



**VICTORIA PETROLEUM N.L.  
AND ITS CONTROLLED ENTITIES**

**ABN 50 008 942 827**

**ANNUAL FINANCIAL REPORT  
FOR THE YEAR ENDED 30 JUNE 2010**

**VICTORIA PETROLEUM N.L. AND ITS CONTROLLED ENTITIES**  
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**VICTORIA PETROLEUM N.L. AND ITS CONTROLLED ENTITIES  
CORPORATE INFORMATION**

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**AUSTRALIAN BUSINESS NUMBER:** 50 008 942 827

**DIRECTORS:** Denis F Patten  
Ian R Davies  
Robert J Pett  
Benedict M McKeown

**COMPANY SECRETARY:** Denis I Rakich

**REGISTERED OFFICE:** Level 36, Exchange Plaza  
2 The Esplanade  
Perth, Western Australia 6000

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**SHARE REGISTER:** Security Transfer Registrars Pty Ltd  
770 Canning Highway  
Applecross, Western Australia 6153  
Telephone: +61 8 9315 2333  
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**SECURITIES EXCHANGE:** Australian Securities Exchange (ASX)  
Code: VPE

**SOLICITORS:** Minter Ellison  
Level 49, Central Park Building  
152-158 St George's Terrace  
Perth, Western Australia 6000

**BANKERS:** Westpac Banking Corporation  
109 St George's Terrace  
Perth, Western Australia 6000

**AUDITORS:** Ernst & Young  
11 Mounts Bay Road  
Perth, Western Australia 6000

## VICTORIA PETROLEUM N.L. AND ITS CONTROLLED ENTITIES DIRECTORS' REPORT

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Your directors submit their annual report for the year ended 30 June 2010.

The annual report covers Victoria Petroleum N.L. ("the Company" or "the parent entity") and its controlled entities / subsidiaries (collectively known as "the Group").

### PRINCIPAL ACTIVITIES

The principal activities during the year of entities within the Group were oil and gas exploration and production. The Group's presentation currency is Australian dollars (\$). There have been no significant changes in the nature of these activities during the financial year.

### DIRECTORS

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

#### Names, qualifications, experience and special responsibilities

##### **DENIS F PATTEN**

*Chairman, Independent Non-executive Director*  
Member – S.P.E.

Mr Patten has extensive experience in oil and gas exploration, coal seam gas exploration, development and production and is a former founding director of Queensland Gas Company Limited, retiring from the Board in 2007. Mr Patten has 40 years of experience in the engineering, manufacturing, petroleum and service industries in Australia and internationally. He has held senior executive management positions with ASEA Australia, Petroleum Drilling Services Australia Pty Ltd, Gearhart Drilling Services, ATCO APM Drilling Pty Ltd, PT CMPS Indonesia, CMPS&F Pty Ltd and Montgomery Watson.

Mr Patten has not served as a director or alternate director of any other listed companies during the past three years.

##### **JOHN T KOPCHEFF**

*Executive Director*  
B.Sc. (Hons) (Geology and Geophysics)  
Member – S.P.E., A.A.P.G., P.E.S.A., A.I.M.M.

Mr Kopcheff is a geologist and geophysicist, and holds a Bachelor of Science (Honours) from the University of Adelaide (1970). Mr Kopcheff has over 39 years of petroleum experience in Australia, South East Asia, USA, South America and the North Sea, both in field geological and geophysical operations and management. Mr Kopcheff was the founding Managing Director of Victoria Petroleum N.L.

Mr Kopcheff retired from the Board as Executive Director on 22 September 2010. Mr Kopcheff will remain as an employee of the Company.

During the past three years, Mr Kopcheff has also served as a non-executive director of the following other listed companies:

- Great Panther Resources Limited \*
- GreenerEarth Energy Limited \*

\* denotes current directorship

## VICTORIA PETROLEUM N.L. AND ITS CONTROLLED ENTITIES DIRECTORS' REPORT

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### DIRECTORS (CONTINUED)

#### **IAN R DAVIES**

*Managing Director and Chief Executive Officer*

BBus (Acct), CA, Cert SII (UK)

Mr Davies joined the Group on 19 July 2010 from Queensland Gas Company (QGC), a member of BG Group, where he was a key member of the senior management team. He had been Chief Financial Officer of QGC since 2007, and following QGC's A\$5.6 billion acquisition by BG Group Plc served as General Manager Business Development and General Manager Ports and Infrastructure at QGC. Prior to joining QGC, Mr Davies was an investment banker in Melbourne with Austock Corporate Finance and in London with Barclays Capital. Mr Davies has a Bachelor of Business degree from the Queensland University of Technology and is a Chartered Accountant, having commenced his career in the Energy and Mining Division of PricewaterhouseCoopers in Brisbane.

Mr Davies is not a director or alternate director of any other listed companies.

#### **ROBERT J PETT**

*Independent Non-executive Director*

B.A. (Hons) M.A. (Econ)

Mr Pett is a minerals economist with a wide range of experience in the mining and petroleum sector, and in the management of companies involved in mineral and petroleum exploration and production. Mr Pett holds a Bachelor's Degree in Arts with Honours and a Master's Degree in Economics (Queens University, Canada).

During the past three years, Mr Pett has also served as a Chairman of the following other listed company:

- A-Cap Resources Ltd \*
- Ausgold Ltd \*

\* denotes current directorship

#### **BENEDICT M McKEOWN**

*Non-executive Director*

BEng (Mining Engineering), MBA

Mr McKeown is a Chartered Engineer with over 20 years of experience in the petroleum and mining sectors. He is a member of both the Energy Institute (UK) and the Institute of Materials, Mining and Metallurgy. During the past 10 years, Mr McKeown has been involved in private equity investments primarily in the mining and upstream oil and gas sectors. He is currently a partner with The Sentient Group, an independent equity investment fund specialising in the global resources industry.

Mr McKeown has not served as a director or alternate director of any other listed companies during the past three years.

**VICTORIA PETROLEUM N.L. AND ITS CONTROLLED ENTITIES  
DIRECTORS' REPORT**

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**DIRECTORS (CONTINUED)**

**NEIL C FEARIS**

*Alternate Director*

LLB (Hons), MAICD, F.Fin

Mr Fearis has 30 years of experience as a commercial lawyer in the UK and Australia, and is a member of several professional bodies associated with commerce and law.

Mr Fearis was appointed on 26 March 2008 as an alternate director for Mr Kopcheff. Mr Fearis resigned on 19 November 2009.

During the past three years, Mr Fearis has also served as a director or alternate director of the following other listed companies:

- Carnarvon Petroleum Limited \*
- Kresta Holdings Limited \*
- Perseus Mining Limited \*
- Samson Oil & Gas Limited \*

\* denotes current directorships

**Interests in the shares and options of the company and related bodies corporate**

As at the date of this report, the interests of the directors in the shares and options of the Company were as follows:

| <b>Class of security</b>                                        | <b>DF Patten</b> | <b>BM McKeown</b> | <b>RJ Pett</b> | <b>IR Davies <sup>1</sup></b> |
|-----------------------------------------------------------------|------------------|-------------------|----------------|-------------------------------|
| Ordinary shares, fully paid                                     | 500,000          | -                 | 541,500        | 131,000                       |
| Ordinary shares,<br>issued at \$3.50<br>partly paid to 10 cents | -                | -                 | 140,000        | -                             |
| Unlisted options                                                | 1,500,000        | 1,000,000         | 1,000,000      | 4,000,000                     |

<sup>1</sup> IR Davies was appointed on 19 July 2010

The options issued to Mr Davies have an exercise price of 25.5 cents and have different vesting and expiry dates – refer Subsequent Events after Balance Date on page 16 of this Directors' Report.

**VICTORIA PETROLEUM N.L. AND ITS CONTROLLED ENTITIES  
DIRECTORS' REPORT**

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**COMPANY SECRETARY**

**DENIS I RAKICH**  
F.C.P.A

Mr Rakich is an Accountant and Company Secretary with extensive corporate experience within the petroleum services, petroleum and mineral production and exploration industries. Mr Rakich is responsible for the legal, financial and corporate management of the Group. He is a member of CPA Australia and is currently Company Secretary of three public listed companies in the resources sector.

**DIVIDENDS**

No dividends have been paid or declared by the Company since the end of the previous financial year and no dividends have been paid or declared to the Company by any controlled entity during the year or to the date of this report. The balance of the franking account at the end of the period was nil (2009: nil).

**VICTORIA PETROLEUM N.L. AND ITS CONTROLLED ENTITIES**  
**DIRECTORS' REPORT**

**OPERATING AND FINANCIAL REVIEW**

**Operating results for the year**

**Financial performance**

|                                                                                       | 2010<br>\$       | Consolidated<br>2009<br>\$ |          | Change              |
|---------------------------------------------------------------------------------------|------------------|----------------------------|----------|---------------------|
| <b>Continuing operations</b>                                                          |                  |                            |          |                     |
| Revenue                                                                               | 13,188,194       | 11,602,749                 | ▲        | 14%                 |
| Cost of sales                                                                         | (5,429,245)      | (5,186,605)                | ▲        | 5%                  |
| <b>Gross profit / (loss)</b>                                                          | <b>7,758,949</b> | <b>6,416,144</b>           | <b>▲</b> | <b>21%</b>          |
| <b>Profit / (Loss) from continuing operations after tax</b>                           | <b>2,463,290</b> | <b>(4,132,557)</b>         | <b>▲</b> | <b>\$6,595,847</b>  |
| <b>Net profit / (loss) for the period attributable to owners of the parent entity</b> | <b>2,589,292</b> | <b>(8,628,890)</b>         | <b>▲</b> | <b>\$11,218,182</b> |

The Group's revenue for the year was \$13,188,194, an increase of 14% from the last financial year of \$11,602,749. The one in 20 year flood event in the Cooper Basin at the end of January 2010 severely impacted the Group's revenue during the financial year.

The Group's net profit for the year was \$2,589,292 as compared to a reported net loss of \$8,628,890 from the last financial year. This year's result is a reflection of the Group's continued efforts in its oil exploration and production in the Cooper Basin.

The Group reviewed the carrying value of its oil and gas properties for impairment at 30 June 2010. The value of the oil and gas properties was reviewed on a field by field basis and has resulted in a reversal of impairment of \$99,535 (2009: impairment expense of \$4,683,518, including \$4,107,655 recorded in discontinued operations), mainly due to increase in oil prices.

Oil and gas exploration expenditures of \$2,392,512 (2009: \$6,068,636) were expensed during the year. These costs have been written off in accordance with the Group's accounting policy in relation to oil and gas exploration costs.



**VICTORIA PETROLEUM N.L. AND ITS CONTROLLED ENTITIES**  
**DIRECTORS' REPORT**

**OPERATING AND FINANCIAL REVIEW (CONTINUED)**

**Operating results for the year (Continued)**

**Financial position**

|                               | 2010              | Consolidated<br>2009 |          |             |
|-------------------------------|-------------------|----------------------|----------|-------------|
|                               | \$                | \$                   |          | Change      |
| Total Current Assets          | 40,172,708        | 21,856,964           | ▲        | 84%         |
| Total Non-current Assets      | 33,799,626        | 8,377,604            | ▲        | 303%        |
| <b>Total Assets</b>           | <b>73,972,334</b> | <b>30,234,568</b>    | <b>▲</b> | <b>145%</b> |
| Total Current Liabilities     | 3,268,644         | 2,781,219            | ▲        | 18%         |
| Total Non-current Liabilities | 2,120,368         | 1,752,505            | ▲        | 21%         |
| <b>Total Liabilities</b>      | <b>5,389,012</b>  | <b>4,533,724</b>     | <b>▲</b> | <b>19%</b>  |
| <b>NET ASSETS</b>             | <b>68,583,322</b> | <b>25,700,844</b>    | <b>▲</b> | <b>167%</b> |
| <b>EQUITY</b>                 |                   |                      |          |             |
| Contributed equity            | 151,266,106       | 110,018,067          | ▲        | 37%         |
| Reserves                      | 1,653,781         | 2,608,634            | ▼        | (37%)       |
| Accumulated losses            | (84,336,565)      | (86,925,857)         | ▼        | (3%)        |
| <b>TOTAL EQUITY</b>           | <b>68,583,322</b> | <b>25,700,844</b>    | <b>▲</b> | <b>167%</b> |

The Group finished the year with \$36,791,150 (2009: \$18,289,877) in cash on hand, as follows:

- cash and cash equivalents of \$16,791,150; and
- a 6-month term deposit of \$20,000,000 which was classified separately as term deposits on the consolidated Statement of Financial Position.

The Group's net assets at year end were \$68,583,322 (2009: \$25,700,844). The increase in net assets was mainly a result of capital raisings to fund the increased exploration and development of the oil and coal seam gas fields - refer ordinary fully paid shares issued during the year on page 13 of this Directors' Report.

Oil and gas properties were valued at \$27,601,120 (2009: \$7,752,655). The increase in the value of oil and gas properties was mainly related to a 20% additional interest in the Cooper Basin projects being PEL 87 & 424, PEL 104, PEL 111, PPL 213 & 214 and PRL 15 through the acquisition of Permian Oil Pty Ltd. The acquisition has increased the Group's interest from 40% to 60% at 30 June 2010.

During the financial year, the Group acquired 90,000,000 (2009: nil) Impress Energy Ltd ("Impress") shares, representing a total shareholding of 10.15%. Impress is an Australian based oil and gas exploration and production company and is the Group's joint venture partner for selected Cooper Basin projects. Impress is listed on the Australian Securities Exchange.

## VICTORIA PETROLEUM N.L. AND ITS CONTROLLED ENTITIES DIRECTORS' REPORT

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### OPERATING AND FINANCIAL REVIEW (CONTINUED)

#### Group overview

The Company continued the implementation of its new focussed growth strategy on two key projects: the Cooper Basin Oil projects in South Australia and Queensland, and the Queensland Coal Seam Gas projects.

#### **Production & Development Activity**

##### *Production Summary*

The total net oil production for the year was 142,579 barrels ("bbls") of oil. The Group experienced a halt in oil production in the South Australian Cooper Basin oil fields since early February 2010 due to a one in 20 year flood event and associated rain.

The total net production to the Group for the year included:

- Growler Oil Field in PRL 15 - 120,930 bbls of oil;
- Snatcher Oil Field in PEL 111 - 5,888 bbls of oil;
- Mirage and Ventura Oil Fields in PPL 213 & 214 - 10,741 bbls of oil;
- Cuisinier Oil Field in ATP752P - 1,386 bbls of oil; and
- Jingemia Oil Field in L14 - 3,634 bbls of oil.

##### *Development Activity*

Oil development activity for the year included:

- Snatcher-3 in PEL 111 was drilled and cased for production in November 2009. The completion of Snatcher-3 for production is planned for early 2011 when access is regained to the well site; and
- Jingemia-12 in L14 was drilled and completed for production in August 2009. The Company reached an agreement with Norwest Energy N.L. on 11 February 2010 to dispose of its interests in the Northern Perth Basin.

**VICTORIA PETROLEUM N.L. AND ITS CONTROLLED ENTITIES  
DIRECTORS' REPORT**

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**OPERATING AND FINANCIAL REVIEW (CONTINUED)**

**Group overview (Continued)**

**Production & Development Activity (Continued)**

**Purchase of Interest in ATP 574P, Surat Basin, Queensland**

On 3 November 2009, the Company entered into a binding agreement with Bow Energy Ltd ("Bow") to purchase all of Bow's interest in ATP 574P located in the Surat Basin in Queensland. The ATP 574P assets include a 3.75% interest in the Walloon Coal Measures shallow area, 63.75% in the non-Walloon Coal Measures intermediate area and 18.75% interest in the non-Walloon Coal Measures deep area.

The consideration for the purchase of Bow's interests in ATP 574P was \$8,000,000 in cash, 13,000,000 ordinary fully paid shares in the Company, and the Group's share in Surat Basin tenements ATP 608P (24% in Stratton Block and 30% in Rookwood Block) and ATP 805P (15%). \$8,000,000 was paid on 9 November 2009 to the solicitors' trust account and the Company allotted 13,000,000 ordinary fully paid shares to Bow on 1 February 2010. The shares are subject to voluntary escrow until 2 November 2010.

The ATP 574P assets acquired from Bow were used as consideration for the asset swap agreement with BG International (Aus) Limited Partnership ("BG Group") as detailed below.

The acquisition of ATP 574P was completed on 1 February 2010.

**Increased Interest from 40% to 60% in the Western Margin Oil Project Permits (PEL 104, PEL 111 & PRL 15), Mirage & Ventura Oil Fields (PPL 213 & 214) and PEL 87 & 424 in exchange for ATP 574P Interest**

On 11 November 2009, the Company entered into an agreement with BG Group by which the Company transferred to BG Group the acquired rights and interests in ATP 574P from Bow in exchange for the transfer to the Company of Permian Oil Pty Ltd ("Permian"), a subsidiary of BG Group (Asset Swap).

Permian's assets comprise of a 20% interest in the Western Margin Oil project permits (PEL 104, PEL 111 & PRL 15), the Mirage & Ventura Oil Fields (PPL 213 & 214), and PEL 87 & 424. The agreement to acquire Permian enabled the Group to increase its interest in these permits from 40% to 60%.

The Company transferred to BG Group a 3.75% interest in the Walloon Coal Measures of ATP 574P and varying interests in the underlying deep sections of the tenement. Following this asset swap, the Company will retain its original 30% interest in the Walloon Coal Measures of ATP 574P and the underlying sequence.

The acquisition of Permian was completed on 27 April 2010.

**VICTORIA PETROLEUM N.L. AND ITS CONTROLLED ENTITIES  
DIRECTORS' REPORT**

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**OPERATING AND FINANCIAL REVIEW (CONTINUED)**

**Group overview (Continued)**

**Production & Development Activity (Continued)**

**Sale of Interest in Northern Perth Basin Permit Interests – L 14 & EP 413**

On 11 February 2010, the Group reached an agreement with Norwest Energy N.L. ("Norwest") to sell its Northern Perth Basin interests to Norwest for a consideration of \$500,000.

The interests being sold to Norwest were:

- 5% interest in Jingemina Production Licence L 14; and
- 5.013% interest in Exploration Permit EP 413.

The transaction was subject to completion of formal documentation and the relevant documents being approved and registered by the Minister of Mines and Energy by 31 December 2010.

The total net oil production for the year prior to the sale was 3,634 bbls of oil and the total revenue recognised for Jingemina was \$293,918 before production costs.

At 30 June 2010, all joint venture partners have approved the sale and acknowledged the completion of the sale between Norwest and the Group.

