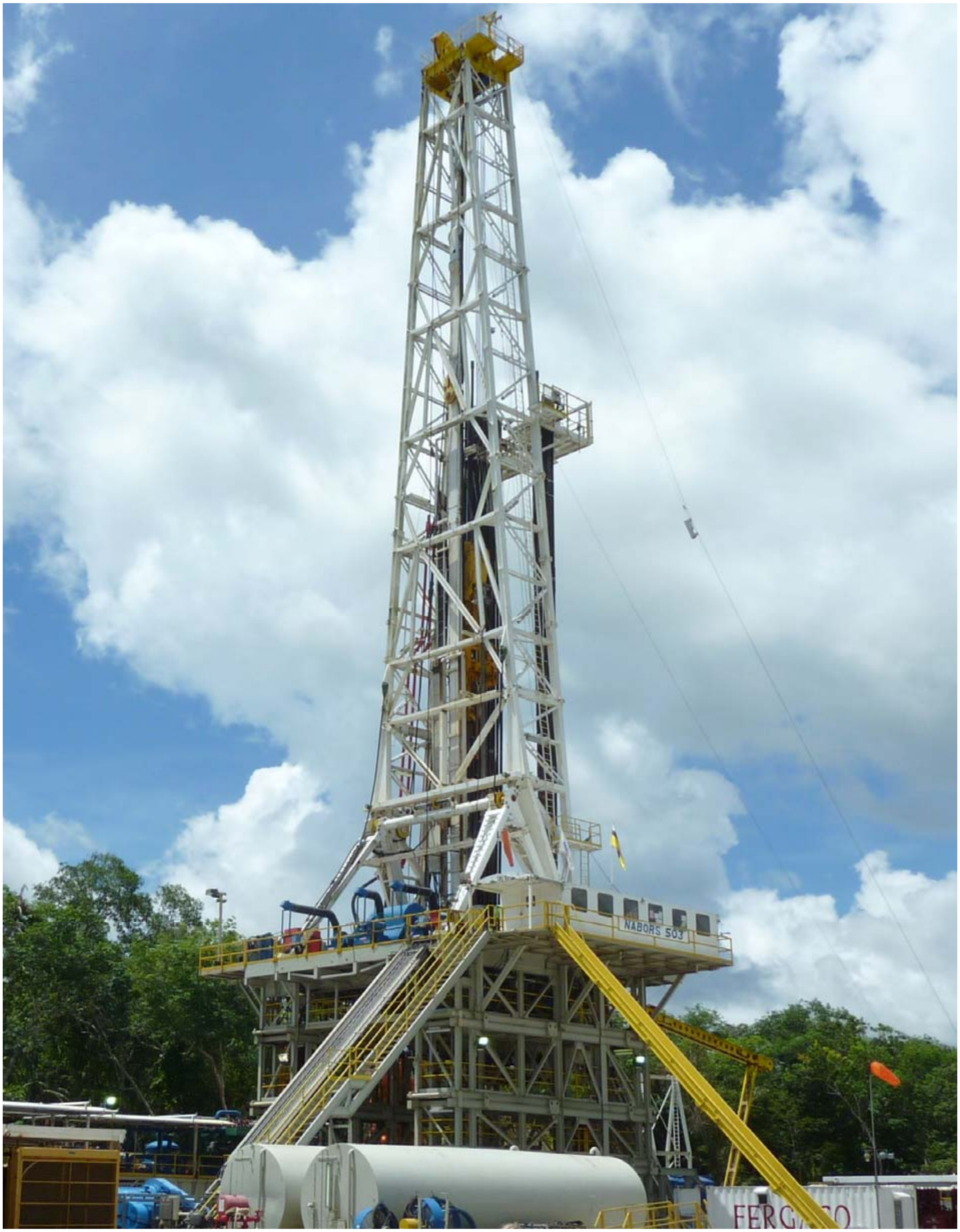
AED Oil Limited

Condensed Financial Report

Half Year ended 31 December 2010



Half Year Financial Report to 31 December 2010

Results for Announcement to the Market (ASX Listing Rule 4.2A.3)

	31 Dec 2010 A$'M	31 Dec 2009 A$'M	Percentage Increase / (Decrease)
Sales revenue	-	0.3	(100)%
Net loss for the period	(10.9)	(13.8)	21%

Explanation of Results

Please refer to the commentary included in the Directors' Report of the Condensed Financial Report for the Half Year ended 31 December 2010 for an explanation of results.

This interim financial report is to be read in conjunction with the most recent annual financial report.

Dividends

	Six Months to 31 Dec 2010	Six Months to 31 Dec 2009
Interim dividend per share	Nil	Nil
Franked amount per share	N/A	N/A

No dividends were paid or proposed to members in respect of the half year ended 31 December 2010.

Net tangible assets per share

	31 Dec 2010 $	31 Dec 2009 $
Net tangible assets per share	0.89	1.03

Control gained/lost over entities during the period

There has been no control gained or lost over entities during the period.

