,000	3	22,400
10,001 – 100,000	109	4,452,992
100,001 and over	55	77,073,531
<hr/>		
TOTAL ON ISSUE	170	81,550,523

4 holders held less than a marketable parcel of ordinary shares. There is no current on-market buy-back.

**SUBSTANTIAL SHAREHOLDERS**

As disclosed in notices given to the Company.

Name of Substantial Shareholder	Interest in Number of Shares <i>Beneficial and non-beneficial</i>	% of Shares
The Albers Group	56,363,752	69.12

**SHAREHOLDER AND OTHER INFORMATION (CONT)**

COMPILED AS AT 30 SEPTEMBER 2010

**THE 20 LARGEST HOLDERS OF ORDINARY SHARES**

<b>Holder</b>	<b>Ordinary Shares</b>	<b>% of Total Issued</b>
Great Australia Corporation Pty Ltd	31,864,834	39.07
Peppercorn Hill Pty Ltd	5,000,000	6.13
Great Missenden Holdings Pty Ltd	4,567,000	5.60
Batavia Oil & Gas Pty Ltd	3,320,000	4.07
National Oil & Gas Pty Ltd	3,300,000	4.05
Faith Hope & Charity Pty Ltd	3,000,000	3.68
Bass Strait Group Pty Ltd	2,833,334	3.47
Auralandia N L	2,500,000	3.07
Gascorp Australia Pty Ltd	2,500,000	3.07
M A Muzzin	1,556,250	1.91
E G Albers	1,506,400	1.85
EERC Australasia Pty Ltd	1,441,667	1.77
Upstream Consulting Pty Ltd	1,156,250	1.42
Ultragas Resources Pty Ltd	1,019,436	1.25
Trans Pacific Petroleum N L	1,000,000	1.23
Capricorn Mining Pty Ltd	1,000,000	1.23
C D & C E Crow	993,750	1.22
Kefu Underwriters Pty Ltd	625,000	0.77
E G & P J Albers	603,664	0.74
EG Albers & E M Larsson	500,000	0.61

The 20 largest shareholders hold 70,287,585 shares representing 86.19% of the issued share capital.

**DISTRIBUTION OF 30 JUNE 2012 OPTIONS (EXERCISE PRICE 12 CENTS)**

Numbers of optionholders by size of holding and the total number of options on issue:

	<b>No. of Holders</b>	<b>No. of Options</b>
1 – 1,000	0	-
1,001 – 5,000	1	4,800
5,001 – 10,000	1	8,000
10,001 – 100,000	90	2,791,859
100,001 and over	23	21,815,549
<b>TOTAL ON ISSUE</b>	<b>115</b>	<b>24,620,208</b>

There are no voting rights in relation to these options and they are listed on NSX.



**SHAREHOLDER AND OTHER INFORMATION (CONT)**

COMPILED AS AT 30 SEPTEMBER 2010

**THE 20 LARGEST HOLDERS OF 30 JUNE 2012 OPTIONS**

<b>Holder</b>	<b>30 June 2012 Options</b>	<b>% of Total Issued</b>
Faith Hope & Charity Pty Ltd	2,400,000	9.75
Batavia Oil & Gas Pty Ltd	2,400,000	9.75
Great Missenden Holdings Pty Ltd	2,000,000	8.12
Gascorp Australia Pty Ltd	2,000,000	8.12
Auralandia N L	2,000,000	8.12
Peppercorn Hill Pty Ltd	2,000,000	8.12
National Oil & Gas Ltd	2,000,000	8.12
Bass Strait Group Pty Ltd	1,600,000	6.50
E G Albers	1,200,000	4.87
Ultragas Resources Pty Ltd	855,549	3.47
Capricorn Mining Pty Ltd	800,000	3.25
E G Albers & E M Larsson	400,000	1.62
Relativity Pty Ltd	320,000	1.30
Albers Custodian Company Pty Ltd	320,000	1.30
D R Gregory	240,000	0.97
Upstream Consulting Pty Ltd	200,000	0.81
M T & J S Scott	200,000	0.81
Tromso Pty Ltd	160,000	0.65
Cartron Pty Ltd	160,000	0.65
L E Mott	160,000	0.65

**DISTRIBUTION OF 30 JUNE 2011 OPTIONS (EXERCISE PRICE 20 CENTS)**

Numbers of optionholders by size of holding and the total number of options on issue:

	<b>No. of Holders</b>	<b>No. of Options</b>
1 – 1,000	0	-
1,001 – 5,000	0	-
5,001 – 10,000	0	-
10,001 – 100,000	0	-
100,001 and over	8	5,500,000
<b>TOTAL ON ISSUE</b>	<b>8</b>	<b>5,500,000</b>

There are no voting rights in relation to these options and they are not listed on NSX.

# NOTES



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