**Exploration Activity & Outlook**

Exploration for oil and gas has been the focus for the Group in previous years and management expects it to remain a core part of the Group's business.

**Cooper Basin, South Australia / Queensland**

Oil exploration activity for the year included:

- Fury-1 in PEL 115 was drilled on 16 September 2009, and was an oil discovery; and
- Airacobra-1 in PEL 115 was drilled on 11 December 2009, and was an oil discovery.

Snatcher-2 in PEL 111 was drilled as an exploration well as a follow up to the Snatcher-1 oil discovery and cased for production in August 2009.

**Surat Basin Coal Seam Gas, Queensland**

Oil exploration activity for the year included:

- Drilling in PL 171 of 1 well on the Paradise Downs CSG Project; and
- Drilling in ATP 574P of 4 wells on the Peebs, Pinelands and Marcus Coal Seam Gas projects.

**VICTORIA PETROLEUM N.L. AND ITS CONTROLLED ENTITIES**  
**DIRECTORS' REPORT**

**OPERATING AND FINANCIAL REVIEW (CONTINUED)**

**Ordinary fully paid shares issued during the year**

|                                       | Parent Entity       |                    |                     |                    |
|---------------------------------------|---------------------|--------------------|---------------------|--------------------|
|                                       | 2010                |                    | 2009                |                    |
|                                       | Number of<br>shares | \$                 | Number of<br>shares | \$                 |
| Balance at the beginning of the year  | 368,300,198         | 109,964,692        | 320,151,033         | 103,253,881        |
| Shares issued during the year         | 149,778,482         | 42,399,021         | 48,149,165          | 6,757,291          |
| Transaction costs on shares issued    | -                   | (1,150,982)        | -                   | (46,480)           |
| <b>Balance at the end of the year</b> | <b>518,078,680</b>  | <b>151,212,731</b> | <b>368,300,198</b>  | <b>109,964,692</b> |

On 4 December 2009, the Company issued 40,000,000 ordinary fully paid shares at 30 cents each, to raise \$12,000,000 before costs.

On the same day, a Share Purchase Plan ("SPP") was offered to all eligible shareholders of the Company at an issue price of 30 cents per share. The SPP closed on 15 January 2010. On 28 January 2010, the Company issued 34,388,000 ordinary fully paid shares at a price of 30 cents each pursuant to the SPP, raising \$10,316,400.

A total of 51,158,554 ordinary fully paid shares were also issued at a price of 25 cents each for the exercise of unlisted and listed options, which raised \$12,789,639 before costs. The listed options expired on 31 January 2010. At 31 January 2010, 82% of the options were exercised by option holders. The number of options which remained unexercised at that date was 11,231,928 options. RBS Morgans Ltd arranged for the placement of the remaining options at 25 cents each. A total of \$2,807,982 before costs was raised from this placement.

On 1 February 2010, 13,000,000 ordinary fully paid shares totalling \$4,485,000 were issued to Bow Energy Ltd ("Bow") pursuant to the sale agreement on 3 November 2009 for the purchase of Bow's interest in ATP 574P. The ordinary fully paid shares are subject to a voluntary escrow until 2 November 2010.

The Company's total issued capital as at 30 June 2010 is:

|                                                            | Parent Entity      |                    |
|------------------------------------------------------------|--------------------|--------------------|
|                                                            | 2010<br>\$         | 2009<br>\$         |
| 518,078,680 ordinary fully paid shares (2009: 368,300,198) | 151,212,731        | 109,964,692        |
| 270,000 ordinary partly paid shares, paid to 10 cents      | 27,000             | 27,000             |
| 1,915,000 ordinary partly paid shares, paid to 1 cent      | 19,150             | 19,150             |
| 7,225,000 ordinary partly paid shares, paid to 0.1 cent    | 7,225              | 7,225              |
| <b>Total issued capital</b>                                | <b>151,266,106</b> | <b>110,018,067</b> |

## **VICTORIA PETROLEUM N.L. AND ITS CONTROLLED ENTITIES DIRECTORS' REPORT**

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

There were no other significant changes in the state of affairs of the Group during the year not detailed elsewhere in this Directors' Report.

### **SIGNIFICANT EVENTS AFTER THE BALANCE DATE**

#### **Acquisition of PEL 182**

On 15 June 2010, the Group executed a conditional sale and purchase agreement with AuDAX Energy Ltd ("ADX") to acquire all of ADX's 49.90% working interest in PEL 182, South Australia. The total consideration for the purchase is cash settlement of \$1,100,000 which was prepaid on 17 June 2010 and ADX share of the future plugging and abandonment liability for the Emily-1 and Vanessa-1 wells estimated at \$200,000.

The acquisition of PEL 182 from ADX was completed on 26 July 2010.

#### **Key Management Personnel**

On 24 June 2010, the Group announced the appointment of the following key management personnel on the Australian Securities Exchange:

- Mr IR Davies – Managing Director and Chief Executive Officer;
- Mr MR Herrington – General Manager Operations; and
- Dr SG Scott – General Manager Exploration.

Mr Davies commenced with the Group on 19 July 2010, and Mr Herrington and Dr Scott commenced with the Group on 26 July 2010.

Mr JT Kopcheff retired from the Board as Executive Director on 22 September 2010. Mr Kopcheff will remain as an employee of the Company, and his terms of employment with the Company and his entitlements to the unlisted options and ordinary partly paid shares remain substantially unchanged.

#### **Issue of Unlisted Options to Employees**

On 6 July 2010, the Company issued 2,210,000 unlisted options to the employees of the Company. The unlisted options are exercisable from 1 July 2011, with an exercise price of 37 cents each and an expiry date of 30 June 2014.

## **VICTORIA PETROLEUM N.L. AND ITS CONTROLLED ENTITIES DIRECTORS' REPORT**

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### **SIGNIFICANT EVENTS AFTER THE BALANCE DATE (CONTINUED)**

#### **Issue of Unlisted Options to Key Management Personnel**

On 5 August 2010, the Company issued 2,000,000 unlisted options to two key management personnel of the Company at an exercise price of 25.5 cents each, being:

- Mr MR Herrington – General Manager Production and Operations; and
- Dr SG Scott – General Manager Exploration.

The unlisted options issued to Mr Herrington and Dr Scott have various vesting dates, an exercise price of 25.5 cents each and an expiry date of 2 February 2014.

On 9 September 2010, shareholder approval was obtained for the issuance of 4,000,000 unlisted options to Mr IR Davies (25.5 cents each, various vesting dates, and expiry dates between 9 September 2015 to 19 July 2018) and 3,000,000 unlisted options to Mr JT Kopcheff (27 cents each, various vesting dates and an expiry date of 31 August 2014).

#### **Other**

Since the end of the financial year, the directors are not aware of any other matters or circumstances not otherwise dealt with in the report or financial statements that have significantly, or may significantly affect the operations of the Company or the Group, the results of the operations of the Company or the Group, or the state of affairs of the Company or the Group in subsequent financial years.

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

During the next financial year, the Group will continue to focus on its two key projects: the Cooper Basin Oil projects in South Australia and Queensland, and the Queensland Coal Seam Gas projects.

### **ENVIRONMENTAL REGULATION AND PERFORMANCE**

The Group has a policy of complying on its environmental performance obligations. No environmental breaches have been notified by any Government agency during the year ended 30 June 2010.

**VICTORIA PETROLEUM N.L. AND ITS CONTROLLED ENTITIES  
DIRECTORS' REPORT**

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## **SHARE OPTIONS**

### **Unissued shares**

At the date of this report, the Company had the following options on issue:

| <b>Class of security</b>      | <b>Number</b> | <b>Exercise Price</b> | <b>Expiry Date</b> |
|-------------------------------|---------------|-----------------------|--------------------|
| Unlisted options              | 8,775,000     | 25 cents              | 31 January 2012    |
| Unlisted options              | 2,000,000     | 25.5 cents            | 2 February 2014    |
| Unlisted options              | 2,210,000     | 37 cents              | 30 June 2014       |
| Unlisted options <sup>1</sup> | 3,000,000     | 27 cents              | 31 August 2014     |
| Unlisted options <sup>1</sup> | 1,200,000     | 25.5 cents            | 9 September 2015   |
| Unlisted options <sup>1</sup> | 800,000       | 25.5 cents            | 19 July 2016       |
| Unlisted options <sup>1</sup> | 1,000,000     | 25.5 cents            | 19 July 2017       |
| Unlisted options <sup>1</sup> | 1,000,000     | 25.5 cents            | 19 July 2018       |

<sup>1</sup> These relate to issuance of 4,000,000 options to Mr IR Davies and 3,000,000 options to Mr JT Kopcheff. Mr Kopcheff retired from the Board as Executive Director on 22 September 2010. Mr Kopcheff will remain as an employee of the Company.

### **Options issued from 1 July 2009 to the date of this report – *refer to Significant Events After the Balance Date***

On 6 July 2010, the Company issued 2,210,000 unlisted options to the employees of the Company. The unlisted options are exercisable from 1 July 2011, with an exercise price of 37 cents each and an expiry date of 30 June 2014.

On 5 August 2010, the Company issued 2,000,000 unlisted options to two key management personnel of the Company, being:

- Mr MR Herrington – General Manager Operations; and
- Dr SG Scott – General Manager Exploration.

The unlisted options issued to Mr Herrington and Dr Scott have various vesting dates, an exercise price of 25.5 cents each and an expiry date of 2 February 2014.

On 9 September 2010, shareholder approval was obtained for the issuance of 4,000,000 unlisted options to Mr IR Davies (25.5 cents each, various vesting dates, and expiry dates between 9 September 2015 to 19 July 2018) and 3,000,000 unlisted options to Mr JT Kopcheff (27 cents each, various vesting dates and an expiry date of 31 August 2014).

Option holders do not have any right, by virtue of the option, to participate in any share issue of the Company or any related body corporate.



## VICTORIA PETROLEUM N.L. AND ITS CONTROLLED ENTITIES DIRECTORS' REPORT

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### Shares issued as a result of the exercise of options

A total of 750,000 unlisted options and 50,408,554 listed options were exercised by option holders during the year ended 30 June 2010 at a price of 25 cents each, which raised \$12,789,639 before costs. The listed options expired on 31 January 2010 and RBS Morgans arranged for placement of the remaining options not exercised by option holders of 11,231,928 at 25 cents each. A total of \$2,807,982 before costs was raised from this placement.

Option holders do not have any right by virtue of the option to participate in any share issue of the company or any related body corporate.

### INDEMNIFICATION AND INSURANCE OF DIRECTORS AND OFFICERS

During the current year, the Company incurred a premium of \$26,085 (2009: \$22,894) to insure directors and officers of the Group.

The liabilities insured include costs and expenses that may be incurred in defending civil or criminal proceedings that may be brought against the officers in their capacity as officers of the Group.

### DIRECTORS' MEETINGS

From 1 July 2009 to the date of this report, 7 meetings of directors were held. The number of meetings attended by each director and the number of meetings each director was eligible to attend were as follows:

| Director                  | Number of meetings attended | Number of eligible meetings |
|---------------------------|-----------------------------|-----------------------------|
| DF Patten                 | 7                           | 7                           |
| J T Kopcheff <sup>3</sup> | 7                           | 7                           |
| BM McKeown                | 7                           | 7                           |
| RJ Pett                   | 7                           | 7                           |
| IR Davies <sup>1</sup>    | 1                           | 1                           |
| NC Fearis <sup>2</sup>    | -                           | -                           |

<sup>1</sup> IR Davies was appointed on 19 July 2010

<sup>2</sup> NC Fearis resigned on 19 November 2009

<sup>3</sup> JT Kopcheff retired from the Board on 22 September 2010

**VICTORIA PETROLEUM N.L. AND ITS CONTROLLED ENTITIES  
DIRECTORS' REPORT**

---

**AUDITOR INDEPENDENCE**

The independence declaration received from the auditor of Victoria Petroleum N.L. is set out on page 28 and forms part of this Directors' Report for the year ended 30 June 2010.

**NON-AUDIT SERVICES**

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

Ernst & Young (Australia) received or are due to receive the following amounts for the provision of services for the year ended 30 June 2010:

|                                                                                                       | <b>Consolidated<br/>2010<br/>\$</b> |
|-------------------------------------------------------------------------------------------------------|-------------------------------------|
| <b>Amounts received or due and receivable by<br/>Ernst &amp; Young (Australia) for the following:</b> |                                     |
| An audit or review of the financial report of the Group                                               | 120,768                             |
| Other services provided to the Group                                                                  |                                     |
| - tax compliance                                                                                      | 54,000                              |
| - royalty audit                                                                                       | 10,300                              |
| - other services                                                                                      | -                                   |
|                                                                                                       | <b>185,068</b>                      |

## VICTORIA PETROLEUM N.L. AND ITS CONTROLLED ENTITIES DIRECTORS' REPORT

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### REMUNERATION REPORT (AUDITED)

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

For the purposes of this report, the term "executive" encompasses the Company Secretary and executives of the Company and the Group.

### Individual key management personnel disclosures

#### (i) Directors

| Name                     | Position                                                                     |
|--------------------------|------------------------------------------------------------------------------|
| DF Patten                | Chairman, Independent Non-Executive Director                                 |
| IR Davies                | Managing Director and Chief Executive Officer<br>(appointed on 19 July 2010) |
| RJ Pett                  | Independent Non-Executive Director                                           |
| BM McKeown               | Non-Executive Director                                                       |
| JT Kopcheff <sup>1</sup> | Executive Director (retired on 22 September 2010)                            |
| NC Fearis                | Alternate Director to JT Kopcheff (resigned on 19 November 2009)             |

#### (ii) Executives

| Name          | Position                                                |
|---------------|---------------------------------------------------------|
| DI Rakich     | Company Secretary                                       |
| MR Herrington | General Manager Operations (appointed on 26 July 2010)  |
| SG Scott      | General Manager Exploration (appointed on 26 July 2010) |
| CM Lane       | Exploration Manager                                     |

<sup>1</sup> Mr JT Kopcheff retired from the Board as Executive Director on 22 September 2010. Mr Kopcheff will remain as an employee of the Company. Mr Kopcheff's terms of employment with the Company remain substantially unchanged.

### Remuneration committee

Due to the size and nature of the Company's operations, the directors do not believe the establishment of a remuneration committee is warranted. The Board of Directors is responsible for determining and reviewing compensation arrangements for directors and senior executives. Contracts with the Managing Director and any other executives are determined by the independent, non-executive directors. The Board assesses the appropriateness of the nature and amount of remuneration of directors and executives 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 team.

**VICTORIA PETROLEUM N.L. AND ITS CONTROLLED ENTITIES  
DIRECTORS' REPORT**

---

**REMUNERATION REPORT (AUDITED) (CONTINUED)**

**Remuneration philosophy**

The performance of the Company depends upon the quality of its directors and executives. To be successful and maximise shareholder wealth, the Company must attract, motivate and retain highly skilled directors and executives.

Remuneration packages applicable to the executive directors, senior executives and non-executive directors are established with due regard to the ability to attract and retain qualified and experienced directors and executives.

**Remuneration structure**

In accordance with best practice corporate governance, the structure of non-executive directors and executives remuneration is separate and distinct.

**Non-executive director remuneration**

*Objective*

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

*Structure*

The ASX Listing Rules specify that the aggregate remuneration of non-executive directors shall be determined from time to time by a general meeting. An amount not exceeding the amount determined is then divided between directors as agreed. The latest determination was at a General Meeting held on 25 June 2008 when shareholders approved an aggregate remuneration of \$250,000 per annum.

The amount of aggregate remuneration sought to be approved by shareholders and the manner in which it is apportioned amongst directors is reviewed annually.

Non-executive directors are encouraged by the Board to hold shares in the company (purchased by directors on market). It is considered good governance for directors to have a stake in the company in which they serve as a Board member.

The remuneration of non-executive directors for the years ending 30 June 2010 and 30 June 2009 is detailed in Table 1 below.

## VICTORIA PETROLEUM N.L. AND ITS CONTROLLED ENTITIES DIRECTORS' REPORT

---

### **Executive remuneration**

#### Objective

The Company aims to reward executives with a level and mix of remuneration commensurate with their position and responsibilities within the company to:

- reward executives for company performance against targets set by the board;
- align the interests of executives with those of shareholders;
- link reward with strategic goals and performance of the company; and
- ensure total remuneration is competitive by market standards.

This is a remuneration framework and the Board has currently not set any targets.

#### **Remuneration incentives**

Director and executive remuneration (including equity based remuneration) is currently not linked to either long term or short term performance conditions. The Board feels that the expiry date and/or exercise price of the partly paid shares and options currently on issue to the directors and executives is sufficient to align the goals of the directors and executives with those of the shareholders to maximise shareholder wealth, and as such, has not currently set any performance conditions for the directors or the executives of the Company. The Board will continue to monitor this policy to ensure that it is appropriate for the Company in future years. The Company does not have a policy in place relating to the Directors and executives limiting their exposure to risk in relation to the Company's equity instruments held by the directors and executives.

#### **Group performance**

The Group's performance is reflected in the movement in the Company's basic earnings / (loss) per share over time. The Company has reported its basic earnings per share for the year of \$1.09 (2009: basic loss per share at \$2.48).