AED OIL LIMITED
ABN 61 110 393 292

Directors
David Dix B.Ec; LLB; Grad Dip (Tax Law)
George Edward (Barry) McGuiness Diploma of Public Administration
John Branson AM LLB, FAICD
John Imle BS Petr E, BS Mech E, SPE, AAPG
Tim Baldwin B.Bus., MBA
Richard Graham Price B.Eng (Civil) (Hons), MBA (resigned 4 March 2011)
Pedro De Souza BSc (Hons), MSc (resigned 18 September 2010)

Chief Financial Officer
Richard Little B.Ec, CA

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

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

Postal Address
PO Box 18199
COLLINS STREET EAST VIC 8003

Website
www.aedoil.com

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

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

Solicitors
Corrs Chambers Westgarth
600 Bourke Street
MELBOURNE VIC 3000

Auditors
Ernst & Young
8 Exhibition Street
MELBOURNE VIC 3000

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

Your directors submit their report for the half year ended 31 December 2010.

DIRECTORS

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

David Dix (Executive Chairman)
George Edward (Barry) McGuiness
John Branson
John Imle
Tim Baldwin
Richard Price (resigned 4 March 2011)
Pedro De Souza (Managing Director) (resigned 18 September 2010)

REVIEW OF OPERATIONS AND FINANCIAL REVIEW

Overview

AED strengthened its strategy of diversifying into South East Asia with continuing developments on its strategic investments in Brunei and Indonesia and completion of the seismic study on the Puffin Field.

AED completed the drilling of the second well in Brunei and has recently commenced testing of the Lempuyang-1 well. The testing of the Lukut-1 well is scheduled to commence immediately following completion of the testing of Lempuyang-1. The Company is now positioned to capitalise on these investments through testing and further development in Brunei and continuing to assess and appraise its investments in Indonesia and Australia.

Additionally, AED is actively assessing further strategic asset acquisitions which would complement the current portfolio and potentially lead to operating cash flow which will cement our position in South East Asia.

As part of the Company's capital management plan, AED announced on 30 December 2010 that it had entered into a new US$20 million financing arrangement for the issue of four US$5 million convertible notes. At the date of this report there continues to be certain conditions precedent to be satisfied before this facility can be utilised. The funds to be raised from the potential issue of the convertible notes may be used to finance Brunei costs including further exploration, well testing and phase 2 development activities in Brunei Block L.

Subsequent to 31 December, the Company also announced amendments to the terms of AED's US$21.218 million 9% convertible notes listed on the Singapore Exchange (SGX-ST). AED redeemed and paid on 23 February 2011 an amount of US $8.605 million (AUD 8.592 million), introduced new put dates and a reset of the conversion price to $0.38.

These capital management initiatives are intended to strengthen AED's funding position to assist it to develop and maximise the potential of the portfolio of assets and provide a strong basis for increasing shareholder value. It is hoped that 2011 will see value being realised from our exciting portfolio of assets for all our shareholders.

Shareholder Approvals

AED convened an extraordinary general meeting of shareholders on the 25 February 2011 at which it was approved; to refresh the 15% cap in Listing Rule 7.1, to ratify certain aspects of the completed acquisitions in Brunei, Rombebai and South Madura, and also to approve certain aspects of the new convertible notes (referred to further above). This has refreshed AED's capacity to issue shares and now allows the Company to maintain maximum flexibility in relation to funding going forward.

Review of Results

AED continues to follow its current strategies in respect of the activities associated with the planning, exploration and appraisal and the Puffin Field in Australia, Block L in Brunei and Rombebai and South Madura in Indonesia.

As such, the operating loss of for the period of $10.906 million is comprised mainly of $4.819 million in relation to the Puffin Field Joint Venture maintenance and decommissioning costs and finance costs of $4.377 million. Exploration and evaluation costs in relation to Brunei and Indonesia have been capitalised.

Major cash outflows for the period comprised of $15.229 million in respect of planning, exploration and appraisal of the Puffin Field in Australia, Block L in Brunei and Rombebai and South Madura in Indonesia; $11.117 million for the Puffin Field Joint Venture maintenance and decommissioning and corporate costs; and a GST refund of $4.640 million for previous payments in relation to the FPSO Charter Contract.

SUBSEQUENT EVENTS

Amendments to Terms of 9% Unsecured Convertible Notes

Subsequent to 31 December 2010, AED Oil Ltd has amended the terms of its US$21.218 million 9% convertible unsecured notes that mature in July 2012 listed on the Singapore Exchange (SGX-ST) namely:

- Redemption and payment on 23 February 2011 of US$8.605 million (AUD 8.592 million);
- Introduce new put dates on 30 April 2011, 10 July 2011 and 10 January 2012; and
- Reset of the conversion price to $0.38 and a potential further reset price based on 5 day VWAP prior to 16 April 2011, such reset price limited to a floor price of 80% of the conversion price then existing.

After the repayment of US$8.605 million (AUD 8.592 million) on 23 February 2011, the company's outstanding convertible notes as at reporting date are as set out below:

	Face value (USD)	First redeemable	Due
9% SGX convertible notes	12,612,500	30 April 2011	10 July 2012
6% ARF convertible notes	20,000,000	19 March 2013	19 March 2014

New 4.75% US $20 million Convertible Notes

Subject to completion of conditions precedent, AED has entered into a new US$20 million convertible note financing agreement with La Jolla Cove. The funds to be raised from the potential issue of the new convertible notes may be used to finance Brunei costs including further exploration, well testing and phase 2 development activities in Brunei Block L, as well as other AED projects and development.

At the date of this report, no amounts have been drawn under the facility and conditions precedent have not yet been satisfied.