**VICTORIA PETROLEUM N.L. AND ITS CONTROLLED ENTITIES  
DIRECTORS' REPORT**

**REMUNERATION REPORT (AUDITED) (CONTINUED)**

**Remuneration of Key Management Personnel**

**Table 1: Key Management Personnel remuneration for the years ended 30 June 2010 and 30 June 2009**

| Directors                  | Year        | Short-term              |                         | Post Employment | Share-based Payment  | Total            | Total Performance Related |
|----------------------------|-------------|-------------------------|-------------------------|-----------------|----------------------|------------------|---------------------------|
|                            |             | Salary & Directors Fees | Non-monetary Benefits * | Superannuation  | Options <sup>9</sup> |                  |                           |
|                            |             | \$                      | \$                      | \$              | \$                   | \$               | %                         |
| DF Patten <sup>1</sup>     | 2010        | 75,000                  | 4,084                   | 6,750           | -                    | 85,834           | -                         |
|                            | 2009        | 75,000                  | 2,692                   | 6,750           | 171,150              | 255,592          | -                         |
| JT Kopcheff <sup>8</sup>   | 2010        | 341,423                 | 4,084                   | 33,000          | -                    | 378,507          | -                         |
|                            | 2009        | 302,844                 | 2,692                   | 31,500          | 342,300              | 679,336          | -                         |
| A Bajada <sup>2</sup>      | 2010        | -                       | -                       | -               | -                    | -                | -                         |
|                            | 2009        | 12,935                  | 872                     | -               | -                    | 13,807           | -                         |
| A Dimsey <sup>3</sup>      | 2010        | -                       | -                       | -               | -                    | -                | -                         |
|                            | 2009        | -                       | 872                     | -               | -                    | 872              | -                         |
| NC Fearis <sup>7</sup>     | 2010        | -                       | 1,581                   | -               | -                    | 1,581            | -                         |
|                            | 2009        | -                       | 2,692                   | -               | -                    | 2,692            | -                         |
| BM McKeown <sup>4</sup>    | 2010        | 50,000                  | 4,084                   | -               | -                    | 54,084           | -                         |
|                            | 2009        | 27,038                  | 1,442                   | -               | 114,100              | 142,580          | -                         |
| RJ Pett                    | 2010        | 50,000                  | 4,084                   | 4,500           | -                    | 58,584           | -                         |
|                            | 2009        | 50,000                  | 2,692                   | 4,500           | 114,100              | 171,292          | -                         |
| AN Short <sup>5</sup>      | 2010        | -                       | -                       | -               | -                    | -                | -                         |
|                            | 2009        | 12,935                  | 872                     | -               | -                    | 13,807           | -                         |
| B Wrixon <sup>6</sup>      | 2010        | -                       | -                       | -               | -                    | -                | -                         |
|                            | 2009        | 50,000                  | 2,684                   | 4,500           | 114,100              | 171,284          | -                         |
| <b>Sub-Total Directors</b> | <b>2010</b> | <b>516,423</b>          | <b>17,917</b>           | <b>44,250</b>   | <b>-</b>             | <b>578,590</b>   | <b>-</b>                  |
|                            | <b>2009</b> | <b>530,752</b>          | <b>17,510</b>           | <b>47,250</b>   | <b>855,750</b>       | <b>1,451,262</b> | <b>-</b>                  |

**VICTORIA PETROLEUM N.L. AND ITS CONTROLLED ENTITIES  
DIRECTORS' REPORT**

**REMUNERATION REPORT (AUDITED) (CONTINUED)**

**Remuneration of Key Management Personnel (Continued)**

**Table 1: Key Management Personnel remuneration for the years ended 30 June 2010 and 30 June 2009 (Continued)**

| Executives                       | Year | Short-term                 |                            | Post Employment |                      | Share-based<br>Payment | Total     | Total<br>Performance<br>Related |
|----------------------------------|------|----------------------------|----------------------------|-----------------|----------------------|------------------------|-----------|---------------------------------|
|                                  |      | Salary & Directors<br>Fees | Non-monetary<br>Benefits * | Superannuation  | Options <sup>9</sup> |                        |           |                                 |
|                                  |      | \$                         | \$                         | \$              | \$                   | \$                     | \$        | %                               |
| DI Rakich                        | 2010 | 162,507                    | 4,084                      | 16,251          | -                    | -                      | 182,842   | -                               |
|                                  | 2009 | 169,689                    | 2,692                      | 18,708          | 33,800               | -                      | 224,889   | -                               |
|                                  | 2010 | 231,651                    | 4,084                      | 22,728          | -                    | -                      | 258,463   | -                               |
|                                  | 2009 | 220,992                    | 2,692                      | 23,453          | 16,900               | -                      | 264,037   | -                               |
| Sub-Total Executives             | 2010 | 394,158                    | 8,168                      | 38,979          | -                    | -                      | 441,305   | -                               |
|                                  | 2009 | 390,681                    | 5,384                      | 42,161          | 50,700               | -                      | 488,926   | -                               |
| Total - Directors and Executives | 2010 | 910,581                    | 26,085                     | 83,229          | -                    | -                      | 1,019,895 | -                               |
|                                  | 2009 | 921,433                    | 22,894                     | 89,411          | 906,450              | -                      | 1,940,188 | -                               |

<sup>1</sup> DF Patten was appointed as a director on 27 March 2008

<sup>2</sup> A Bajada was appointed as a director on 27 March 2008, and resigned on 27 October 2008

<sup>3</sup> A Dimsey appointed as an alternate director on 14 May 2008, and resigned on 27 October 2008

<sup>4</sup> BM McKeown was appointed on 17 December 2008

<sup>5</sup> AN Short was appointed as a director on 27 March 2008, and resigned on 27 October 2008

<sup>6</sup> B Wrixon resigned on 29 June 2009

<sup>7</sup> NC Fearis was appointed as an alternate director for JT Kopcheff on 26 March 2008 and resigned on 19 November 2009

<sup>8</sup> JT Kopcheff retired from the Board as Executive Director on 22 September 2010

<sup>9</sup> Although a value is ascribed and included in the total Key Management Personnel compensation, it should be noted that the directors and executives have not received this amount in cash.

\* Amounts disclosed in Non-monetary benefits include insurance premiums paid by the Group in respect of directors' and officers' liability insurance contracts. The insurance premiums are allocated based on a pro-rata portion of the year for which each individual was employed.

**VICTORIA PETROLEUM N.L. AND ITS CONTROLLED ENTITIES  
DIRECTORS' REPORT**

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**REMUNERATION REPORT (AUDITED) (CONTINUED)**

**Employment contracts**

**IR Davies – Managing Director and Chief Executive Officer**

The Company entered into a new employment contract with Mr IR Davies. The contract allows for remuneration of \$480,000 commencing 19 July 2010. Under the terms of the contract, the Company may terminate the agreement with six months notice. Alternatively, the Company may terminate the agreement immediately if Mr Davies is guilty of serious misconduct. Mr Davies does not have a fixed term of employment with the Company.

Mr Davies' termination provision is as follows:

|                                    | <b>Notice period</b> | <b>Payment in lieu of notice</b> |
|------------------------------------|----------------------|----------------------------------|
| Employer-initiated termination     | 6 months             | 6 months                         |
| Termination for serious misconduct | None                 | None                             |
| Employee-initiated termination     | 3 months             | 3 months                         |

On 9 September 2010, shareholder approval was obtained for the issuance to Mr Davies of 4,000,000 unlisted options at an exercise price of 25.5 cents each. The unlisted options provide for various vesting and expiry dates.

The purpose of the issue of unlisted options to Mr Davies as Managing Director and Chief Executive Officer is to provide Mr Davies with additional incentive to develop the Group and create value for shareholders. The unlisted options will form part of Mr Davies remuneration package.

**JT Kopcheff**

The Company has also entered into an employment contract with Mr JT Kopcheff. The contract allows for remuneration of \$330,000 per annum plus 10% superannuation for a period of three years, commencing 1 January 2009. Under the terms of the contract, the Company may terminate the agreement with one months notice and provide a lump sum payment to Mr Kopcheff equal to the amount that he would have received under the contract, should the contract have continued until the end of its term. Alternatively, the Company may terminate the agreement immediately if Mr Kopcheff is guilty of serious misconduct.

Mr Kopcheff retired from the Board as Executive Director on 22 September 2010. Mr Kopcheff will remain as an employee of the Company. Mr Kopcheff's terms of employment with the Company and his entitlements to the unlisted options and ordinary partly paid shares remain substantially unchanged.

Mr Kopcheff's termination provision is as follows:

|                                    | <b>Notice period</b> | <b>Payment in lieu of notice</b> |
|------------------------------------|----------------------|----------------------------------|
| Employer-initiated termination     | 1 month              | 31 December 2011                 |
| Termination for serious misconduct | None                 | None                             |
| Employee-initiated termination     | 3 months             | 3 months                         |

On 9 September 2010, shareholders approval was obtained for the issuance to Mr JT Kopcheff of 3,000,000 unlisted options at an exercise price of 27 cents each. The unlisted options provide for various vesting and expiry dates.



**VICTORIA PETROLEUM N.L. AND ITS CONTROLLED ENTITIES  
DIRECTORS' REPORT**

---

**REMUNERATION REPORT (AUDITED) (CONTINUED)**

**Employment contracts (Continued)**

**JT Kopcheff (Continued)**

The purpose of the issue of unlisted options to Mr Kopcheff is to recognise and reward Mr Kopcheff's efforts to date on the Group's behalf, as well as to align his interests with those of the shareholders and to provide him with an additional incentive to continue his efforts for the benefit of the Group. Mr Kopcheff was responsible for securing the Group's position in its coal seam gas projects in the Surat Basin and the Cooper Basin oil projects. Mr Kopcheff's role in the Group has changed with the introduction of Mr IR Davies as Managing Director and Chief Executive Officer. The unlisted options form part of Mr Kopcheff's remuneration package.

**General Managers**

Subsequent to 30 June 2010, the Company has also entered into the following employment contracts with the following executives:

- Mr MR Herrington – General Manager Operations; and
- Dr SG Scott – General Manager Exploration.

Under the terms of their contracts, the Company may terminate the agreement with three months notice. Alternatively, the Company may terminate the agreement immediately if Mr Herrington and Dr Scott are guilty of serious misconduct. Mr Herrington and Dr Scott do not have a fixed term of employment with the Company.

Mr Herrington and Dr Scott's termination provision is as follows:

|                                    | <b>Notice period</b> | <b>Payment in lieu of notice</b> |
|------------------------------------|----------------------|----------------------------------|
| Employer-initiated termination     | 3 months             | 3 months                         |
| Termination for serious misconduct | None                 | None                             |
| Employee-initiated termination     | 3 months             | 3 months                         |

The Company also issued 1,000,000 unlisted options to Mr Herrington and Dr Scott respectively on 5 August 2010. The unlisted options issued to Mr Herrington and Dr Scott have various vesting dates, an exercise price of 25.5 cents each and an expiry date of 2 February 2014.

**Partly paid shares**

The Company did not issue partly paid shares to Key Management Personnel in the years ended 30 June 2010 and 30 June 2009.

**VICTORIA PETROLEUM N.L. AND ITS CONTROLLED ENTITIES  
DIRECTORS' REPORT**

**REMUNERATION REPORT (AUDITED) (CONTINUED)**

**Options**

The Company did not issue options to Key Management Personnel in the year ended 30 June 2010. During the year ended 30 June 2009, the following options were granted to Key Management Personnel:

**Table 2: Unlisted options granted as part of remuneration**

|                   | Grant date | Number of options<br>granted during the<br>year | Value of options<br>granted during<br>the year<br>\$ | Remuneration<br>consisting of<br>options for the<br>year<br>% | Value per<br>option at grant<br>date<br>(cents) |
|-------------------|------------|-------------------------------------------------|------------------------------------------------------|---------------------------------------------------------------|-------------------------------------------------|
| <b>Directors</b>  |            |                                                 |                                                      |                                                               |                                                 |
| DF Patten         | 10-Feb-09  | 1,500,000                                       | 171,150                                              | 67.0                                                          | 11.41                                           |
| JT Kopcheff       | 10-Feb-09  | 3,000,000                                       | 342,300                                              | 50.4                                                          | 11.41                                           |
| BM McKeown        | 10-Feb-09  | 1,000,000                                       | 114,100                                              | 80.0                                                          | 11.41                                           |
| RJ Pett           | 10-Feb-09  | 1,000,000                                       | 114,100                                              | 66.6                                                          | 11.41                                           |
| B Wrixon          |            |                                                 |                                                      |                                                               |                                                 |
| <b>Executives</b> |            |                                                 |                                                      |                                                               |                                                 |
| DI Rakich         | 26-Nov-08  | 1,000,000                                       | 33,800                                               | 15.0                                                          | 3.38                                            |
| CM Lane           | 26-Nov-08  | 500,000                                         | 16,900                                               | 6.4                                                           | 3.38                                            |

During the year ended 30 June 2009, the Company issued 9,525,000 unlisted options to directors, executives and employees of Victoria Petroleum N.L. The unlisted options were issued on 18 February 2009, were exercisable from that date, with an exercise price of 25 cents each and an expiry date of 31 January 2012.

There are no performance conditions attached to these unlisted options and thus they all vest on grant date.

**VICTORIA PETROLEUM N.L. AND ITS CONTROLLED ENTITIES  
DIRECTORS' REPORT**

---

**REMUNERATION REPORT (AUDITED) (CONTINUED)**

**Options (Continued)**

The unlisted options issued to directors were granted on 10 February 2009 and have been valued at 11.41 cents each, using the Binomial pricing model, which takes into account the following variables:

|                           |            |
|---------------------------|------------|
| Share price at grant date | 25 cents   |
| Exercise price            | 25 cents   |
| Time to expiry            | 2.20 years |
| Risk free rate            | 2.90%      |
| Share price volatility    | 77.79%     |
| Dividend yield            | 0%         |

The unlisted options issued to executives were granted on 26 November 2008 and have been valued at 3.38 cents each, using the Binomial pricing model, which takes into account the following variables:

|                           |            |
|---------------------------|------------|
| Share price at grant date | 14 cents   |
| Exercise price            | 25 cents   |
| Time to expiry            | 1.70 years |
| Risk free rate            | 3.10%      |
| Share price volatility    | 81.45%     |
| Dividend yield            | 0%         |

The Group does not currently have a policy in place relating to the executives limiting their exposure to risk in relation to the Company's equity instruments.

Signed in accordance with a resolution of the directors.



IR Davies  
Managing Director

Perth, Western Australia  
24 September 2010

VICTORIA PETROLEUM N.L. AND ITS CONTROLLED ENTITIES  
AUDITOR'S INDEPENDENCE DECLARATION

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Auditor's Independence Declaration to the Directors of Victoria  
Petroleum NL

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

*Ernst & Young*

Ernst & Young

*Gavin Buckingham*

Gavin A Buckingham  
Partner  
Perth  
24 September 2010

GBMB:VCPET:064

Liability limited by a scheme approved  
under Professional Standards Legislation

## **VICTORIA PETROLEUM N.L. AND ITS CONTROLLED ENTITIES CORPORATE GOVERNANCE STATEMENT**

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The Board of Directors of Victoria Petroleum N.L. (“the Company” or “the parent entity”) is responsible for the corporate governance of the Group. The Board guides and monitors the business and affairs of the Company on behalf of the shareholders by whom they are elected and to whom they are accountable.

The Board of Directors supports the Principles of Good Corporate Governance and Best Practice Recommendations developed by the ASX Corporate Governance Council (“the Council”). The Company’s practices are largely consistent with the Council’s guidelines, however the Board considers that the implementation of some recommendations are not appropriate given the nature and scale of the Company’s activities and size of the Board.

The following Corporate Governance Statement should be read in conjunction with the Directors’ Report on pages 4 to 28.

### **PRINCIPLE 1 – LAY SOLID FOUNDATIONS FOR MANAGEMENT AND OVERSIGHT**

#### **BOARD RESPONSIBILITIES**

To ensure the Board is well equipped to discharge its responsibilities, it has established guidelines for the nomination and selection of the directors and for the operation of the Board.

Whilst not formally documented, the Board recognises and acknowledges that it acts on behalf of and is accountable to the shareholders. The Board seeks to identify the expectations of the shareholders, as well as other regulatory and ethical expectations and obligations. In addition, the Board is responsible for identifying areas of significant business risk and ensuring arrangements are in place to adequately manage those risks. The Board seeks to discharge these responsibilities in a number of ways.

The responsibility for the operation and administration of the Group is delegated by the Board to the Managing Director and the executive team. The Board ensures that this team is appropriately qualified and experienced to discharge their responsibilities and regularly reviews and assesses the performance of the Managing Director and the executive team.

The Board is responsible for ensuring that management’s objectives and activities are aligned with the expectations and risk identified by the Board. The Board has a number of mechanisms in place to ensure this is achieved. These mechanisms include the following:

- implementation of operating plans and budgets by management and Board monitoring of progress against budget. This includes the establishment and monitoring of key performance indicators (both financial and non-financial) for all significant business processes; and
- procedures to allow directors, in the furtherance of their duties, to seek independent professional advice at the Company’s expense.

**VICTORIA PETROLEUM N.L. AND ITS CONTROLLED ENTITIES  
CORPORATE GOVERNANCE STATEMENT**

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**PRINCIPLE 2 – STRUCTURE THE BOARD TO ADD VALUE**

**COMPOSITION OF THE BOARD**

The composition of the Board is determined in accordance with the following principles and guidelines:

- the Board shall comprise of at least four directors and should maintain a majority of non-executive independent directors;
- the chairperson must be a non-executive independent director;
- the Board should comprise of directors with an appropriate range of qualifications and experience; and
- the Board shall meet at least bi-monthly and following meeting guidelines set down to ensure all directors are made aware of, and have available all necessary information, to participate in an informed discussion of all agenda items.

The directors in office at the date of this statement are:

| <b>Name</b> | <b>Position</b>                                                              |
|-------------|------------------------------------------------------------------------------|
| DF Patten   | Chairman, Independent Non-Executive Director                                 |
| IR Davies   | Managing Director and Chief Executive Officer<br>(appointed on 19 July 2010) |
| RJ Pett     | Independent Non-Executive Director                                           |
| BM McKeown  | Non-Executive Director                                                       |

The Directors acknowledge that the Board does not have a majority of independent directors. The Board has considered this position, and is satisfied that shareholders can be confident that board decisions will continue to be made with the requisite level of independence. The Directors will continue to review the composition of the Board as the Company grows, and appoint independent directors with the requisite skills as appropriate. Details in relation to the Directors skills, experience and expertise relevant to the position of director are detailed in this Directors' Report.

**INDEPENDENCE**

An independent director, in the view of the Company, is a non-executive director who is not a member of management and who is free of any business or other relationship that could materially interfere with, or could reasonably be perceived to materially interfere with, the independent exercise of their judgement.

In determining the independent status of a director, the Board considers whether the director:

- is a substantial shareholder of the Company or an officer of, or otherwise associated directly with, a substantial shareholder of the Company;
- is employed, or has previously been employed, in an executive capacity by the Company or another group member, and there has not been a period of at least three years between ceasing such employment and serving on the Board;
- has within the last 3 years been a principal of a material professional adviser or a material consultant to the Company or another group member, or an employee materially associated with the service provided;
- is a material supplier or customer of the Company or other group member, or an officer of or otherwise associated directly or indirectly with a material supplier or customer; and
- has a material contractual relationship with the Company or another group member other than as a director.

## **VICTORIA PETROLEUM N.L. AND ITS CONTROLLED ENTITIES CORPORATE GOVERNANCE STATEMENT**

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### **PRINCIPLE 2 – STRUCTURE THE BOARD TO ADD VALUE (CONTINUED)**

#### **NOMINATION COMMITTEE**

The Group does not have a formally appointed nomination committee, as the directors believe the size of the Group's operations do not warrant the establishment of such a committee.

The Board is responsible for devising criteria for Board membership, reviewing the need for various skills and experience on the Board, identifying specific individuals for nomination as directors and overseeing Board and executive succession planning.

#### **PERFORMANCE REVIEW AND EVALUATION**

It is the policy of the Board to ensure that the directors and executives of the Company are equipped with the knowledge and information they need to discharge their responsibilities effectively. The performance of all directors and executives is reviewed annually by the chairman. Although the Company is not of a size to warrant the development of formal performance review processes, there is on-going monitoring by the chairman and the Board. The Chairman also speaks to directors on an individual basis regarding their role as a director.

Directors whose performance is unsatisfactory may be asked to retire. The Board has not formally documented the results of performance evaluations to date.

### **PRINCIPLE 3 – PROMOTE ETHICAL AND RESPONSIBLE DECISION-MAKING**

#### **CODE OF CONDUCT**

Due to the size and nature of the operations of the Group, it does not have a formally documented code of conduct for its directors and executives. Despite this, the Board maintains high standards of ethical responsible decision making, recognising legitimate interests of all stakeholders.

#### **SECURITIES DEALINGS AND DISCLOSURES**

The Company has a securities trading policy that regulates directors, executives and employees ("Personnel") dealing in its securities. The Board restricts Personnel from acting on material information until it has been released to the market and adequate time has been given for this to be reflected in the security price. The Personnel are required to consult the Chairman, prior to dealing in securities in the Company or other companies in which the Company has a relationship.

Dealings are not permitted at any time whilst in the possession of price sensitive information not already available to the market. In addition, the *Corporations Act 2001* prohibits the purchase or sale of securities whilst a person is in possession of inside information.

In addition to the overriding prohibition on dealing when a person is in possession of Inside Information, the Personnel and their associated parties are prohibited from dealing in the Company's securities at all times except for:

- the period of 14 days commencing two business days after lodgement with the ASX of the Company's annual, half yearly and quarterly reports;
- the period of 14 days commencing two business days after lodgement by the Company with ASX of a significant ASX release; and
- such other times as the Board of the Company permits.

As required by the ASX Listing Rules, the Company notifies the ASX of any transaction conducted by directors in the securities of the Company.

**VICTORIA PETROLEUM N.L. AND ITS CONTROLLED ENTITIES  
CORPORATE GOVERNANCE STATEMENT**

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**PRINCIPLE 3 – PROMOTE ETHICAL AND RESPONSIBLE DECISION-MAKING  
(CONTINUED)**

**CONFLICTS OF INTEREST**

To ensure that directors are at all times acting in the interests of the Company, directors must disclose to the Board actual or potential conflicts of interest that may or might reasonably be thought to exist between the interest of the director and the interests of any other parties in carrying out the activities of the Company.

If a director cannot, or is unwilling to remove a conflict of interest, then the director must, as per the *Corporations Act 2001*, absent himself from the room when Board discussion and / or voting occurs on matters about which the conflict relates (save with the approval of the remaining directors and subject to the *Corporations Act 2001*.)

**PRINCIPLE 4 – SAFEGUARD INTEGRITY IN FINANCIAL REPORTING**

**AUDIT COMMITTEE**

The Group does not have a formally appointed audit committee; as the directors believe the size of the Group's operations do not currently warrant the establishment of such a committee.

It is the responsibility of the Board to ensure that an effective internal control framework exists within the Group. This includes internal controls to deal with both the effectiveness and efficiency of significant business processes. This also includes the safeguarding of assets, the maintenance of proper accounting records, and the reliability of financial information.

**PRINCIPLE 5 – MAKE TIMELY AND BALANCED DISCLOSURE**

**ASX LISTING RULE COMPLIANCE**

The Board has designated the Company Secretary as the person responsible for ensuring the Company is in compliance with the ASX Listing Rules.

**CONTINUOUS DISCLOSURE TO ASX**

The Board has designated the Company Secretary as the person responsible for overseeing and coordinating disclosure of information to the ASX as well as communicating with the ASX. In accordance with the ASX Listing Rules, the Company immediately notifies the ASX of information:

- concerning the Company that a reasonable person would expect to have a material effect on the price or value of the Company's securities; and
- that would, or would be likely to, influence persons who commonly invest in securities in deciding whether to acquire or dispose of the Company's securities.



**VICTORIA PETROLEUM N.L. AND ITS CONTROLLED ENTITIES  
CORPORATE GOVERNANCE STATEMENT**

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**PRINCIPLE 6 – RESPECT THE RIGHTS OF SHAREHOLDERS**

**COMMUNICATIONS**

The Board recognises its duty to ensure that its shareholders are informed of all major developments affecting the Company's state of affairs. Information is communicated to shareholders and the market through:

- The Annual Report, which is distributed to shareholders if they have elected to receive a printed version and otherwise available for viewing and downloading from the Company's website;
- The Annual General Meeting and other general meetings called to obtain shareholder approvals as appropriate;
- The Quarterly Reports and Half-Yearly Directors' and Financial Reports which are posted on to the Company's website; and
- Other announcements released to the ASX as required under the continuous disclosure requirements of the ASX Listing Rules and other information that may be mailed to shareholders, which are posted on to the Company's website.

The Company actively promotes communication with shareholders through a variety of measures, including the use of the Company's website and email. The Company's reports and ASX announcements may be viewed and downloaded from its website: [www.vicpet.com.au](http://www.vicpet.com.au) or the ASX website: [www.asx.com.au](http://www.asx.com.au) under ASX code "VPE." The Company also maintains an email list for the distribution of the Company's announcements via email in a timelier manner.

**PRINCIPLE 7 – RECOGNISE AND MANAGE RISK**

**RISK ASSESSMENT AND MANAGEMENT**

The Board is responsible for ensuring there are adequate policies in relation to risk management, compliance and internal control system. The Board requires the directors and executives to design and implement the risk management and internal control system to manage the Company, and to report to the Board.

The Group's policies are designed to ensure strategic, operational, legal, reputation and financial risk are identified, assessed effectively and efficiently managed and monitored to enable achievement of the Group's business objective.

The Board has determined that the Managing Director and the Company Secretary are the appropriate persons to make the chief executive and chief financial equivalent declarations respectively, in respect of the year ended 30 June 2010, on the risk management and internal compliance and control systems recommended by the Council.

Considerable importance is placed on maintaining a strong control environment. There is an organisation structure with clearly drawn lines of accountability and delegation of authority.

**VICTORIA PETROLEUM N.L. AND ITS CONTROLLED ENTITIES  
CORPORATE GOVERNANCE STATEMENT**

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**CORPORATE REPORTING**

The Company Secretary has made the following assertions to the Board:

- that the Group's financial reports are complete and present a true and fair view, in all material respects, of the financial condition and operational results of the Group and are in accordance with relevant accounting standards; and
- that the above statement is founded on a sound system of risk management and internal compliance and control, which implements the policies adopted by the Board and that the Group's risk management and internal compliance and control is operating efficiently and effectively in all material respects.

**PRINCIPLE 8 – REMUNERATE FAIRLY AND RESPONSIBLY**

**REMUNERATION COMMITTEE**

Due to the nature and size of the Group's operations, the directors do not believe the establishment of a remuneration committee is warranted.

The Board is responsible for determining and reviewing compensation arrangements for the directors. In determining the appropriate remuneration arrangements for directors, the Board considers the following guidelines:

- Non-executive directors are remunerated by way of fees, in the form of cash, non-cash benefits and superannuation contributions;
- Non-executive directors should not receive options or bonus payments; and
- Non-executive directors should not be provided with retirement benefits other than superannuation.

The board currently considers the grant of the options reasonable given the Company's size and stage of development and the necessity to attract and retain the highest calibre of professionals to the role whilst conserving the Company's cash reserves. Further detail in relation to the Company's remuneration policies can be found in the Remuneration Report contained within the Directors' Report.

**VICTORIA PETROLEUM N.L. AND ITS CONTROLLED ENTITIES**  
**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**  
**AS AT 30 JUNE 2010**

|                                                           |             | <b>Consolidated</b> |                   |
|-----------------------------------------------------------|-------------|---------------------|-------------------|
|                                                           |             | <b>2010</b>         | <b>2009</b>       |
|                                                           | <b>Note</b> | <b>\$</b>           | <b>\$</b>         |
| <b>ASSETS</b>                                             |             |                     |                   |
| <b>Current Assets</b>                                     |             |                     |                   |
| Cash and cash equivalents                                 | 11          | 16,791,150          | 18,289,877        |
| Term deposits                                             | 12          | 20,000,000          | -                 |
| Prepayments                                               | 13          | 1,130,000           | -                 |
| Trade and other receivables                               | 14          | 1,895,528           | 1,858,134         |
| Held-for-trading financial assets                         | 15          | 356,030             | 218,473           |
|                                                           |             | 40,172,708          | 20,366,484        |
| Assets of disposal group classified as held for sale      |             | -                   | 1,490,480         |
| <b>Total Current Assets</b>                               |             | <b>40,172,708</b>   | <b>21,856,964</b> |
| <b>Non-current Assets</b>                                 |             |                     |                   |
| Trade and other receivables                               | 16          | 99,750              | 99,816            |
| Available-for-sale financial assets                       | 17          | 5,096,667           | 519,920           |
| Property, plant and equipment                             | 18          | 17,246              | 5,213             |
| Exploration assets                                        | 21          | 984,843             | -                 |
| Oil and gas properties                                    | 20          | 27,601,120          | 7,752,655         |
| <b>Total Non-current Assets</b>                           |             | <b>33,799,626</b>   | <b>8,377,604</b>  |
| <b>TOTAL ASSETS</b>                                       |             | <b>73,972,334</b>   | <b>30,234,568</b> |
| <b>LIABILITIES</b>                                        |             |                     |                   |
| <b>Current Liabilities</b>                                |             |                     |                   |
| Trade and other payables                                  | 22          | 3,060,193           | 1,560,294         |
| Provisions                                                | 23          | 208,451             | 174,105           |
|                                                           |             | 3,268,644           | 1,734,399         |
| Liabilities of disposal group classified as held for sale |             | -                   | 1,046,820         |
| <b>Total Current Liabilities</b>                          |             | <b>3,268,644</b>    | <b>2,781,219</b>  |
| <b>Non-current Liabilities</b>                            |             |                     |                   |
| Trade and other payables                                  |             | -                   | -                 |
| Provisions                                                | 24          | 2,120,368           | 1,752,505         |
| <b>Total Non-current Liabilities</b>                      |             | <b>2,120,368</b>    | <b>1,752,505</b>  |
| <b>TOTAL LIABILITIES</b>                                  |             | <b>5,389,012</b>    | <b>4,533,724</b>  |
| <b>NET ASSETS</b>                                         |             | <b>68,583,322</b>   | <b>25,700,844</b> |
| <b>EQUITY</b>                                             |             |                     |                   |
| Contributed equity                                        | 25          | 151,266,106         | 110,018,067       |
| Reserves                                                  | 26          | 1,653,781           | 2,608,634         |
| Accumulated losses                                        | 27          | (84,336,565)        | (86,925,857)      |
| <b>TOTAL EQUITY</b>                                       |             | <b>68,583,322</b>   | <b>25,700,844</b> |

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

**VICTORIA PETROLEUM N.L. AND ITS CONTROLLED ENTITIES**  
**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**  
**FOR THE YEAR ENDED 30 JUNE 2010**

|                                                                                                                                          |             | <b>Consolidated</b> |                    |
|------------------------------------------------------------------------------------------------------------------------------------------|-------------|---------------------|--------------------|
|                                                                                                                                          |             | <b>2010</b>         | <b>2009</b>        |
|                                                                                                                                          | <b>Note</b> | <b>\$</b>           | <b>\$</b>          |
| <b>Continuing operations</b>                                                                                                             |             |                     |                    |
| Revenue                                                                                                                                  | 6(a)        | 13,188,194          | 11,602,749         |
| Cost of sales                                                                                                                            | 6(c)        | (5,429,245)         | (5,186,605)        |
| <b>Gross profit / (loss)</b>                                                                                                             |             | <b>7,758,949</b>    | <b>6,416,144</b>   |
| Other income                                                                                                                             | 6(b)        | 160,017             | 896,133            |
| Oil and gas exploration expenses                                                                                                         |             | (2,392,512)         | (6,068,636)        |
| Reversal of impairment / (Impairment) of oil and gas properties                                                                          | 7(b)        | 99,535              | (575,853)          |
| General and administrative expenses                                                                                                      | 7(c)        | (3,061,084)         | (4,856,214)        |
| <b>Profit / (Loss) from continuing operations before tax</b>                                                                             |             | <b>2,564,905</b>    | <b>(4,188,426)</b> |
| Income tax benefit / (expense)                                                                                                           | 8           | (101,615)           | 55,869             |
| <b>Profit / (Loss) from continuing operations after tax</b>                                                                              |             | <b>2,463,290</b>    | <b>(4,132,557)</b> |
| <b>Discontinued operations</b>                                                                                                           |             |                     |                    |
| Gain / (Loss) from discontinued operations after tax                                                                                     | 33          | 126,002             | (4,496,333)        |
| <b>Net profit / (loss) for the period attributable to owners of the parent entity</b>                                                    |             | <b>2,589,292</b>    | <b>(8,628,890)</b> |
| <b>Other comprehensive income</b>                                                                                                        |             |                     |                    |
| Foreign currency translation movements                                                                                                   |             | (269,662)           | 1,395,897          |
| Movements in fair value of available-for-sale financial assets                                                                           |             | (685,191)           | 130,361            |
| <b>Other comprehensive income / (loss) for the period, net of tax</b>                                                                    |             | <b>(954,853)</b>    | <b>1,526,258</b>   |
| <b>Total comprehensive income / (loss) for the period attributable to owners of parent entity</b>                                        |             | <b>1,634,439</b>    | <b>(7,102,632)</b> |
| <b>Earnings per share from continuing operations attributable to the ordinary equity holders of the parent entity (cents per share):</b> |             |                     |                    |
| Basic earnings / (loss) per share                                                                                                        | 10          | 1.03                | (1.19)             |
| Diluted earnings / (loss) per share                                                                                                      | 10          | 1.02                | (1.19)             |
| <b>Earnings per share attributable to the ordinary equity holders of the parent entity (cents per share):</b>                            |             |                     |                    |
| Basic earnings / (loss) per share                                                                                                        | 10          | 1.09                | (2.48)             |
| Diluted earnings / (loss) per share                                                                                                      | 10          | 1.08                | (2.48)             |

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

**VICTORIA PETROLEUM N.L. AND ITS CONTROLLED ENTITIES**  
**CONSOLIDATED CASH FLOW STATEMENT**  
**FOR THE YEAR ENDED 30 JUNE 2010**

|                                                                        |             | <b>Consolidated</b> |                    |
|------------------------------------------------------------------------|-------------|---------------------|--------------------|
|                                                                        |             | <b>2010</b>         | <b>2009</b>        |
|                                                                        | <b>Note</b> | <b>\$</b>           | <b>\$</b>          |
| <b>Cash flows from operating activities</b>                            |             |                     |                    |
| Receipts from customers                                                |             | 11,871,074          | 11,100,422         |
| Payments to suppliers and employees                                    |             | (7,491,034)         | (8,480,234)        |
| Payments for exploration expenditure                                   |             | (1,906,362)         | (6,041,043)        |
| Interest received                                                      |             | 709,962             | 831,959            |
| Fees received for technical services                                   |             | 1,456,109           | 1,277,884          |
| Other receipts                                                         |             | 17,320              | -                  |
| <b>Net cash flows from operating activities</b>                        | <b>28</b>   | <b>4,657,069</b>    | <b>(1,311,012)</b> |
| <b>Cash flows from investing activities</b>                            |             |                     |                    |
| Payment for oil and gas properties                                     |             | (16,723,894)        | (5,922,725)        |
| Purchase of property, plant and equipment                              |             | (19,679)            | (4,014)            |
| Purchase of available-for-sale financial assets                        |             | (5,397,242)         | -                  |
| Payment for exploration assets                                         |             | (984,843)           | -                  |
| Proceeds from disposal of controlled entities, net of cash disposed of | <b>33</b>   | 248,533             | -                  |
| Proceeds from disposal of available-for-sale investments               |             | 56,150              | 49,696             |
| Term deposit placements                                                |             | (20,000,000)        | -                  |
| <b>Net cash flows from investing activities</b>                        |             | <b>(42,820,975)</b> | <b>(5,877,043)</b> |
| <b>Cash flows from financing activities</b>                            |             |                     |                    |
| Proceeds from share issues                                             |             | 37,914,021          | 6,757,291          |
| Payments of transaction costs of issue of shares                       |             | (1,150,982)         | (62,514)           |
| <b>Net cash flows from financing activities</b>                        |             | <b>36,763,039</b>   | <b>6,694,777</b>   |
| Net (decrease) / increase in cash and cash equivalents                 |             | (1,400,867)         | (493,278)          |
| Net foreign exchange differences                                       |             | (149,327)           | 1,164,387          |
| Cash and cash equivalents at the beginning of the year                 |             | 18,341,344          | 17,670,235         |
| <b>Cash and cash equivalents at the end of the year</b>                | <b>11</b>   | <b>16,791,150</b>   | <b>18,341,344</b>  |

The consolidated Cash Flow Statement should be read in conjunction with the accompanying notes.