Return of Restricted Funds

$14.185 million in restricted cash as part of the GST refund dispute process with Puffin FPSO is recorded in the cash balance at 31 December 2010. This is held in an interest bearing cash deposit that was lodged with the Supreme Court of Victoria. The GST matters have now been finalised resulting in AED receiving a further refund during the period of A$4.6 million. AED applied to the Court to have this deposit returned, and on 10 March 2011 AED received judgement in its favour when the Court held that these monies should be released to AED, pursuant to orders expected to be made on or around 24 March 2011.

Other

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

Rounding

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

AUDITOR'S INDEPENDENCE DECLARATION

We have obtained the following independence declaration from our auditor's, Ernst & Young.

ERNST & YOUNG

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

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

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

In relation to our review of the financial report of AED Oil Limited for the half year ended 31 December 2010, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the *Corporations Act 2001* or any applicable code of professional conduct.

Ernst & Young

Ernst & Young

Michael Collins
Partner
15 March 2011

Signed in accordance with a resolution of the Directors.

David Dix
Executive Chairman

Melbourne
15 March 2011

For the Half Year Ended 31 December 2010

	Note	CONSOLIDATED 2010 $'000	2009 $'000
Revenue		-	341
Operating costs		-	(330)
Royalty		-	(10)
Total cost of sales		-	(340)
Gross operating loss		**-**	**1**
Other revenue	4(a)	744	2,469
Net foreign exchange differences		791	(954)
Administrative and other expenses		(2,105)	(1,347)
Investment review costs		(783)	(911)
Asset write-downs		-	(676)
Employee benefits payments		(1,739)	(1,771)
Employee share based payments		(53)	(144)
Puffin field joint venture maintenance and decommissioning costs	4(d)	(4,819)	(6,689)
Fair value change on financial instruments	4(b)	1,481	(3,113)
Finance costs	4(c)	(4,377)	(3,665)
Loss before income tax		**(10,860)**	**(16,800)**
Income tax benefit/(expense)	5	(46)	3,019
Net loss for the period		**(10,906)**	**(13,781)**
Other comprehensive income			
Foreign currency translation (non-cash)		(7,188)	-
Other comprehensive income for the period, net of tax		(7,188)	-
Total comprehensive loss for the period		**(18,094)**	**(13,781)**
Loss per share (cents per share)			
- Basic		(5.4)	(8.82)
- Dilutive		(5.4)	(8.82)

The above statement of comprehensive income should be read in conjunction with the accompanying note.

Statement of Financial Position

As At 31 December 2010

	Note	CONSOLIDATED As at 31 Dec 2010 $'000	CONSOLIDATED As at 30 June 2010 $'000
ASSETS			
Current assets			
Cash and cash equivalents	7	14,301	23,991
Other financial assets	7	25,164	40,605
Trade and other receivables		4,955	5,462
Prepayments		112	298
Total current assets		**44,532**	**70,356**
Non-current assets			
Plant and equipment		471	186
Deferred exploration and evaluation costs	8	222,201	221,977
Total non-current assets		**222,672**	**222,163**
TOTAL ASSETS		**267,204**	**292,519**
LIABILITIES			
Current liabilities			
Trade and other payables		12,598	14,420
Interest-bearing loans and borrowings	12	20,877	22,343
Provisions		281	281
Total current liabilities		**33,756**	**37,044**
Non-current liabilities			
Interest-bearing loans and borrowings	12	17,409	18,303
Provisions	13	37,538	40,631
Total non-current liabilities		**54,947**	**58,934**
TOTAL LIABILITIES		**88,703**	**95,978**
NET ASSETS		**178,501**	**196,541**
EQUITY			
Contributed equity	10	119,590	119,590
Retained earnings		62,734	73,552
Reserves		(3,823)	3,399
TOTAL EQUITY		**178,501**	**196,541**

The above statement of financial position should be read in conjunction with the accompanying notes.

For The Half Year Ended 31 December 2010

	CONSOLIDATED				
	Contributed Equity $'000	Retained Earnings $'000	Employee Equity Reserve $'000	Foreign Currency Translation Reserve $'000	Total $'000
At 1 July 2010	119,590	73,552	1,044	2,355	196,541
Loss for the period	-	(10,906)	-	-	(10,906)
Other comprehensive income	-	-	-	(7,188)	(7,188)
Total comprehensive loss for the half year	-	(10,906)	-	(7,188)	(18,094)
Transactions with owners in their capacity as owners					
Cost of share based payments	-	-	54	-	54
Transfer from employee equity reserves		88	(88)	-	-
At 31 December 2010	**119,590**	**62,734**	**1,010**	**(4,833)**	**178,501**
At 1 July 2009	96,775	83,167	3,172	-	183,114
Loss for the period	-	(13,781)	-		(13,781)
Other comprehensive income	-	-	-	-	-
Total comprehensive profit/(loss) for the period	-	(13,781)	-	-	(13,781)
Transactions with owners in their capacity as owners					
Cost of share based payments	-	-	143	-	143
Transfer from employee equity reserves	-	1,765	(1,765)	-	-
Convertible note restructure issue of shares	1,215	-	-	-	1,215
At 31 December 2009	**97,990**	**71,151**	**1,550**	**-**	**170,691**

The above statement of the changes in equity should be read in conjunction with the accompanying notes.

For The Half Year Ended 31 December 2010

	Note	CONSOLIDATED 2010 $'000	2009 $'000
Cash flows from operating activities			
Receipts from customers		-	347
Payments to suppliers and employees		(11,117)	(9,742)
GST refund arising out of the FPSO Charter Contract		4,640	-
Interest received		660	2,193
Interest paid		(1,833)	(3,032)
Tax Paid		-	(26)
Net cash used in operating activities		**(7,650)**	**(10,260)**
Cash flows from investing activities			
Purchase of plant and equipment		(337)	(76)
Payments for exploration, evaluation and development costs		(15,229)	(11,549)
Receipts from/(purchase) of other financial assets		15,441	(14,078)
Deposit on acquisition of interests Brunei and Indonesia		-	(4,873)
Refund of Longtom Gas Project deposit		-	35,000
Net cash from/(used in) investing activities		**(125)**	**4,424**
Cash flows from financing activities			
Payments resulting from restructure of convertible notes		-	(26,230)
Convertible notes restructure costs		-	(530)
Net cash used in financing activities		**-**	**(26,760)**
Net increase/(decrease) in cash and cash equivalents		(7,775)	(32,596)
Net foreign exchange differences		(1,915)	(1,160)
Cash and cash equivalents at beginning of period		23,991	88,646
CASH AND CASH EQUIVALENTS AT END OF PERIOD	7	**14,301**	**54,890**

The above statement of cash flows should read in conjunction with the accompanying notes.

For The Half Year Ended 31 December 2010

1. CORPORATE INFORMATION

The condensed financial report of AED Oil Limited (the "Group") for the half year ended 31 December 2010 was authorised for issue in accordance with a resolution of the Directors. AED Oil Limited is a company incorporated in Australia and limited by shares, which are publicly traded on the Australian Securities Exchange.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES

(a) Basis of Preparation

This general purpose condensed financial report for the half year ended 31 December 2010 has been prepared in accordance with AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001.*

The half year financial report does not include all notes of the type normally included within the annual financial report and therefore cannot be expected to provide as full an understanding of the financial performance, financial position and financing and investing activities of the consolidated entity as the full financial report.

It is recommended that the half year financial report be read in conjunction with the annual report for the year ended 30 June 2010 and considered together with any public announcements made by AED Oil Limited during the half year ended 31 December 2010 in accordance with the continuous disclosure obligations of the *ASX listing rules.*

The accounting policies and methods of computation are the same as those adopted in the most recent annual financial report other than the changes in accounting standards noted below.

(b) New Accounting Standards

- *Changes in accounting policy and disclosures*

The accounting policies adopted are consistent with those of the previous financial year except as follows:

The Group has adopted the following new and amended Australian Accounting Standards and AASB Interpretations as of 1 July 2010:

- AASB 2009-8 Amendments to Australian Accounting Standards – Group Cash-settled Share-based Payment Transactions [AASB 2]

- AASB 2009-5 Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project [AASB 5, 8, 101, 107, 117, 118, 136 & 139]

The adoption of the above Standards and Interpretations are not deemed to have a material impact on the financial statements or performance of the Group.

The Group considered all other changes to various accounting standards and have determined that there are no other material impacts.

(c) Rounding

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

(d) Going Concern

During the period the Group has progressed the development and appraisal opportunities in Brunei and Indonesia, consistent with the strategy of diversifying into South East Asia. Activities completed in the period include:

- completing a two well drilling program in Brunei, progressing to flow testing these wells and based on results from drilling, entering into a Phase 2 development program for a further minimum 2 wells and further seismic acquisition;
- ongoing geological and geophysical assessments of the drilling opportunities in Rombebai, South Madura and on the Puffin Field; and
- completion of further 3D seismic acquisition on ACP/22 (Puffin Exploration).

AED also notes the following upcoming corporate developments expected to occur over the next few months:

- completion and analysis of the testing of Lempuyang-1 and Lukut-1 wells at Brunei Block L;
- the results of AED's request to extend the expiry date for the Rombebai resource from November 2011 until November 2014 are expected to be known, which if extended would allow AED to recommence farm-out discussions with interested parties and move to the operations phase; and
- the results for the 3D seismic which was recently shot for Puffin field on AC/P22 will be received.

As noted above the Group is now positioned to capitalise on these investments through testing and further development in Brunei and continuing to assess and appraise its investments in Indonesia and Australia. In addition the Group is actively pursuing further strategic asset acquisitions which would complement the current portfolio and potentially lead to operating cash flow which will further establish our position in South East Asia.

As at 31 December 2010, the Group had a net current asset position of $10.776 million.

Included within this Net Current asset position is $14.185 million of cash deposits held in court. These monies have been provided in respect of a GST refund dispute that has now been resolved. AED applied to the Court for the release of these monies and, on 10 March 2011, the Court held that these monies should be released to AED and that the injunction in respect of which these monies were paid (Refer Note 9) should be discharged. The Court expects to make orders for the release of these monies within 14 days.

On 23 February 2011 AED redeemed US$8.605 million (AUD 8.592 million) of its US$21.218 million 9% Convertible Unsecured Notes. As a result of the restructure of the terms of the Notes, the remaining US$12.613 million Notes are redeemable, at the option of the Noteholder on 30 April 2011, 10 July 2011 or 10 January 2012 and the exercise conversion price has been adjusted to $0.38 (Refer Note 15).