**VICTORIA PETROLEUM N.L. AND ITS CONTROLLED ENTITIES**  
**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**  
**FOR THE YEAR ENDED 30 JUNE 2010**

The following table presents the consolidated Statement of Changes in Equity for the year ended 30 June 2010:

|                                                               | Consolidated       |                     |                                      |                              |                                      |                   |
|---------------------------------------------------------------|--------------------|---------------------|--------------------------------------|------------------------------|--------------------------------------|-------------------|
|                                                               | Contributed equity | Accumulated losses  | Foreign currency translation reserve | Share based payments reserve | Net unrealised gain / (loss) reserve | Total             |
|                                                               | \$                 | \$                  | \$                                   | \$                           | \$                                   | \$                |
| <b>Balance at 1 July 2009</b>                                 | 110,018,067        | (86,925,857)        | 269,662                              | 2,101,870                    | 237,102                              | 25,700,844        |
| Profit / (Loss) for the year                                  | -                  | 2,589,292           | -                                    | -                            | -                                    | 2,589,292         |
| Other comprehensive income                                    | -                  | -                   | (269,662)                            | -                            | (685,191)                            | (954,853)         |
| <b>Total comprehensive income</b>                             | -                  | <b>2,589,292</b>    | <b>(269,662)</b>                     | -                            | <b>(685,191)</b>                     | <b>1,634,439</b>  |
| <b>Transactions with owners, recorded directly in equity:</b> |                    |                     |                                      |                              |                                      |                   |
| Issue of share capital                                        | 42,399,021         | -                   | -                                    | -                            | -                                    | 42,399,021        |
| Share issue costs, net of tax                                 | (1,150,982)        | -                   | -                                    | -                            | -                                    | (1,150,982)       |
| <b>Balance at 30 June 2010</b>                                | <b>151,266,106</b> | <b>(84,336,565)</b> | -                                    | <b>2,101,870</b>             | <b>(448,089)</b>                     | <b>68,583,322</b> |

**VICTORIA PETROLEUM N.L. AND ITS CONTROLLED ENTITIES**  
**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**  
**FOR THE YEAR ENDED 30 JUNE 2010**

The following table presents the consolidated Statement of Changes in Equity for the year ended 30 June 2009:

|                                                               | Contributed equity | Accumulated losses  | Consolidated<br>Foreign<br>currency<br>translation<br>reserve | Share based<br>payments<br>reserve | Net unrealised<br>gain / (loss)<br>reserve | Total              |
|---------------------------------------------------------------|--------------------|---------------------|---------------------------------------------------------------|------------------------------------|--------------------------------------------|--------------------|
|                                                               | \$                 | \$                  | \$                                                            | \$                                 | \$                                         | \$                 |
| <b>Balance at 1 July 2008</b>                                 | <b>103,307,256</b> | <b>(78,296,967)</b> | <b>(1,126,235)</b>                                            | <b>1,177,675</b>                   | <b>106,741</b>                             | <b>25,168,470</b>  |
| Profit / (Loss) for the year                                  | -                  | (8,628,890)         | -                                                             | -                                  | -                                          | (8,628,890)        |
| Other comprehensive income                                    | -                  | -                   | 1,395,897                                                     | -                                  | 130,361                                    | 1,526,258          |
| <b>Total comprehensive income</b>                             | <b>-</b>           | <b>(8,628,890)</b>  | <b>1,395,897</b>                                              | <b>-</b>                           | <b>130,361</b>                             | <b>(7,102,632)</b> |
| <b>Transactions with owners, recorded directly in equity:</b> |                    |                     |                                                               |                                    |                                            |                    |
| Issue of share capital                                        | 6,757,291          | -                   | -                                                             | -                                  | -                                          | 6,757,291          |
| Share issue costs, net of tax                                 | (46,480)           | -                   | -                                                             | -                                  | -                                          | (46,480)           |
| Share based payment                                           | -                  | -                   | -                                                             | 924,195                            | -                                          | 924,195            |
| <b>Balance at 30 June 2009</b>                                | <b>110,018,067</b> | <b>(86,925,857)</b> | <b>269,662</b>                                                | <b>2,101,870</b>                   | <b>237,102</b>                             | <b>25,700,844</b>  |

**VICTORIA PETROLEUM N.L. AND ITS CONTROLLED ENTITIES**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2010**

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**NOTE 1:**  
**CORPORATE INFORMATION**

The financial report of Victoria Petroleum N.L. ("the Company" or "the parent entity") and its controlled entities / subsidiaries (collectively known as "the Group") for the year ended 30 June 2010 was authorised for issue in accordance with a resolution of the directors on 24 September 2010.

Victoria Petroleum N.L. is a company limited by shares incorporated in Australia whose shares are publicly traded on the Australian Securities Exchange (ASX code: VPE).

The principal activities during the year of entities within the Group were oil and gas exploration and production.

**NOTE 2:**  
**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**(a) Basis of preparation**

The financial report is a general-purpose financial report, which has been prepared in accordance with the requirements of the Corporations Act 2001, Australian Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards Board. The financial report has also been prepared on a historical cost basis, except for investments held for trading and available-for-sale investments, which have been measured at fair value.

The financial report is presented in Australian dollars (\$).

**(b) Compliance with IFRS**

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

**(c) New accounting standards and interpretations**

From 1 July 2009 the Group has adopted the following Standards and Interpretations, mandatory for annual periods beginning on or after 1 July 2009. Adoption of these standards and interpretations did not have any effect on the financial position or performance of the Group.

- AASB 3 Business Combinations (revised 2008)
- AASB 7 Financial Instruments: Disclosures
- AASB 8 and AASB 2007-3 Operating Segments and Consequential Amendments to other Australian Accounting Standards
- AASB 101 (Revised), AASB 2007-8 and AASB 2007-10 Presentation of Financial Statements and Consequential Amendments to other Australian Accounting Standards
- AASB 2008-1 Amendments to Australian Accounting Standards – Share-based Payments: Vesting Conditions and Cancellations
- AASB 127 Consolidated and Separate Financial Statements (revised 2008)
- AASB 2008-3 Amendments to Australian Accounting Standards arising from AASB 3 and AASB 127
- AASB 2008-5 Amendments to Australian Accounting Standards arising from the Annual Improvements Project



**VICTORIA PETROLEUM N.L. AND ITS CONTROLLED ENTITIES**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2010**

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**NOTE 2:**  
**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**(c) New accounting standards and interpretations (Continued)**

- AASB 2008-6 Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project [AASB 1 & AASB 5]
- AASB 2008-7 Amendments to Australian Accounting Standards – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate
- AASB 2008-8 Amendments to Australian Accounting Standards – Eligible Hedged Items
- AASB 2009-2 Amendments to Australian Accounting Standards – Improving Disclosures about Financial Instruments
- AASB 2009-4 Amendments to Australian Accounting Standards arising from the Annual Improvements Project
- AASB 2009-7 Amendments to Australian Accounting Standards

The Group has not elected to early adopt any new standards or amendments.

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

**AASB 7 Financial Instruments: Disclosures**

The amended standard requires additional disclosures about fair value measurement and liquidity risk. Fair value measurements related to all financial instruments recognised and measured at fair value are to be disclosed by source of inputs using a three level fair value hierarchy, by class.

**AASB 8 Operating Segments**

AASB 8 replaced AASB 114 Segment Reporting upon its effective date. The Group concluded that the operating segments determined in accordance with AASB 8 are the same as the business segments previously identified under AASB 114. AASB 8 disclosures are shown in note 29.

**AASB 101 (Revised) Presentation of Financial Statements**

The revised Standard separates owner and non-owner changes in equity. The statement of changes in equity includes only details of transaction with owners, with non-owner changes in equity presented in a reconciliation of each component of equity included in the new statement of comprehensive income. The statement of comprehensive income presents all items of recognised income and expense, either in on single statement, or in two linked statements. The Group has elected to present 1 statement.

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet effective have not been adopted by the Group for the period ended 30 June 2010. These are outlined in the table below:

**VICTORIA PETROLEUM N.L. AND ITS CONTROLLED ENTITIES**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2010**

**NOTE 2:**  
**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

| Reference   | Title                                                                                                                                | Summary                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              | Application date of standard | Application date for Group |
|-------------|--------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------|----------------------------|
| AASB 2009-5 | Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project [AASB 5,8,101,117,118, 136 & 139] | <p>The amendments to some Standards result in accounting changes for presentation, recognition or measurement purposes, while some amendments that relate to terminology and editorial changes are expected to have no or minimal effect on accounting except for the following:</p> <p>The amendment to AASB 117 removes the specific guidance on classifying land as lease so that only the general guidance remains. Assessing land leases based on the general criteria may result in more land leases being classified as finance leases and if so, the type of asset which is to be recorded (intangible vs. property, plant and equipment) needs to be determined.</p> <p>The amendment to AASB 101 stipulates that the terms of a liability that could result, at anytime, in its settlement by the issuance of equity instruments at the option of the counterparty do not affect its classification.</p> <p>The amendment to AASB 107 explicitly states that only expenditure that results in a recognised asset can be classified as a cash flow from investing activities.</p> <p>The amendment to AASB 118 provides additional guidance to determine whether an entity is acting as a principal or as an agent. The features indicating an entity is acting as a principal are whether the entity:</p> <ul style="list-style-type: none"> <li>• has primary responsibility for providing the goods or service;</li> <li>• has inventory risk;</li> <li>• has discretion in establishing prices;</li> <li>• bears the credit risk.</li> </ul> <p>The amendment to AASB 136 clarifies that the largest unit permitted for allocating goodwill acquired in a business combination is the operating segment, as defined in IFRS 8 before aggregation for reporting purposes.</p> <p>The main change to AASB 139 clarifies that a prepayment option is considered closely related to the host contract when the exercise price of a prepayment option reimburses the lender up to the approximate present value of lost interest for the remaining term of the host contract. The other changes clarify the scope exemption for business combination contracts and provide clarification in relation to accounting for cash flow hedges.</p> | 1 January 2010               | 1 July 2010                |

**VICTORIA PETROLEUM N.L. AND ITS CONTROLLED ENTITIES**  
**NOTES TO THE FINANCIAL STATEMENTS**  
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**NOTE 2:**  
**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

| Reference         | Title                                                                                                                                                                     | Summary                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            | Application date of standard | Application date for Group |
|-------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------|----------------------------|
| AASB 2009-11      | Amendments to Australian Accounting Standards arising from AASB 9 [AASB 1,3,4,5,7,101, 102,108,112,118,121, 127,128,131,132,136, 1023 & 1038 and Interpretations 10 & 12] | <p>The revised Standard introduces a number of changes to the accounting for financial assets, the most significant of which includes:</p> <ul style="list-style-type: none"> <li>• Two categories for financial assets being amortised cost or fair value</li> <li>• Removal of the requirement to separate embedded derivatives in financial assets</li> <li>• Strict requirements to determine which financial assets can be classified as amortised cost or fair value. Financial assets can only be classified as amortised cost if: <ul style="list-style-type: none"> <li>(a) the contractual cash flows from the instrument represent principal and interest; and</li> <li>(b) the entity's purpose for holding the instrument is to collect the contractual cash flows</li> </ul> </li> <li>• an option for investments in equity instruments which are not held for trading to recognise fair value changes through other comprehensive income with no impairment testing and no recycling through profit or loss on derecognition</li> <li>• reclassifications between amortised cost and fair value no longer permitted unless the entity's business model for holding the asset changes</li> <li>• changes to the accounting and additional disclosures for equity instruments classified as fair value through other comprehensive income</li> </ul> | 1 January 2013               | 1 July 2013                |
| AASB 2009-12      | Amendments to Australian Accounting Standard [AASB 5,8,108,110,112, 119,133,137,139,1023 & 1031 and Interpretations 2,4,16,1039 & 1052]                                   | <p>This amendment makes numerous editorial changes to a range of Australian Accounting Standards and Interpretations.</p> <p>The amendments to AASB 124 clarifies and simplifies the definition of a related party as well as providing some relief for government-related entities (as defined in the amended standard) to disclose details of all transactions with other government-related entities (as well as with the government itself)</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                | 1 January 2011               | 1 July 2011                |
| Interpretation 19 | Interpretation 19 Extinguishing Financial Liabilities with Equity Instruments                                                                                             | <p>This interpretation clarifies that equity instruments issued to a creditor to extinguish a financial liability are "consideration paid" in accordance with paragraph 41 of IAS 39. As a result, the financial liability is derecognised and the equity instruments issued are treated as consideration paid to extinguish that financial liability.</p> <p>The interpretation states that equity instruments issued in a debt for equity swap should be measured at the fair value of the equity instruments issued, if this can be determined reliably. If the fair value of the equity instruments issued is not reliably determinable, the equity instruments should be measured by reference to the fair value of the financial liability extinguished as of the date of extinguishment.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                | 1 July 2010                  | 1 July 2010                |

**VICTORIA PETROLEUM N.L. AND ITS CONTROLLED ENTITIES**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2010**

**NOTE 2:**  
**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

| Reference   | Title                                                                                                                                                          | Summary                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     | Application date of standard | Application date for Group |
|-------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------|----------------------------|
| AASB 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] | <p>Limits the scope of the measurement choices of non-controlling interest at proportionate share of net assets in the event of liquidation. Other components of NCI are measured at fair value.</p> <p>Requires an entity (in a business combination) to account for the replacement of the acquiree's share-based payment transactions (whether obliged or voluntarily), i.e., split between consideration and post combination expenses.</p> <p>Clarifies that contingent consideration from a business combination that occurred before the effective date of AASB 3 Revised is not restated.</p> <p>Eliminates the requirement to restate financial statements for a reporting period when significant influence or joint control is lost and the reporting entity accounts for the remaining investment under AASB 139. This includes the effect on accumulated foreign exchange differences on such investments.</p> | 1 July 2010                  | 1 July 2010                |
| AASB 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>Emphasises the interaction between quantitative and qualitative AASB 7 disclosures and the nature and extent of risks associated with financial instruments.</p> <p>Clarifies that an entity will present an analysis of other comprehensive income for each component of equity, either in the statement of changes in equity or in the notes to the financial statements.</p> <p>Provides guidance to illustrate how to apply disclosure principles in AASB 134 for significant events and transactions</p> <p>Clarify that when the fair value of award credits is measured based on the value of the awards for which they could be redeemed, the amount of discounts or incentives otherwise granted to customers not participating in the award credit scheme, is to be taken into account.</p>                                                                                                                    | 1 January 2011               | 1 July 2011                |

**VICTORIA PETROLEUM N.L. AND ITS CONTROLLED ENTITIES**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2010**

**NOTE 2:**  
**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

| Reference | Title                 | Summary                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        | Application date of standard | Application date for Group |
|-----------|-----------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------|----------------------------|
| AASB 9    | Financial Instruments | <p>AASB 9 includes requirements for the classification and measurement of financial assets resulting from the first part of Phase 1 of the IASB's project to replace IAS 39 Financial Instruments: Recognition and Measurement (AASB 139 Financial Instruments: Recognition and Measurement).</p> <p>These requirements improve and simplify the approach for classification and measurement of financial assets compared with the requirements of AASB 139. The main changes from AASB 139 are described below.</p> <p>(a) Financial assets are classified based on (1) the objective of the entity's business model for managing the financial assets; (2) the characteristics of the contractual cash flows. This replaces the numerous categories of financial assets in AASB 139, each of which had its own classification criteria.</p> <p>(b) AASB 9 allows an irrevocable election on initial recognition to present gains and losses on investments in equity instruments that are not held for trading in other comprehensive income. Dividends in respect of these investments that are a return on investment can be recognised in profit or loss and there is no impairment or recycling on disposal of the instrument.</p> <p>Financial assets can be designated and measured at fair value through profit or loss at initial recognition if doing so eliminates or significantly reduces a measurement or recognition inconsistency that would arise from measuring assets or liabilities, or recognising the gains and losses on them, on different bases.</p> | 1 January 2013               | 1 July 2013                |

**VICTORIA PETROLEUM N.L. AND ITS CONTROLLED ENTITIES**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2010**

**NOTE 2:**  
**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

| Reference          | Title                                     | Summary                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              | Application date of standard | Application date for Group |
|--------------------|-------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------|----------------------------|
| AASB 124 (Revised) | Related Party Disclosures (December 2009) | <p>The revised AASB 124 simplifies the definition of a related party, clarifying its intended meaning and eliminating inconsistencies from the definition, including:</p> <ul style="list-style-type: none"> <li>(a) the definition now identifies a subsidiary and an associate with the same investor as related parties of each other;</li> <li>(b) entities significantly influenced by one person and entities significantly influenced by a close member of the family of that person are no longer related parties of each other; and</li> <li>(c) the definition now identifies that, whenever a person or entity has both joint control over a second entity and joint control or significant influence over a third party, the second and third entities are related to each other.</li> </ul> <p>A partial exemption is also provided from the disclosure requirements for government-related entities. Entities that are related by virtue of being controlled by the same government can provide reduced related party disclosures.</p> | 1 January 2011               | 1 July 2011                |

The impact of the adoption of these new and revised standards and interpretations has not been determined by the Company.

**VICTORIA PETROLEUM N.L. AND ITS CONTROLLED ENTITIES**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2010**

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**(e) Basis of consolidation**

The consolidated financial statements comprise of the financial statements of Victoria Petroleum N.L. and its controlled entities / subsidiaries (as outlined in note 30) as at 30 June each year (collectively known as “the Group”).

The controlled entities are all those entities over which the Group has the power to govern the financial and operating policies so as to obtain benefits from their activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether a group controls another entity.

The financial statements of the controlled entities are prepared for the same reporting period as the parent entity, using consistent accounting policies.

In preparing the consolidated financial statements, all intercompany balances and transactions, income and expenses and profit and losses resulting from intra-group transactions have been eliminated in full.

The controlled entities are fully consolidated from the date on which control is obtained by the Group and cease to be consolidated from the date on which control is transferred out of the Group.

**(f) Operating segments – refer note 5**

An operating segment is a component of an entity that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity), whose operating results are regularly reviewed by the entity's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance and for which discrete financial information is available. This includes start up operations which are yet to earn revenues. Management will also consider other factors in determining operating segments such as the existence of a line manager and the level of segment information presented to the board of directors.

Operating segments have been identified based on the information provided to the chief operating decision makers – being the executive management team.

**VICTORIA PETROLEUM N.L. AND ITS CONTROLLED ENTITIES**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2010**

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**(g) Foreign currency translation – refer note 26**

*Functional and presentation currency*

Both the functional and presentation currency of Victoria Petroleum N.L. and its controlled entities is Australian dollars (\$).

*Transactions and balances*

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

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

**(h) Cash and cash equivalents – refer note 11**

Cash and cash equivalents in the balance sheet comprise of cash at bank and in hand and short term deposits with an original maturity of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

**(i) Term deposits – refer note 12**

Term deposits are non-derivative financial assets with fixed or determinable payments and fixed maturity that the Group intends to hold to maturity. They are stated at nominal value. These deposits have original maturity of three months or more.

**(j) Trade and other receivables – refer note 14**

Trade receivables, which generally have 30-60 day terms, are recognised and carried at the original invoice amount less an allowance for impairment.

Collectability of trade receivables is reviewed on an ongoing basis. Individual debts that are known to be uncollectible are written off when identified. An impairment provision is recognised when there is objective evidence that the Group will not be able to collect the receivable. Financial difficulties of the debtor are considered objective evidence of impairment.



**VICTORIA PETROLEUM N.L. AND ITS CONTROLLED ENTITIES**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2010**

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**(k) Investments and other financial assets – refer notes 15, 16 and 17**

Investments and financial assets in the scope of AASB 139 Financial Instruments: Recognition and Measurement are categorised as either financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, or available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired. Designation is re-evaluated at each financial year end, but there are restrictions on reclassifying to other categories.

When financial assets are recognised initially, they are measured at fair value, plus, in the case of assets not at fair value through profit or loss, directly attributable transaction costs.