At the date of this report the Group has the following convertible notes on issue, with redemption and maturity profiles as shown:

DRAWN	Face Value (USD)	Conversion Price	First redeemable(*)	Due
9% SGX Convertible Notes	12,612,500	A$0.38	30 April 2011	July 2012
6% ARF Convertible Notes	20,000,000	A$0.668	March 2013	March 2014

* Redeemable at the option of the Noteholder

On 30 December 2010, AED announced that it had entered into a new US$20 million financing arrangement with La Jolla Cove Investors. At the date of this report there continues to be certain conditions precedent to be satisfied before this facility can be utilised.

The funds to be raised from the potential issue of convertible notes to La Jolla Cove, pursuant to the financing arrangement and if the conditions precedent mentioned above are satisfied, may be used primarily to finance Brunei costs including further exploration, well testing and phase 2 development activities in Brunei Block L. Specifically, the funding will provide cash flow to meet the current budget and to fund testing of the Lempuyang-1 and Lukut-1 wells and further exploration and development opportunities on Block L.

At the date of this report, the Group has operating and expenditure cash flow commitments in relation to its interest in Brunei, Indonesia and the Puffin field, in addition to ongoing corporate and operating expenditure requirements.

The Puffin Joint Venture faces claims for disputed amounts payable under the terminated FPSO Charter Contract as described in Note 9. The Joint Venture terminated the FPSO Charter Contract effective on 4 July 2009. The Joint Venture maintains that it terminated the FPSO Charter Contract for material breach as it was permitted to do under the terms of the agreement. The Joint Venture has obtained legal advice in support of its position. The Joint Venture is currently involved in disputes regarding these amounts and this matter is set for Arbitration in March 2011. This matter is also described in Note 9 to the accounts. Whilst this issue remains uncertain, the Directors remain confident of the grounds on which the FPSO Charter Contract was terminated. The Group also remains confident that the disputes will be resolved, through arbitration or otherwise, on terms acceptable to the Group, in an acceptable timeframe.

On the basis that the security deposit held in Court is released to AED on or around 24 March 2011, as noted above, the Group has the ability to fund existing and minimum commitments expected to arise in the coming 12 months provided:

- no significant cash outflows are required as a result of unexpected outcomes of legal disputes; and
- the pursuit of capital management alternatives, be that the drawdown of convertible notes, equity raising or other alternatives is successful.

Whilst these uncertainties exist, the Group has obtained legal advice in connection with the likely outcomes of legal disputes and for the return of restricted money, and has obtained the advice of market advisors in connection with its prospects of raising capital and, based on these advices and on its own assessment of its future commitments and expenditure requirements, it is confident of its ability to fund those commitments and requirements in the coming 12 months.

As an exploration and development company, AED will be flexible with its capital structuring and, in particular, maintain the ability to raise further equity as and when required in order to support our exploration activities and to create value from our asset portfolio. This need is most relevant in relation to Block L, Brunei, at which testing is currently taking place.

The Group remains confident of its ability to raise additional capital or successfully pursue other capital management alternatives as required. At an Extraordinary General Meeting held on 25 February 2011 the company refreshed its capacity to issue 15% of its share capital without further shareholder approval. AED will continue to look at the most appropriate capital structure to finance its exploration and development activities.

To fund further exploration and appraisal expenditure beyond those expected to arise in the coming twelve months the Group will require further funding. The Group will therefore only commit to such expenditure if the size of the economically recoverable resources is sufficient, the cost of development is appropriate and the expected oil and gas prices are acceptable and capital and other funding is raised to cover such expenditure.

The accounts have been prepared on a going concern basis and no adjustments have been made relating to the recoverability and classification of recorded asset and liabilities. In light of the foregoing, the Directors are of the opinion that there are reasonable grounds to believe that the Group will pay its debts as and when they fall due and payable.

3. SEGMENT INFORMATION

The Group operates in the oil and gas exploration industry, in Australia and South East Asia. The Group determines its operating segments by reference to internal reports that are reviewed and used by the executive management team (the chief operating decision maker) in assessing performance and in determining the allocation of resources.

The executive management team currently receive consolidated Statement of Financial Position and Statement of Comprehensive Income information that is prepared in accordance with Australian Accounting Standards therefore there is no additional information to disclose.

The executive team does not currently receive segment Statement of Financial Position and Statement of Comprehensive Income information. The executive team manages each of the Puffin, Brunei Block L, Rombebai and South Madura exploration activities through review and approval of joint venture cash calls, joint venture budgets and other operational information. Information regarding exploration expenditure capitalised for each area is contained in Note 8.

4. REVENUE, INCOME AND EXPENSES

		CONSOLIDATED	
		2010	**2009**
		$'000	**$'000**
(a)	**Other revenue**		
	Interest	731	2,461
	Other	13	8
		744	**2,469**
(b)	**Fair value change on derivatives**		
	Fair value change on convertible note 6.5% (fully redeemed)	-	(3,172)
	Fair value change on convertible note 9% 2012	1,465	59
	Fair value change on convertible note 6% 2014	16	-
		1,481	**(3,113)**
(c)	**Finance costs**		
	Interest expense on convertible notes	(1,598)	(2,321)
	Unwind of discount on convertible notes (non-cash)	(1,809)	-
	Unwind of discount on rehabilitation assets (non-cash)	(970)	(814)
	Borrowing costs on convertible note restructure	-	(530)
		(4,377)	**(3,665)**
(d)	**Puffin joint venture field maintenance and decommissioning costs**		
	Field maintenance, decommissioning, arbitration and legal costs	(4,342)	(5,842)
	Joint venture administration costs	(477)	(847)
		(4,819)	**(6,689)**

5. INCOME TAX

A deferred tax asset has only been recognised to the extent that it offsets the deferred tax liability.

6. DIVIDENDS PAID AND PROPOSED

No dividends were paid or proposed to members in respect of the half year ended 31 December 2010 (2009: Nil).

7. CASH AND CASH EQUIVALENTS AND OTHER FINANCIAL ASSETS

For the purpose of the half year Statement of Cash Flows, cash and cash equivalents are comprised of the following:

	CONSOLIDATED		
	As at 31 Dec 2010 $'000	**As at 30 June 2010 $'000**	**As at 31 Dec 2009 $'000**
Cash at bank and in hand	14,301	23,991	15,655
Short term deposits	-	-	39,235
Total cash and cash equivalents	14,301	23,991	54,890
Other financial assets (i)	25,164	40,605	31,231
Total cash and cash equivalents and other financial assets	**39,465**	**64,596**	**86,121**

(i) Included in other financial assets are:

- $14.185 million (2009: $14.078 million) in restricted cash as part of the dispute process with Puffin FPSO. It is held in an interest bearing cash deposit that was lodged with the Supreme Court of Victoria. The Group applied to the Court to have this deposit returned, and on 10 March 2011 the Court held that these monies should be released to AED, pursuant to orders expected to be made on or around 24 March 2011. Refer Note 9.
- As part of the Group's overall cash management strategy, investments are also made in other liquid financial assets, consisting of fixed and floating rate notes of $10.980 million (2009: $17.153 million) (measured at fair value). These can be redeemed at short notice at their fair value.

8. DEFERRED EXPLORATION AND EVALUATION

	CONSOLIDATED	
	As at 31 Dec 2010 $'000	**As at 30 June 2010 $'000**
Carrying amount at the beginning of the period	221,977	167,340
Acquisition costs	-	29,743
Expenditure during the period	12,336	11,108
Transfer from/(to) inventory	-	12,951
Restoration asset (i)	(4,063)	(1,118)
Asset write-downs	-	(676)
Effect of foreign exchange translation	(8,049)	2,629
Carrying amount at the end of the period	222,201	221,977
Summary		
Puffin and Talbot Fields	176,411	180,812
Brunei Field (ii)	30,407	28,920
Rombebai Field	6,830	6,210
South Madura Field	8,553	6,035
	222,201	221,977

(i) The change in the restoration asset reflects the additional costs of wells drilled, changes in foreign exchange rates applicable to foreign denominated restoration obligations and a change in the discount rate used to discount long term restoration obligations. Refer Note 13.

(ii) Expenditure on the Brunei field for the current period operations was $10.3 million, offset by non-cash foreign currency translation of costs carried forward.

9. CONTINGENCIES

Legal Claims

Installation Contractor Dispute

The Company and a subsidiary (Puffin Installation Services Pte Ltd) were defendants to proceedings in the Supreme Court of Western Australia brought by its installation contractor seeking amounts alleged to be owing arising out of an installation contract of approximately US$10 million. A settlement has been agreed between the parties which resulted in the Western Australia proceedings being discontinued and AED receiving a payment. The terms of the conditional settlement are confidential and as such the Group is unable to quantify the amount of the settlement received in this report. The Company has proceedings continuing in the Supreme Court of Victoria against the installation contractor, its directors, legal advisers and others for substantial amounts for damages as a result of the activities of the defendants.

Puffin FPSO – Contractual Dispute

The Puffin Joint Venture is currently involved in a confidential arbitration with Puffin FPSO relating to the termination and material breaches in respect of the FPSO Charter Contract and other matters between the Puffin Joint Venture and Puffin FPSO.

Puffin FPSO has claimed certain amounts from the Puffin Joint Venture for alleged wrongful termination of the FPSO Charter Contract and further amounts in respect of invoices alleged not to have been paid by the Puffin Joint Venture.

These amounts are disputed by the Puffin Joint Venture. The Puffin Joint Venture has also claimed certain amounts in respect of alleged overpayments made to Puffin FPSO under the FPSO Charter Contract and intends to make further claims for additional amounts from Puffin FPSO.

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

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

On 5 March 2010, the Group received judgment from the Court of Appeal which was in favour of the Group and had the effect that all matters in relation to this dispute were referred to arbitration. That arbitration has not yet commenced and is currently scheduled to commence in March 2011.

In accordance with the judgment from the Court of Appeal, referred to above, matters relevant to the tax indemnity have now also been referred to arbitration. That arbitration has not yet commenced and is currently scheduled to commence in or around October 2011.

The Puffin Joint Venture lodged a cash deposit with the Supreme Court of $14.1 million in respect of a GST refund dispute. The GST matters have been finalised resulting in a further refund to the company of $4.6 million. The Company applied to the Court to have this deposit returned and, on 10 March 2011, AED received judgement in its favour when the Court held that these monies should be released to AED, pursuant to orders expected to be made on or around 24 March 2011. The Court also held that the injunction granted in favour of the Group should be discharged on the basis that the proceedings were stayed by the Court of Appeal.