*Financial assets at fair value through the profit or loss – refer note 15*

Financial assets classified as held-for-trading are included in the category 'financial assets at fair value through profit or loss'. Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term with the intention of making a profit. Gains or losses on financial assets held-for-trading are recognised in profit or loss and the related assets are classified as current assets in the balance sheet.

*Loans and receivables – refer note 16*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortised cost using the effective interest method. Gains and losses are recognised in the profit or loss when the loans and receivables are derecognised or impaired. These are included in current assets, except for those with maturities greater than 12 months after the balance date, which are classified as non-current.

**VICTORIA PETROLEUM N.L. AND ITS CONTROLLED ENTITIES**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2010**

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**(k) Investments and other financial assets – refer notes 15, 16 and 17 (continued)**

*Available-for-sale securities – refer note 17*

Available-for-sale investments are those non-derivative financial assets, principally equity securities, which are designated as available-for-sale or are not classified as any of the three preceding categories. After initial recognition, available-for-sale securities are measured at fair value with gains or losses being recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is recognised in profit or loss.

Where available-for-sale securities are held in escrow, the fair value is discounted to the present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

The fair values of investments that are actively traded in organised financial markets are determined by reference to quoted market bid prices at the close of business on the balance sheet date.

**(l) Earnings per share – refer note 10**

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

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

- costs of servicing equity (other than dividends);
- the after tax effect of dividends and interest associated with dilutive potential ordinary shares that have been recognised as expenses; and
- other non-discretionary changes in revenues or expenses during the period that would result from the dilution of potential ordinary shares;

divided by the weighted average number of ordinary shares and dilutive potential ordinary shares, adjusted for any bonus element.

**(m) Interest in jointly controlled operations – refer note 29**

The Group has interests in joint ventures that are jointly controlled operations. A joint venture is a contractual arrangement whereby two or more parties undertake an economic activity that is subject to joint control. A jointly controlled operation involves the use of assets and other resources of the venturers rather than the establishment of a separate entity. The Group recognises its interest in the jointly controlled operations by recognising its interest in the assets and the liabilities of the joint ventures. The Group also recognises the expenses that it incurs and its share of the income that it earns from the sale of goods or services by the jointly controlled operation.

**VICTORIA PETROLEUM N.L. AND ITS CONTROLLED ENTITIES**  
**NOTES TO THE FINANCIAL STATEMENTS**  
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**(n) Property, plant and equipment – refer note 18**

Property, plant and equipment is stated at historical cost less accumulated depreciation and any accumulated impairment losses. Such cost includes the cost of replacing parts that are eligible for capitalisation when the cost of replacing the parts is incurred. Similarly, when each major inspection is performed, its cost is recognised in the carrying amount of plant and equipment as a replacement only if it is eligible for capitalisation. All other repairs and maintenance are recognised in profit or loss as incurred.

Depreciation is calculated on a straight-line basis over the estimated useful life of the specific assets as follows:

Furniture and fittings – over 2 to 5 years

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

*Derecognition*

An item of property, plant and equipment is derecognised upon disposal or when no further future economic benefits are expected from its use or disposal.

Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the year the asset is derecognised.

**(o) Oil and gas properties – refer note 20**

Oil and gas properties are carried at cost and include capitalised project expenditure, development expenditure and costs associated with lease and well equipment.

The Group uses the units of production methods to amortise costs carried forward in relation to its oil and gas properties. For this approach the calculations are based on Proved and Probable (2P) reserves as determined by the Company's reserves determination.

Impairment on the carrying value of oil and gas properties is based on Proved and Probable (2P) reserves and is assessed on a well by well basis.

**VICTORIA PETROLEUM N.L. AND ITS CONTROLLED ENTITIES**  
**NOTES TO THE FINANCIAL STATEMENTS**  
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**(p) Leases – refer note 32**

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

*Group as a lessee*

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased asset or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised as an expense in profit or loss.

Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset and the lease term if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term.

Operating lease payments are recognised as an expense in the income statement on straight line basis over the lease term. Operating lease incentives are recognised in the Statement of Comprehensive Income as an integral part of the total lease expense.

**(q) Impairment of non-financial assets (excluding goodwill) – refer note 20**

Assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The Group conducts an annual internal review of asset values, which is used as a source of information to assess for any indicators of impairment. External factors, such as changes in expected future processes, technology and economic conditions, are also monitored to assess for indicators of impairment. If any indication of impairment exists, an estimate of the asset's recoverable amount is calculated.

An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. Recoverable amount is the higher of an asset's fair value less costs to sell and its value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows that are largely independent of the cash inflows from other assets or groups of assets (cash-generating units).

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

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**(q) Impairment of non-financial assets (excluding goodwill) – refer note 20 (continued)**

An assessment is also made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the income statement. After such a reversal, the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

**(r) Trade and other payables – refer note 22**

Trade payables and other payables are carried at amortised cost. Due to their short term nature, they are not discounted. They represent liabilities for goods and services provided to the Group prior to the end of the financial year that are unpaid and arise when the Group becomes obliged to make future payments in respect of the purchase of these goods and services. The amounts are unsecured and are usually paid within 30 days of recognition.

**(s) Provisions and employee benefits – refer notes 23 and 24**

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

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

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the balance sheet date using a discounted cash flow methodology. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects the time value of money and the risks specific to the liability. The increase in the provision due to the passage of time is recognised in finance costs.

**VICTORIA PETROLEUM N.L. AND ITS CONTROLLED ENTITIES**  
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**(s) Provisions and employee benefits – refer notes 23 and 24 (continued)**

*Rehabilitation costs – refer note 24*

The Group records the present value of the estimated cost of legal and constructive obligations to restore operating locations in the period in which the obligation arises. The nature of rehabilitation activities includes the removal of facilities, abandonment of wells and restoration of affected areas.

Typically, the obligation arises when the asset is installed at the production location. When the liability is initially recorded, the estimated cost is capitalised by increasing the carrying amount of the related oil and gas properties. Over time, the liability is increased for the change in the present value based on a risk adjusted pre-tax discount rate appropriate to the risks inherent in the liability. The unwinding of the discount is recorded as an accretion charge within finance costs. The carrying amount capitalised in oil and gas properties is amortised over the useful life of the related asset.

Costs incurred which relate to an existing condition caused by past operations, and which do not have a future economic benefit, are expensed. The estimated costs of rehabilitation are reviewed annually and adjusted as appropriate for changes in legislation, technology or other circumstances.

*Employee leave benefits*

*Wages, salaries, annual leave and sick leave – refer note 23*

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

*Long service leave – refer note 24*

The liability for long service is recognised and measured as the fair value of expected future payments to be made in respect of services provided by employees up to the reporting date using the projected unit credit method.

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**NOTES TO THE FINANCIAL STATEMENTS**  
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**(t) Share-based payment transactions – refer note 26**

*Equity settled transactions*

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

A formal employee share or share option scheme has not been developed.

The cost of these equity-settled transactions with employees is measured by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined by reference to the current share price in relation to fully paid shares and with the use of a binomial option pricing model in relation to partly paid shares or rights to acquire shares.

In valuing equity-settled transactions, no account is taken of any vesting conditions, other than conditions linked to the price of the shares of the Company (market conditions) if applicable.

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

The cumulative expense recognised for equity-settled transactions at each reporting date until vesting date reflects (a) the grant date fair value of the award, (b) the extent to which the vesting period has expired and (c) the Group's best estimate of the number of equity instruments that will ultimately vest. No adjustment is made for the likelihood of market performance conditions being met as the effect of these conditions is included in the determination of fair value at grant date. The income statement charge for a period represents the movement in cumulative expense recognised as at the beginning and end of that period.

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

If the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified. An additional expense is recognised for any modification that increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee, as measured at the date of modification.

If 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 the 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 the outstanding options is reflected as additional share dilution in the computation of earnings per share - refer note 10.

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**(u) Contributed equity – refer note 25**

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

**(v) Revenue recognition – refer note 6**

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

*Sale of oil and gas*

Revenue is recognised when the significant risks and rewards of ownership of the product have passed to the buyer and the amount of revenue can be measured reliably. Risks and rewards are considered passed to the buyer at the time of delivery of the product to the customer.

*Interest income*

Revenue is recognised as interest accrues using the effective interest method. This is a method of calculating the amortised cost of a financial asset and allocating the interest income over the relevant period using the effective interest rate, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset.

*Technical service fees*

Revenue is recognised in the period in which it is earned.

**(w) Oil and gas exploration costs – refer notes 21 and 29**

Exploration expenditure is expensed as incurred, except when such costs are expected to be recouped through the successful development and exploitation, or sale, of an area of interest. Exploration assets acquired from a third party are capitalised, provided that the rights to tenure of the area of interest is current and either (a) the carrying value is expected to be recouped through the successful development and exploitation or sale of an area of interest or (b) exploitation and/or evaluation activities in the area of interest have not at the reporting date reached a stage that permits a reasonable assessment of the existence or otherwise of economically recoverable reserves, and active and significant operations in, or relating to, the area of interest are continuing. If capitalised exploration assets do not meet either of these tests, they are expensed to the income statement.



**VICTORIA PETROLEUM N.L. AND ITS CONTROLLED ENTITIES**  
**NOTES TO THE FINANCIAL STATEMENTS**  
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**(x) Income tax and other taxes – refer note 8**

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities based on the current period's taxable income. The tax rates and tax laws used to compute the amount are those that are enacted or substantially enacted by the balance sheet date.

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

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

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

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

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

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

Unrecognised deferred income tax assets are reassessed at each balance sheet date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

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

**VICTORIA PETROLEUM N.L. AND ITS CONTROLLED ENTITIES**  
**NOTES TO THE FINANCIAL STATEMENTS**  
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**(x) Income tax and other taxes – refer note 8 (continued)**

*Tax consolidation legislation*

Victoria Petroleum N.L. and its controlled entities have implemented the tax consolidation legislation as of 1 July 2003.

As a consequence, individual entities within the consolidated group will recognise current and deferred tax amounts relating to their own transactions, events and balances. Any recognised balances relating to income tax payable or receivable, or to tax losses incurred by the individual entity will then be transferred to the head entity of the consolidated group, Victoria Petroleum N.L., by way of a contribution to or distribution of equity as appropriate. However, as there is no income tax payable in the current year, and it is not proposed to recognise balances in respect of losses in the current year in the individual entities, no such transfers will occur.

The entities also intend to enter into a Tax Sharing Agreement, but details of this agreement are still yet to be finalised. The absence of a Tax Sharing Agreement is not expected to have a material impact on the consolidated assets and liabilities and results.

*Other taxes - GST*

Revenues, expenses and assets are recognised net of the amount of goods and services tax ("GST") except:

- when the GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- receivables and payables, which are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the balance sheet.

Cash flows are included in the Consolidated Cash Flow Statement on a gross basis and the GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the taxation authority are classified as operating cash flows.

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

**VICTORIA PETROLEUM N.L. AND ITS CONTROLLED ENTITIES**  
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**(y) Non-current assets and disposal groups held for sale and discontinued operations**  
**- refer note 33**

Non-current assets and disposal groups are classified as held for sale and measured at the lower of their carrying amount and fair value less costs to sell if their carrying amount will be recovered principally through a sale transaction. They are not depreciated or amortised. For an asset or disposal group to be classified as held for sale, it must be available for immediate sale in its present condition and its sale must be highly probable.

An impairment loss is recognised for any initial or subsequent write-down of the asset (or disposal group) to fair value less costs to sell. A gain is recognised for any subsequent increases in fair value less costs to sell of an asset (or disposal group), but not in excess of any cumulative impairment loss previously recognised. A gain or loss not previously recognised by the date of the sale of the non-current asset (or disposal group) is recognised at the date of derecognition.

A discontinued operation is a component of the entity that has been disposed of or is classified as held for sale and that represents a separate major line of business or geographical area of operations, is part of a single coordinated plan to dispose of such a line of business or area of operations, or is a subsidiary acquired exclusively with a view to resale. The results of discontinued operations are presented separately on the face of the income statement and the assets and liabilities are presented separately on the face of the balance sheet.

**VICTORIA PETROLEUM N.L. AND ITS CONTROLLED ENTITIES**  
**NOTES TO THE FINANCIAL STATEMENTS**  
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**NOTE 3:**  
**FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES**

The Group's principal financial instruments comprise of cash and cash equivalents, term deposits, receivables, investments held for trading, available-for-sale investments and payables.

The Group manages its exposure to key financial risks in accordance with the Group's financial risk management policy. The objective of the policy is to support the delivery of the Group's financial targets whilst protecting future financial security.

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, price risk and credit risk. The Group uses different methods to measure and manage different types of risks to which it is exposed. These include monitoring levels of exposure to interest rate and foreign exchange risk and assessments of market forecasts for interest rate, foreign exchange, commodity prices and others.

The Board reviews and agrees policies for managing each of these risks. Due to the size and nature of the Company's operations, and as the Company does not use derivative instruments or debt, the directors do not believe the establishment of a risk management committee is warranted.

**VICTORIA PETROLEUM N.L. AND ITS CONTROLLED ENTITIES**  
**NOTES TO THE FINANCIAL STATEMENTS**  
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**NOTE 3:**  
**FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)**

**Risk exposures and responses**

**Interest rate risk**

The Group's exposure to market interest rates relates primarily to the Group's cash and cash equivalents.

The Group constantly analyses its interest rate exposure. Within this analysis, consideration is given to potential renewals of existing positions and alternative products.

At balance date, the Group had the following exposure to Australian variable interest rate risk:

|                           | <b>Consolidated</b> |             |
|---------------------------|---------------------|-------------|
|                           | <b>2010</b>         | <b>2009</b> |
|                           | <b>\$</b>           | <b>\$</b>   |
| <b>Financial assets</b>   |                     |             |
| Cash and cash equivalents | 16,791,150          | 18,289,877  |

The following sensitivity analysis is based on the interest rate risk exposures in existence at the balance sheet date. The 1% sensitivity is based on reasonably possible changes over a financial year, using the observed range of actual historical rates for the preceding five year period.

At 30 June 2010, if interest rates had moved, as illustrated in the table below, with all other variables held constant, post tax profit / (loss) would have been affected as follows:

|                                                    | <b>Consolidated</b>     |             |
|----------------------------------------------------|-------------------------|-------------|
|                                                    | <b>Higher / (Lower)</b> |             |
|                                                    | <b>2010</b>             | <b>2009</b> |
|                                                    | <b>\$</b>               | <b>\$</b>   |
| <b>Judgements of reasonably possible movements</b> |                         |             |
| <b>Post tax gain / (loss)</b>                      |                         |             |
| +1.0% (100 basis points)                           | 167,912                 | 182,899     |
| -1.0% (100 basis points)                           | (167,912)               | (182,899)   |

These movements would not have any impact on other reserves besides accumulated losses.

Management believe the balance date risk exposures are representative of the risk exposure inherent in the financial instruments.

**VICTORIA PETROLEUM N.L. AND ITS CONTROLLED ENTITIES**  
**NOTES TO THE FINANCIAL STATEMENTS**  
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**NOTE 3:**  
**FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)**

**Risk exposures and responses (continued)**

**Foreign currency risk**

The Group has transactional currency exposures. Such exposure arises from sales or purchases by an operating entity in currencies other than the functional currency. The Group's sales are denominated in currencies other than the functional currency of the operating entity making the sale (2009: 93%).

At balance date, the Group had the following exposure to US Dollar ("USD") foreign currency risk from its continuing operations:

|                             | <b>Consolidated</b> |                  |
|-----------------------------|---------------------|------------------|
|                             | <b>2010</b>         | <b>2009</b>      |
|                             | <b>\$</b>           | <b>\$</b>        |
| <b>Financial assets</b>     |                     |                  |
| Cash and cash equivalents   | 13                  | 342,387          |
| Trade and other receivables | -                   | 1,358,085        |
| <b>Net exposure</b>         | <b>13</b>           | <b>1,700,472</b> |

The following sensitivity is based on the foreign currency risk exposures in existence at the balance sheet date. The 5% sensitivity is based on reasonably possible changes over a financial year, using the observed range of actual historical rates for the preceding five year period.

At 30 June 2010, had the Australian dollar moved, as illustrated in the table below, with all other variables held constant, post tax profit / (loss) and equity would have been affected as follows:

|                                                    | <b>Consolidated</b>     |             |
|----------------------------------------------------|-------------------------|-------------|
|                                                    | <b>Higher / (Lower)</b> |             |
|                                                    | <b>2010</b>             | <b>2009</b> |
|                                                    | <b>\$</b>               | <b>\$</b>   |
| <b>Judgements of reasonably possible movements</b> |                         |             |
| <b>Post tax gain / (loss)</b>                      |                         |             |
| AUD / USD +5%                                      | (1)                     | (80,975)    |
| AUD / USD -5%                                      | 1                       | 89,499      |

These movements would not have any impact on other reserves besides accumulated losses.

The movements in profit / (loss) in 2010 are less sensitive than in 2009 due to the lower level of USD held at balance date.

Management believe the balance date risk exposures are representative of the risk exposure inherent in the financial instruments.

**VICTORIA PETROLEUM N.L. AND ITS CONTROLLED ENTITIES**  
**NOTES TO THE FINANCIAL STATEMENTS**  
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**NOTE 3:**  
**FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)**

**Risk exposures and responses (continued)**

**Equity securities price risk**

The Group's exposure to equity securities price risk relates primarily to the investments held-for-trading and available-for-sale investments.

Equity securities price risk arises from investments in equity securities. The equity investments held are publicly traded on the Australian Securities Exchange.

At 30 June 2010, the Group had the following exposure to equity securities price risk:

|                                     | Note | Consolidated     |                |
|-------------------------------------|------|------------------|----------------|
|                                     |      | 2010             | 2009           |
|                                     |      | \$               | \$             |
| <b>Financial assets</b>             |      |                  |                |
| Held-for-trading financial assets   | 15   | 356,030          | 218,473        |
| Available-for-sale financial assets | 17   | 5,096,667        | 519,920        |
| <b>Net exposure</b>                 |      | <b>5,452,697</b> | <b>738,393</b> |

The following sensitivity is based on the equity securities price risk exposures in existence at the balance sheet date. The 10% sensitivity is based on reasonably possible changes over a financial year, using the observed range of actual historical prices over a one year period.