No amount has been recognised in the financial statements with respect to this matter.

10. CONTRIBUTED EQUITY

	CONSOLIDATED	
	As at 31 Dec 2010 $'000	As at 30 June 2010 $'000
Ordinary shares	119,590	119,590

Ordinary Shares

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

	Shares No. '000	$'000
Movement in ordinary shares on issue		
At 1 July 2009	163,551	96,775
Convertible note restructure	1,770	1,215
Additional shares issued for purchase of subsidiaries	36,000	21,600
At 30 June 2010	201,321	119,590
Nil movement in period	-	-
At 31 December 2010	201,321	119,590

11. SHARE BASED PAYMENTS

Employee Share Option Plan (ESOP)

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

720,000 options were issued this period with an exercise price of $0.50 (2009: Nil). The weighted average fair value of options granted during 2010 was $0.30 (2009: Nil).

During the period 540,000 share options lapsed. An amount of $0.088 million was transferred to retained earnings for those options that had previously vested but have now lapsed unexercised.

12. FINANCIAL INSTRUMENTS

Changes in exposure to foreign exchange risk

At 30 June 2010 the Group had $13.941 million of cash held in US dollars. At 31 December 2010, the balance was $3.853 million. The Group recognised a foreign exchange gain of $0.791 million (2009: loss $0.954 million) in the statement of comprehensive income.

INTEREST BEARING LOANS AND BORROWINGS

	CONSOLIDATED	
	As at 31 Dec 2010 $'000	**As at 30 June 2010 $'000**
Current		
9.0% SGX Convertible Unsecured Notes 2012 at Fair Value through Profit or Loss (1)	**20,877**	22,343
	20,877	22,343
Non current		
6.0% ARF Convertible Unsecured Notes 2014 valued at amortised cost as Other Financial Liabilities (2)	**15,023**	15,901
6.0% ARF Convertible Unsecured Notes 2014 embedded options valued at Fair Value through Profit or Loss (2)	**2,386**	2,402
	17,409	18,303

Valuation of convertible notes

(1) 9% SGX Listed Convertible Notes

On 15 September 2009, the Group issued US$21.218 million new 9% convertible unsecured notes due 10 July 2012, with interest paid semi-annually. Noteholders can convert their holdings into shares at a conversion price of $0.61 and from 23 February 2011 Noteholders will have the right to require the Company to redeem the note at its principal amount together with accrued interest. Fair value has been determined with reference to quoted exchange prices at balance date. As market activity with respect to these Notes has been limited during the period, and as the Notes are first redeemable in February 2011, the Notes have been valued at par as at 31 December 2010. (Refer Note 15 for further information subsequent to period end).

(2) 6% ARF Convertible Notes

On 19 March 2010, the Group issued US$20 million new 6% unsecured and unsubordinated convertible notes. The Noteholders have options to convert the notes to either a fixed number of shares or cash. They will mature on 19 March 2014.

The convertible note is a hybrid instrument and has been split for accounting purposes into two parts being (i) liability at amortised cost and (ii) the options within the convertible note that meet the definition of a derivative and are assessed as not being closely related to the convertible note and are classified as derivatives at Fair Value through Profit or Loss.

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

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

In the period to 31 December 2010, the change in the fair value of the conversion options amounted to $16,000.

13. PROVISION FOR RESTORATION

There has been a decrease in the provision for restoration of $3.093 million to $37.413 million (2010: $40.506 million). The change reflects changes in foreign exchange rates applicable to foreign denominated restoration obligations, the additional costs of wells drilled, unwind of the discount on long term restoration provisions and a change in the discount rate used to discount long term restoration obligations.

These changes, with the exception of the unwinding of discounts which goes through the profit and loss, have also been reflected in a change to the restoration asset. Refer Note 8.

14. COMMITMENTS

Exploration Expenditure Commitments

Puffin Field

Expenditure commitments being the minimum work requirements under exploration permits for petroleum.

As a condition of the acquisition of the interest in AC/P22, the following work is committed to be performed:

Year	Commitment	Minimum Expenditure (AED Share) AUD $
2011	Seismic reprocessing	240,000
2011	Seismic interpretation and mapping	60,000
2012	Seismic Interpretation and mapping	60,000
2013	Drill one well	4,000,000
2014	Permit Evaluation and review	40,000

Minimum work obligations, may, subject to negotiation and approval, be varied.

Brunei Contract Area

As at 31 December 2010, contractual commitments entered into in regards to testing wells under Phase 1 obligations amounted to $2.652 million (AED share is $1.326 million).

On 27 August 2011, the Block L Joint Venture elected under the Production Sharing Agreement for Block L ("PSA") to undertake a further two year exploration program on Block L ("Phase 2").

Phase 2 consists of a two year exploration period commencing on 28 August, 2010. During Phase 2, the Block L Joint Venture will at a minimum:

1. acquire and process at least 500 kilometres of onshore 2D seismic data and 500 kilometres of offshore 2D seismic data;

2. acquire and process at least 150 square kilometres of offshore 3D seismic data or the dollar equivalent amount of 2D seismic data; and

3. drill two onshore exploration wells, each to a minimum depth of 2,000 metres.