At 30 June 2010, had the equity securities price moved, as illustrated in the table below, with all other variables held constant, post tax profit / (loss) and equity would have been affected as follows:

|                                                    | Consolidated     |          |
|----------------------------------------------------|------------------|----------|
|                                                    | Higher / (Lower) |          |
|                                                    | 2010             | 2009     |
|                                                    | \$               | \$       |
| <b>Judgements of reasonably possible movements</b> |                  |          |
| <b>Post tax gain / (loss)</b>                      |                  |          |
| Price +10%                                         | 35,603           | 37,445   |
| Price -10%                                         | (35,603)         | (37,445) |
| <b>Net unrealised gain / (loss) reserve</b>        |                  |          |
| Price +10%                                         | 356,767          | 36,394   |
| Price -10%                                         | (356,767)        | (36,394) |

**Commodity price risk**

The Group's exposure to commodity price risk relates to the market price of oil and natural gas. Currently, the Group's exposure to this risk is not hedged. The Board will continue to monitor this risk and seek to mitigate it, if considered necessary.

At balance date, the Group does not have any financial assets or liabilities with an exposure to commodity price risk as there is no subsequent adjustment of the selling price after initial recognition of the revenue.

**VICTORIA PETROLEUM N.L. AND ITS CONTROLLED ENTITIES**  
**NOTES TO THE FINANCIAL STATEMENTS**  
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**NOTE 3:**  
**FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)**

**Risk exposures and responses (continued)**

**Credit Risk**

The Group's exposure to credit risk arises from potential default of the counter party, with a maximum exposure equal to the carrying amount of these instruments.

Credit risk arises from the financial assets of the Group, which comprise of cash and cash equivalents, term deposits, trade and other receivables, investments held for trading and available-for-sale investments.

The Group does not hold any credit derivatives to offset its credit exposure.

The Group only trades with recognised, creditworthy third parties, and as such, collateral is not requested nor is it the Group's policy to securitise its trade and other receivables.

Receivable balances are monitored on an on-going basis, with the result that the Group's exposure to bad debts is not significant.

Cash balances in excess of current requirements are held in bank accounts earning higher interest rates. These funds are not restricted, and can be accessed at any time. When the initial maturity is more than three months, these funds are classified as term deposits on the statement of financial position.

Cash balances are predominantly held with Australian financial institutions, which are considered to be low concentration of credit risk.

**Liquidity Risk**

The liquidity position of the Group is managed to ensure sufficient liquid funds are available to meet the Group's financial commitments in a timely and cost-effective manner.

It is the Group's policy to continually review the Group's liquidity position including cash flow forecasts to determine the forecast liquidity position and maintain appropriate liquidity levels.

The remaining contractual maturities of the Group's financial liabilities are:

|                              |             | <b>Consolidated</b> |                  |
|------------------------------|-------------|---------------------|------------------|
|                              |             | <b>2010</b>         | <b>2009</b>      |
|                              | <b>Note</b> | <b>\$</b>           | <b>\$</b>        |
| <b>Financial liabilities</b> |             |                     |                  |
| 6 months or less             | 22          | 3,060,193           | 1,560,294        |
| Over 6 months                |             | -                   | -                |
|                              |             | <b>3,060,193</b>    | <b>1,560,294</b> |

The Group funds its activities through capital raising and operating cash flows in order to limit its liquidity risk.



**VICTORIA PETROLEUM N.L. AND ITS CONTROLLED ENTITIES**  
**NOTES TO THE FINANCIAL STATEMENTS**  
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**NOTE 3:**  
**FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)**

**Risk exposures and responses (continued)**

**Fair Value**

As at 1 July 2009, the Group has adopted the amendments of AASB 7 Financial Instruments: Disclosures which requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

Level 1 – the fair value is calculated using quoted market prices in active markets.

Level 2 – the fair value is estimated using inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices).

Level 3 – the fair value is estimated using inputs for the asset or liability that are not based on observable market data.

The Group does not have any level 2 or level 3 financial instruments as at 30 June 2010 and 30 June 2009.

The fair value of the financial instruments as well as the methods used to estimate the fair value are summarised in the table below:

|                                                          | Consolidated |         |         |           |         |         |         |         |
|----------------------------------------------------------|--------------|---------|---------|-----------|---------|---------|---------|---------|
|                                                          | 2010         |         |         | Total     | 2009    |         |         | Total   |
|                                                          | Level 1      | Level 2 | Level 3 |           | Level 1 | Level 2 | Level 3 |         |
|                                                          | \$           | \$      | \$      | \$        | \$      | \$      | \$      | \$      |
| Held for trading financial assets (listed investments)   | 356,030      | -       | -       | 356,030   | 218,473 | -       | -       | 218,473 |
| Available-for-sale financial assets (listed investments) | 5,096,667    | -       | -       | 5,096,667 | 519,920 | -       | -       | 519,920 |

The held-for-trading and available-for-sale financial assets are traded in active markets. Their fair value is based on quoted market prices at the end of the reporting period.

**VICTORIA PETROLEUM N.L. AND ITS CONTROLLED ENTITIES**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2010**

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**NOTE 4:**  
**SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS**

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

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

Further details of the nature of these assumptions and conditions may be found in the relevant notes to the financial statements.

**Classification of Investments**

The Group has decided to classify investments in listed securities as either 'held-for-trading' or 'available-for-sale' based on the purpose for which investments are held. Movements in fair value are recognised in profit or loss or directly in equity respectively. The fair value of listed shares has been determined by reference to published price quotations in an active market.

Term deposits with an original maturity of three months or more are classified as held to maturity investments.

**Exploration and evaluation**

The Group's accounting policy for exploration and evaluation is set out in Note 2 (w). The application of this policy necessarily requires management to make certain estimates and assumptions as to future events and circumstances, in particular the assessment of whether economic quantities of reserves have been found. Any such estimates and assumptions may change as new information becomes available. If, after having capitalised expenditure under the Group's policy, management concludes that the Group is unlikely to recover the expenditure by future exploitation or sale, then the relevant capitalised amount will be written off to the income statement.

All exploration expenditure incurred in the current year was expensed to the income statement.

**Share-based payment transactions**

The Group measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined using a binomial pricing model.

**Impairment of assets**

In determining the recoverable amount of assets, in the absence of quoted market prices, estimations are made regarding the present value of future cash flows using asset-specific discount rates. For oil and gas properties, expected future cash flow estimation is based on reserves, future production profiles, commodity prices and costs.

**VICTORIA PETROLEUM N.L. AND ITS CONTROLLED ENTITIES**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2010**

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**NOTE 4:**

**SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS (CONTINUED)**

**Reserves estimates**

Estimates of recoverable quantities of Proven and Probable (2P) reserves, that are used to review the carrying value of oil and gas properties and amortisation of oil and gas properties, include assumptions regarding commodity prices, exchange rates, discount rates, and production and transportation costs for future cash flows. It also requires interpretation of complex geological and geophysical models in order to make an assessment of the size, shape, depth and quality of reservoirs and their anticipated recoveries. The economic, geological and technical factors used to estimate reserves may change from period to period. Changes in reserves can impact asset carrying values, the provision for restoration and the recognition of deferred tax assets, due to changes in estimated future cash flows. Reserves are integral to the amount of depreciation, depletion and amortisation charged to the income statement.

**Units of production method of depreciation and amortisation**

The Company applies the units of production method for amortisation of its oil and gas properties and assets based on hydrocarbons produced. These calculations require the use of estimates and assumptions. Significant judgement is required in assessing the available reserves and future production associated with the assets to be amortised under this method. Factors that must be considered in determining reserves and resources and future production are the Company's history of converting resources to reserves in the relevant time frames, markets and future developments. When these factors change or become known in the future, such differences will impact pre-tax profit and carrying values of assets. It is impracticable to quantify the effect of these changes in these estimates and assumptions in future periods.

**Rehabilitation obligations**

The Group estimates the future removal costs of oil and gas wells and production facilities at the time of installation of the assets. In most instances, removal of assets occurs many years into the future. This requires judgmental assumptions regarding removal data, future environmental legislation, the extent of reclamation articles required, the engineering methodology for estimating future cost, future removal technologies in determining the removal cost, and a company discount rate to determine the present value of these cash flows. For more detail regarding the policy in respect of the provision for rehabilitation, refer to note 2 (s).

**VICTORIA PETROLEUM N.L. AND ITS CONTROLLED ENTITIES**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2010**

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**NOTE 5:**  
**OPERATING SEGMENTS**

**Identification of reportable segments**

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

The operating segments identified by management are based on the nature of the resources which correspond to the Group's strategy. Discrete financial information of each of these segments is reported to the executive management team on at least a monthly basis.

The reportable segments are based on operating segments determined by the nature of the resources, as these are sources of the Group's major risks and have the most effect on the rates of return.

**Types of resources**

**Coal Seam Gas**

The Coal Seam Gas exploration segment pertains to the Group's interest in the Surat Basin / Bowen Basin in Queensland.

**Oil**

The oil exploration and production segment pertains to the Group's interest in the Cooper Basin / Eromanga Basin in South Australia and Queensland.

**Accounting policies**

The accounting policies used by the Group in reporting segments internally are the same as those used to prepare the financial statements and in the prior period.

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

- Net gains / losses on disposal of available-for-sale investments.
- Fair value gains / losses on held-for-trading derivatives.
- Impairment of assets - impairment of assets is not included in the measurement of segment.
- Cash and cash equivalents.
- Term deposits.
- Corporate expenses.

**VICTORIA PETROLEUM N.L. AND ITS CONTROLLED ENTITIES**  
**NOTES TO THE FINANCIAL STATEMENTS**  
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**NOTE 5:**  
**OPERATING SEGMENTS (CONTINUED)**

The following tables present the revenue and profit information for reportable segments for the years ended 30 June 2010 and 30 June 2009:

|                                                            | Consolidated  |      |                   |                   |                   |                   |
|------------------------------------------------------------|---------------|------|-------------------|-------------------|-------------------|-------------------|
|                                                            | Coal Seam Gas |      | Oil               |                   | Total             |                   |
|                                                            | 2010          | 2009 | 2010              | 2009              | 2010              | 2009              |
|                                                            | \$            | \$   | \$                | \$                | \$                | \$                |
| <b>Revenue</b>                                             |               |      |                   |                   |                   |                   |
| Revenue, before tax                                        | -             | -    | 10,512,989        | 9,476,436         | 10,512,989        | 9,476,436         |
| Technical service fees                                     | -             | -    | 1,457,850         | 1,299,215         | 1,457,850         | 1,299,215         |
| <b>Total segment revenue</b>                               | -             | -    | <b>11,970,839</b> | <b>10,775,651</b> | <b>11,970,839</b> | <b>10,775,651</b> |
| <i>Unallocated item:</i>                                   |               |      |                   |                   |                   |                   |
| Other revenue                                              |               |      |                   |                   | 1,217,355         | 827,098           |
| <b>Total revenue per Statement of Comprehensive Income</b> |               |      |                   |                   | <b>13,188,194</b> | <b>11,602,749</b> |

During the financial year, the Group received revenue totalling \$10,512,989 (2009: \$9,476,436) from one major customer.

**VICTORIA PETROLEUM N.L. AND ITS CONTROLLED ENTITIES**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2010**

**NOTE 5:**  
**OPERATING SEGMENTS (CONTINUED)**

|                                                                                                                             | Consolidated       |                  |                  |                    | Total            |                    |
|-----------------------------------------------------------------------------------------------------------------------------|--------------------|------------------|------------------|--------------------|------------------|--------------------|
|                                                                                                                             | Coal Seam Gas      |                  | Oil              |                    | 2010             | 2009               |
|                                                                                                                             | 2010               | 2009             | 2010             | 2009               | \$               | \$                 |
| <b>Results</b>                                                                                                              |                    |                  |                  |                    |                  |                    |
| <b>Segment profit / (loss)</b>                                                                                              | <b>(1,539,241)</b> | <b>(706,839)</b> | <b>7,005,213</b> | <b>(4,015,961)</b> | <b>5,465,972</b> | <b>(3,309,122)</b> |
| <b>Reconciliation of segment net profit / (loss) after tax to net profit / (loss) from continuing operations before tax</b> |                    |                  |                  |                    |                  |                    |
| <i>Unallocated items:</i>                                                                                                   |                    |                  |                  |                    |                  |                    |
| Net gain / (loss) on sale of subsidiaries                                                                                   |                    |                  |                  |                    | 160,017          | -                  |
| Foreign exchange gain / (loss)                                                                                              |                    |                  |                  |                    | (4,734)          | (1,318,928)        |
| Corporate expenses                                                                                                          |                    |                  |                  |                    | (3,056,350)      | 439,624            |
| <b>Net profit / (loss) from continuing operations before tax per the Statement of Comprehensive Income</b>                  |                    |                  |                  |                    | <b>2,564,905</b> | <b>(4,188,426)</b> |

**VICTORIA PETROLEUM N.L. AND ITS CONTROLLED ENTITIES**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2010**

**NOTE 5:**  
**OPERATING SEGMENTS (CONTINUED)**

Segment assets and segment liabilities at 30 June 2010 and 30 June 2009 are as follows:

|                                                                  | Coal Seam Gas  |                | Consolidated Oil  |                  | Total             |                   |
|------------------------------------------------------------------|----------------|----------------|-------------------|------------------|-------------------|-------------------|
|                                                                  | 2010           | 2009           | 2010              | 2009             | 2010              | 2009              |
|                                                                  | \$             | \$             | \$                | \$               | \$                | \$                |
| <b>Segment assets</b>                                            |                |                |                   |                  |                   |                   |
| <b>Segment operating assets</b>                                  | <b>667,766</b> | <b>148,186</b> | <b>28,740,749</b> | <b>9,269,021</b> | <b>29,408,515</b> | <b>9,417,207</b>  |
| Held for trading financial assets                                |                |                |                   |                  | 356,030           | 218,473           |
| Available-for-sale financial assets                              |                |                |                   |                  | 5,096,667         | 519,920           |
| Assets of disposal group classified as held for sale             |                |                |                   |                  | -                 | 1,490,480         |
| Unallocated assets <sup>1</sup>                                  |                |                |                   |                  | 39,111,122        | 18,588,488        |
| <b>Total assets per the Statement of Financial Position</b>      |                |                |                   |                  | <b>73,972,334</b> | <b>30,234,568</b> |
| <b>Segment liabilities</b>                                       |                |                |                   |                  |                   |                   |
| Unallocated liabilities                                          |                |                |                   |                  | 3,793,544         | 3,935,652         |
| <b>Total liabilities per the Statement of Financial Position</b> |                |                | <b>3,331,414</b>  | <b>3,935,652</b> | <b>1,595,468</b>  | <b>598,072</b>    |
|                                                                  |                |                |                   |                  | <b>5,389,012</b>  | <b>4,533,724</b>  |

<sup>1</sup> The unallocated assets include cash and cash equivalents of \$16,791,150 (2009: \$18,289,877), term deposits of \$20,000,000 (2009: nil) and accrued interest on term deposits of \$507,393 (2009: nil).

**VICTORIA PETROLEUM N.L. AND ITS CONTROLLED ENTITIES**  
**NOTES TO THE FINANCIAL STATEMENTS**  
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**NOTE 5:**  
**OPERATING SEGMENTS (CONTINUED)**

Cash flow information for the years ended 30 June 2010 and 30 June 2009 are as follows:

|                                         | Consolidated       |                  |                    |                    | Total               |                    |
|-----------------------------------------|--------------------|------------------|--------------------|--------------------|---------------------|--------------------|
|                                         | Coal Seam Gas      |                  | Oil                |                    | 2010                | 2009               |
|                                         | 2010               | 2009             | 2010               | 2009               | \$                  | \$                 |
|                                         | \$                 | \$               | \$                 | \$                 | \$                  | \$                 |
| <b>Cash flow information</b>            |                    |                  |                    |                    |                     |                    |
| Net cash flow from operating activities | (1,539,241)        | (706,839)        | 6,196,310          | (604,173)          | 4,657,069           | (1,311,012)        |
| Net cash flow from investing activities | (568,513)          | -                | (16,155,381)       | (5,922,725)        | (16,723,894)        | (5,922,725)        |
| Net cash flow from financing activities | -                  | -                | -                  | -                  | -                   | -                  |
| <b>Total segment cash flow</b>          | <b>(2,107,754)</b> | <b>(706,839)</b> | <b>(9,959,071)</b> | <b>(6,526,898)</b> | <b>(12,066,825)</b> | <b>(7,233,737)</b> |
| Unallocated cash flow                   |                    |                  |                    |                    | 10,665,958          | 6,740,459          |
| <b>Total cash flow</b>                  |                    |                  |                    |                    | <b>(1,400,867)</b>  | <b>(493,278)</b>   |



**VICTORIA PETROLEUM N.L. AND ITS CONTROLLED ENTITIES**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2010**

**NOTE 6:**  
**REVENUE**

|                                         | <b>Consolidated</b> |                    |
|-----------------------------------------|---------------------|--------------------|
|                                         | <b>2010</b>         | <b>2009</b>        |
|                                         | <b>\$</b>           | <b>\$</b>          |
| <b>(a) Revenue</b>                      |                     |                    |
| Oil sales                               | 10,512,989          | 9,476,436          |
| Interest income                         | 1,217,355           | 827,098            |
| Technical service fees                  | 1,457,850           | 1,299,215          |
|                                         | <b>13,188,194</b>   | <b>11,602,749</b>  |
| <b>(b) Other income</b>                 |                     |                    |
| Net gain on investment held for trading | 160,017             | -                  |
| Other income                            | -                   | 23,387             |
| Foreign exchange gains                  | -                   | 872,746            |
|                                         | <b>160,017</b>      | <b>896,133</b>     |
| <b>(c) Cost of sales</b>                |                     |                    |
| Operating costs                         | (4,360,622)         | (3,909,216)        |
| Amortisation of oil and gas properties  | (1,068,623)         | (1,277,389)        |
|                                         | <b>(5,429,245)</b>  | <b>(5,186,605)</b> |