The Block L Joint Venture is obligated to expend a minimum of US $16 million during Phase 2 (AED's share is US$8 million). At 31 December 2010 no contractual commitments have been entered into in relation to these work obligations. Minimum work obligations, may, subject to negotiation and approval, be varied.

Rombebai Contract Area

As at 31 December 2010, AED Rombebai BV had a work commitment to drill one well on the Rombebai Contract Area with no specified minimum expenditure obligation or well depth. It is currently required to fulfil this obligation by November 2011. The Company is currently in negotiations with the Government of Indonesia to extend this licence for a further three years. As at 31 December 2010, no contractual commitments have been entered into in regards to these work obligations. Minimum work obligations, may, subject to negotiation and approval, be varied.

South Madura Contract Area

As at 31 December 2010, AED South Madura BV had the following outstanding work obligations with no specified minimum expenditure obligation:

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

As at 31 December 2010, no contractual commitments have been entered into in regards to these work obligations, but the budgeted estimate of the 2011 commitment is $0.7 million (AED share). Minimum work obligations, may, subject to negotiation and approval, be varied.

15. SUBSEQUENT EVENTS AFTER THE BALANCE SHEET DATE

Amendments to Terms of 9% Unsecured Convertible Notes

Subsequent to 31 December 2010, AED Oil Ltd has amended the terms of its US$21,217,500 9% convertible unsecured notes due 2012 listed on the Singapore Exchange (SGX-ST) namely:

- redemption and payment on 23 February 2011 of US $8,605,000;
- introduce new put dates on 30 April 2011, 10 July 2011 and 10 January 2012; and
- reset of the conversion price to $0.38 and a potential further reset price based on 5 day VWAP prior to 16 April 2011, such reset price limited to a floor price of 80% of the conversion price then existing.

Convertible Notes

After the repayment of US$8.605 million (A$8.592 million) redeemed for cash on 23 February 2011, the company's outstanding convertible notes as at reporting date is as set out below:

	Face value (USD)	First redeemable	Due
9% SGX convertible notes	12,612,500	30 April 2011	10 July 2012
6% ARF convertible notes	20,000,000	19 March 2013	19 March 2014

New 4.75% US $20 million Convertible Notes

Subject to completion of regulatory conditions, AED has entered into a new US$20 million convertible note financing agreement with La Jolla Cove. The funds to be raised from the issue of the new convertible notes is intended to be used primarily to finance Brunei costs including further exploration, well testing and phase 2 development activities in Brunei Block L, as well as other AED projects and development.

At the date of this report, no amounts have been drawn under the facility.

Return of Restricted Funds

$14.185 million in restricted cash as part of the GST refund dispute process with Puffin FPSO is recorded in the cash balance at 31 December 2010. This is held in an interest bearing cash deposit that was lodged with the Supreme Court of Victoria. The GST matters have now been finalised resulting in AED receiving a further refund during the period of A$4.6 million. AED applied to the Court to have this deposit returned, and on 10 March 2011 AED received judgement in its favour when the Court held that these monies should be released to AED, pursuant to orders expected to be made on or around 24 March 2011.

Other

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

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

In the opinion of the Directors:

(a) the financial statements and notes of the consolidated entity are in accordance with the *Corporations Act 2001*, including:

(i) give a true and fair view of the financial position as at 31 December 2010 and the performance for the half year ended on that date of the consolidated entity; and

(ii) comply with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

(b) in light of the matters described in Note 2(d), there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

On behalf of the Board,

David Dix
Executive Chairman

Melbourne
15 March 2011

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

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

To the members of AED Oil Limited

Report on the Half-Year Financial Report

We have reviewed the accompanying half year financial report of AED Oil Limited (the company), which comprises the statement of financial position as at 31 December 2010, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the half year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the half-year end or from time to time during the half-year.

Directors' Responsibility for the half year Financial Report

The directors of the company are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the Corporations Act 2001 and for such internal controls as the directors determine are necessary to enable the preparation of the half-year financial report that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2010 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the Corporations Regulations 2001 . As the auditor of AED Oil Limited and the entities it controlled during the half-year, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

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

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Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of AED Oil Limited is not in accordance with the Corporations Act 2001, including:

a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2010 and of its performance for the half-year ended on that date; and

b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

Uncertainty Regarding Continuation as a Going Concern

Without qualification to the opinion expressed above, attention is drawn to the following matter. As indicated in Note 2(d) "Going Concern" to the half year financial report, the Directors of AED Oil Limited are of the opinion that the consolidated entity has the ability to appropriately resolve the dispute under the FPSO Charter Contract in an acceptable timeframe, recover restricted monies held in court in a timely manner and raise sufficient capital or successfully pursue other capital management alternatives as required.

If these matters are not appropriately resolved, there is a material uncertainty as to whether the consolidated entity will be able to continue as a going concern and therefore whether it will be able to realise its assets and extinguish its liabilities in the normal course of business at the amounts stated in the half year financial report. The half year financial report does not include any adjustments relating to the recoverability and classification of recorded asset amounts or to the amounts or classification of liabilities that might be necessary should the consolidated entity not be able to continue as a going concern.

Ernst & Young

Ernst & Young

Michael Collins
Partner
Melbourne
15 March 2011