**VICTORIA PETROLEUM N.L. AND ITS CONTROLLED ENTITIES**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2010**

**NOTE 7:**  
**EXPENSES**

|                                                                 |    | <b>Consolidated</b> |                    |
|-----------------------------------------------------------------|----|---------------------|--------------------|
|                                                                 |    | <b>2010</b>         | <b>2009</b>        |
|                                                                 |    | <b>\$</b>           | <b>\$</b>          |
| <b>(a) Employee benefits expense</b>                            |    |                     |                    |
| Salaries                                                        |    | (1,077,122)         | (955,544)          |
| Directors' fees                                                 |    | (175,000)           | (233,168)          |
| Share based payments                                            |    | -                   | (924,195)          |
| Other employee benefit expenses                                 |    | (319,913)           | (140,774)          |
|                                                                 |    | <b>(1,572,035)</b>  | <b>(2,253,681)</b> |
| <b>(b) Depreciation, amortisation and impairment</b>            |    |                     |                    |
| <i>Included in cost of sales:</i>                               |    |                     |                    |
| Amortisation of oil and gas properties                          | 20 | (1,068,623)         | (1,277,389)        |
|                                                                 |    | <b>(1,068,623)</b>  | <b>(1,277,389)</b> |
| <i>Not included in cost of sales:</i>                           |    |                     |                    |
| Depreciation expense                                            | 18 | (7,647)             | (6,091)            |
| Reversal of impairment / (Impairment) of oil and gas properties | 20 | 99,535              | (575,853)          |
|                                                                 |    | <b>91,888</b>       | <b>(581,944)</b>   |
| <b>(c) Other expenses</b>                                       |    |                     |                    |
| Employee benefits expense                                       |    | (1,572,035)         | (2,253,681)        |
| Net loss on held-for-trading investment                         |    | -                   | (1,318,928)        |
| Foreign exchange losses                                         |    | (4,734)             | -                  |
| Depreciation expense                                            |    | (7,647)             | (6,091)            |
| Travel and accommodation                                        |    | (57,924)            | (96,556)           |
| Share registry fees                                             |    | (188,792)           | (83,766)           |
| Printing, postage and stationery                                |    | (26,069)            | (26,914)           |
| Operating lease expense                                         |    | (368,147)           | (299,125)          |
| Consultants                                                     |    | (47,991)            | (149,267)          |
| Audit and taxation advice                                       |    | (181,871)           | (171,803)          |
| IT support fees                                                 |    | (69,652)            | (52,436)           |
| Filing and listing fees                                         |    | (40,623)            | (29,109)           |
| Insurance                                                       |    | (34,426)            | (32,654)           |
| Investor relations                                              |    | (144,881)           | (120,668)          |
| Subscriptions                                                   |    | (10,196)            | (38,632)           |
| Communication costs                                             |    | (39,607)            | (33,227)           |
| Other                                                           |    | (266,489)           | (143,357)          |
|                                                                 |    | <b>(3,061,084)</b>  | <b>(4,856,214)</b> |

**VICTORIA PETROLEUM N.L. AND ITS CONTROLLED ENTITIES**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2010**

**NOTE 8:**  
**INCOME TAX**

**Income tax expense**

|                                                                                          | <b>Consolidated</b> |               |
|------------------------------------------------------------------------------------------|---------------------|---------------|
|                                                                                          | <b>2010</b>         | <b>2009</b>   |
|                                                                                          | <b>\$</b>           | <b>\$</b>     |
| <b>The major components of income tax expense are:</b>                                   |                     |               |
| <b>Income statement</b>                                                                  |                     |               |
| <b>Current income tax</b>                                                                |                     |               |
| Current income tax benefit                                                               | -                   | -             |
| Adjustments in respect of current income tax of previous years                           | -                   | -             |
| <b>Deferred income tax</b>                                                               |                     |               |
| Relating to origination and reversal of temporary differences                            | (783,854)           | 2,328,170     |
| Tax assets not brought to account                                                        | 682,239             | -             |
| Deferred tax assets not brought to account as realisation is not considered probable     | -                   | (2,272,301)   |
| <b>Income tax benefit / (expense) reporting in the Statement of Comprehensive Income</b> | <b>(101,615)</b>    | <b>55,869</b> |

**Amounts charged or credited directly to equity**

|                                                            | <b>Consolidated</b> |                 |
|------------------------------------------------------------|---------------------|-----------------|
|                                                            | <b>2010</b>         | <b>2009</b>     |
|                                                            | <b>\$</b>           | <b>\$</b>       |
| Unrealised (gain) / loss on available-for-sale investments | 101,615             | (55,869)        |
| <b>Income tax benefit / (expense) reported in equity</b>   | <b>101,615</b>      | <b>(55,869)</b> |

**VICTORIA PETROLEUM N.L. AND ITS CONTROLLED ENTITIES**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2010**

**NOTE 8:**  
**INCOME TAX (CONTINUED)**

**Numerical reconciliation between aggregate tax expense recognised in the income statement and tax expense calculated per the statutory income tax rate**

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

|                                                                                              | <b>Consolidated</b> |                    |
|----------------------------------------------------------------------------------------------|---------------------|--------------------|
|                                                                                              | <b>2010</b>         | <b>2009</b>        |
|                                                                                              | <b>\$</b>           | <b>\$</b>          |
| <b>Accounting profit / (loss) before income tax</b>                                          | <b>2,690,907</b>    | <b>(8,684,759)</b> |
| At the Group's statutory income tax rate of 30%<br>(2009: 30%)                               | (807,272)           | 2,605,428          |
| Share based payments                                                                         | -                   | (277,258)          |
| Other income not assessable                                                                  | 23,418              | -                  |
| Tax assets not brought to account                                                            | 682,239             | -                  |
| Net tax benefit not recognised in the current year due to<br>uncertainty of recoupment       | -                   | (2,272,301)        |
| <b>Income tax benefit / (expense) reporting in the<br/>Statement of Comprehensive Income</b> | <b>(101,615)</b>    | <b>55,869</b>      |

**VICTORIA PETROLEUM N.L. AND ITS CONTROLLED ENTITIES**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2010**

**NOTE 8:**  
**INCOME TAX (CONTINUED)**

**Recognised deferred tax assets and liabilities**

Deferred income tax at 30 June relates to the following:

|                                                                                       | <b>Consolidated</b>       |              |                             |             |
|---------------------------------------------------------------------------------------|---------------------------|--------------|-----------------------------|-------------|
|                                                                                       | <b>Statement of</b>       |              | <b>Statement of</b>         |             |
|                                                                                       | <b>Financial Position</b> |              | <b>Comprehensive Income</b> |             |
|                                                                                       | <b>2010</b>               | <b>2009</b>  | <b>2010</b>                 | <b>2009</b> |
|                                                                                       | <b>\$</b>                 | <b>\$</b>    | <b>\$</b>                   | <b>\$</b>   |
| <b>Deferred tax assets / (liabilities)</b>                                            |                           |              |                             |             |
| Held-for-trading financial assets                                                     | 637,449                   | 678,716      | (41,267)                    | 395,679     |
| Available-for-sale financial assets                                                   | 165,173                   | (78,032)     | 141,590                     | (32,286)    |
| Property, plant and equipment                                                         | 1,352                     | 1,078        | 274                         | (599)       |
| Oil and gas properties                                                                | (1,447,054)               | (66,191)     | (1,380,863)                 | (1,425,808) |
| Trade and other payables                                                              | 24,720                    | 23,870       | 850                         | 3,785       |
| Provisions                                                                            | 698,645                   | 577,983      | 120,662                     | 238,922     |
| Income tax losses                                                                     | 10,380,376                | 12,196,792   | (1,816,416)                 | 1,388,927   |
| Other                                                                                 | 334,797                   | 107,157      | 227,640                     | (48,938)    |
| Deferred tax assets not brought to account as realisation is not regarded as probable | (10,795,458)              | (13,441,373) | 2,645,915                   | (519,682)   |
| <b>Net deferred income tax assets recognised</b>                                      | <b>-</b>                  | <b>-</b>     | <b>(101,615)</b>            | <b>-</b>    |

**Tax losses**

As at 30 June 2010, the Group had \$34,601,254 (2009: \$40,655,973) of carry-forward tax losses that are available for use in Australia. The Group has deferred tax assets arising from these tax losses of \$10,380,376 (2009: \$12,196,792) that are available indefinitely for offset against future taxable profits of the income tax consolidated group. The deferred tax asset associated with these tax losses has not been recognised as its realisation is not regarded as probable as at 30 June 2010.

**Unrecognised temporary differences**

As at 30 June 2010, the Group has additional net deferred tax assets of \$415,082 (2009: \$1,244,581) in respect of other temporary differences. Other than the amounts disclosed above, the benefit of the Group's deferred tax assets is not recognised because it is not considered probable that sufficient taxable income will be derived in future periods against which to offset these assets. In particular, the benefit of these tax losses will only be obtained in future years if:

- the Group derives future assessable income of a nature and an amount sufficient to enable the benefit from the deduction for the losses to be realised;
- the Group has complied and continues to comply with the conditions for deductibility imposed by law; and
- no changes in tax legislation adversely affect the Group in realising the benefit from the deduction for the losses.

**VICTORIA PETROLEUM N.L. AND ITS CONTROLLED ENTITIES**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2010**

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**NOTE 8:**  
**INCOME TAX (CONTINUED)**

**Tax consolidation**

Victoria Petroleum N.L. and its controlled entities have implemented the tax consolidation legislation as of 1 July 2003.

As a consequence, individual entities within the consolidated group will recognise current and deferred tax amounts relating to their own transactions, events and balances. Any recognised balances relating to income tax payable or receivable, or to tax losses incurred by the individual entity will then be transferred to the head entity of the consolidated group, Victoria Petroleum N.L., by way of a contribution to or distribution of equity as appropriate. However, as there is no income tax payable in the current year, and it is not proposed to recognise balances in respect of losses in the current year in the individual entities, no such transfers will occur.

The entities also intend to enter into a Tax Sharing Agreement, but details of this agreement are still to be finalised. The absence of a Tax Sharing Agreement is not expected to have a material impact on the consolidated assets and liabilities and results.

**VICTORIA PETROLEUM N.L. AND ITS CONTROLLED ENTITIES**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2010**

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**NOTE 9:**  
**AUDITORS' REMUNERATION**

The auditor of Victoria Petroleum N.L. and its controlled entities is Ernst & Young.

|                                                                                                   | <b>Consolidated</b> |                |
|---------------------------------------------------------------------------------------------------|---------------------|----------------|
|                                                                                                   | <b>2010</b>         | <b>2009</b>    |
|                                                                                                   | <b>\$</b>           | <b>\$</b>      |
| <b>Amounts received or due and receivable by Ernst &amp; Young (Australia) for the following:</b> |                     |                |
| An audit or review of the financial report of the Group                                           | 120,768             | 116,648        |
| Other services provided to the Group:                                                             |                     |                |
| - tax compliance                                                                                  | 54,000              | 55,155         |
| - royalty audit                                                                                   | 10,300              | 4,400          |
| - other services                                                                                  | -                   | -              |
|                                                                                                   | <b>185,068</b>      | <b>176,203</b> |

**VICTORIA PETROLEUM N.L. AND ITS CONTROLLED ENTITIES**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2010**

**NOTE 10:**  
**EARNINGS PER SHARE**

Earnings per share amounts are calculated by dividing the net profit / (loss) for the year attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year.

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

**Earnings used in calculating earnings / (loss) per share**

|                                                                                                             | <b>Consolidated</b> |                    |
|-------------------------------------------------------------------------------------------------------------|---------------------|--------------------|
|                                                                                                             | <b>2010</b>         | <b>2009</b>        |
|                                                                                                             | <b>\$</b>           | <b>\$</b>          |
| <b>For basic and diluted earnings per share:</b>                                                            |                     |                    |
| Net profit / (loss) from continuing operations attributable to ordinary equity holders of the parent entity | 2,463,290           | (4,132,557)        |
| Gain / (Loss) from discontinued operations                                                                  | 126,002             | (4,496,333)        |
| <b>Net profit / (loss) attributable to ordinary equity holders of the parent entity</b>                     | <b>2,589,292</b>    | <b>(8,628,890)</b> |

**Weighted average number of shares**

|                                                                                       | <b>Consolidated</b> |                    |
|---------------------------------------------------------------------------------------|---------------------|--------------------|
|                                                                                       | <b>2010</b>         | <b>2009</b>        |
|                                                                                       | <b>\$</b>           | <b>\$</b>          |
| Weighted average number of ordinary shares for basic earnings per share               | 238,606,612         | 347,845,837        |
| Effect of dilution - share options                                                    | 1,991,605           | -                  |
| <b>Weighted average number of ordinary shares adjusted for the effect of dilution</b> | <b>240,598,217</b>  | <b>347,845,837</b> |

Subsequent to 30 June 2010, 11,210,000 unlisted options were issued to employees and directors of the Group. This issue would not significantly change the number of ordinary shares or potential ordinary shares outstanding between the reporting date and the date of completion of these financial statements.

**Information on the classification of securities**

**Options**

Options outstanding are considered to be potential ordinary shares and have been included in the determination of diluted earnings per share to the extent they are dilutive. Accordingly, these options have not been included in the determination of basic earnings per share, for the year ended 30 June 2009 as they were not dilutive.



**VICTORIA PETROLEUM N.L. AND ITS CONTROLLED ENTITIES**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2010**

**NOTE 11:**  
**CURRENT ASSETS – CASH AND CASH EQUIVALENTS**

|                                                | <b>Consolidated</b> |                   |
|------------------------------------------------|---------------------|-------------------|
|                                                | <b>2010</b>         | <b>2009</b>       |
|                                                | <b>\$</b>           | <b>\$</b>         |
| Cash at bank and in hand                       | 15,650,978          | 16,826,233        |
| Cash advanced to jointly controlled operations | 1,140,172           | 1,463,644         |
|                                                | <b>16,791,150</b>   | <b>18,289,877</b> |

**Fair value**

Cash at bank earns interest at floating rates based on daily bank deposit rates. The carrying amounts of cash and cash equivalents represent fair value.

**Foreign exchange and interest rate risk**

Details regarding foreign exchange and interest rate risk are disclosed in note 3.

**Reconciliation to Consolidated Cash Flow Statement**

For the purposes of the consolidated Cash Flow Statement, cash and cash equivalents comprise of the following:

|                                                             | <b>Consolidated</b> |                   |
|-------------------------------------------------------------|---------------------|-------------------|
|                                                             | <b>2010</b>         | <b>2009</b>       |
|                                                             | <b>\$</b>           | <b>\$</b>         |
| <b>Continuing operations</b>                                |                     |                   |
| Cash at bank and in hand                                    | 15,650,978          | 16,826,233        |
| Cash advanced to jointly controlled operations              | 1,140,172           | 1,463,644         |
|                                                             | <b>16,791,150</b>   | <b>18,289,877</b> |
| <b>Assets of disposal group classified as held for sale</b> |                     |                   |
| Cash at bank and in hand                                    | -                   | 28,807            |
| Cash advanced to jointly controlled operations              | -                   | 22,660            |
|                                                             | <b>16,791,150</b>   | <b>18,341,344</b> |

**VICTORIA PETROLEUM N.L. AND ITS CONTROLLED ENTITIES**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2010**

**NOTE 12:**  
**TERM DEPOSITS**

|               | <b>Consolidated</b> |             |
|---------------|---------------------|-------------|
|               | <b>2010</b>         | <b>2009</b> |
|               | <b>\$</b>           | <b>\$</b>   |
| Term Deposits | 20,000,000          | -           |

Term deposits are made for varying periods of between 90 days and 180 days, depending on the immediate cash requirements of the Group, and earn interest at the respective short-term deposit rates. The weighted average interest rate achieved for the year was 6.30%.

**NOTE 13:**  
**CURRENT ASSETS – PREPAYMENTS**

|                                                 | <b>Consolidated</b> |             |
|-------------------------------------------------|---------------------|-------------|
|                                                 | <b>2010</b>         | <b>2009</b> |
|                                                 | <b>\$</b>           | <b>\$</b>   |
| Payment for oil and gas properties <sup>1</sup> | 1,100,000           | -           |
| Prepayments - other                             | 30,000              | -           |
|                                                 | <b>1,130,000</b>    | <b>-</b>    |

<sup>1</sup> On 15 June 2010, the Group executed a conditional sale and purchase agreement with AuDAX Energy Ltd (“ADX”) to acquire all of ADX’s 49.90% working interest in PEL 182, South Australia. \$1.1m was paid to the solicitors’ trust account for the acquisition of PEL182 from ADX. The transactions were yet to be finalised as at 30 June 2010.

**VICTORIA PETROLEUM N.L. AND ITS CONTROLLED ENTITIES**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2010**

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**NOTE 14:**  
**CURRENT ASSETS – TRADE AND OTHER RECEIVABLES**

|                                        | <b>Consolidated</b> |                  |
|----------------------------------------|---------------------|------------------|
|                                        | <b>2010</b>         | <b>2009</b>      |
|                                        | <b>\$</b>           | <b>\$</b>        |
| Trade receivables <sup>1</sup>         | -                   | 1,358,085        |
| Sundry receivables <sup>2</sup>        | 1,228,305           | 181,333          |
| Joint venture receivables <sup>3</sup> | 667,223             | 318,716          |
|                                        | <b>1,895,528</b>    | <b>1,858,134</b> |

<sup>1</sup> These receivables relate to monies owing from oil sales, and are receivable 30 days from invoice date.

<sup>2</sup> These receivables are non-interest bearing, unsecured and expected to be repaid within the next 12 months.

<sup>3</sup> These receivables relate to the portion of trade receivables in joint ventures which is attributable to the Group.

All balances within trade and other receivables do not contain impaired assets and are not past due. It is expected that these balances will be received when due, and there is no history of counterparties defaulting on these receivables.

**Fair value and credit risk**

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

The maximum exposure to credit risk is the fair value of the receivables. Collateral is not held as security, nor is it the Group's policy to transfer receivables to special purpose entities.

**Foreign exchange and interest rate risk**

Details regarding foreign exchange and interest rate risk are disclosed in note 3.

**VICTORIA PETROLEUM N.L. AND ITS CONTROLLED ENTITIES**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2010**

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**NOTE 15:**  
**CURRENT ASSETS – HELD-FOR-TRADING FINANCIAL ASSETS**

**Financial assets fair value through profit and loss**

|                                     | <b>Consolidated</b> |             |
|-------------------------------------|---------------------|-------------|
|                                     | <b>2010</b>         | <b>2009</b> |
|                                     | <b>\$</b>           | <b>\$</b>   |
| Listed shares carried at fair value | 356,030             | 218,473     |

Investments held-for-trading consist of investments in ordinary shares, and therefore have no fixed maturity date or coupon rate.

The fair value of listed, held-for-trading investments has been determined directly by reference to published price quotations in an active market. Gains or losses on investments held for trading are recognised in profit or loss. During the period, the Group recognised a net gain of \$160,017 (2009: net loss \$1,318,928) on sale and re-measurement to fair value of investments held-for-trading.

Included in listed shares is the following material investment:

*Samson Oil & Gas Limited*

Samson Oil & Gas Limited (“Samson”) is an oil and gas explorer and producer, with development and production assets located in the United States of America. Samson is listed on the Australian Securities Exchange (code “SSN”).

**VICTORIA PETROLEUM N.L. AND ITS CONTROLLED ENTITIES**  
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**NOTE 16:**  
**NON-CURRENT ASSETS – TRADE AND OTHER RECEIVABLES**

|                                 | <b>Consolidated</b> |             |
|---------------------------------|---------------------|-------------|
|                                 | <b>2010</b>         | <b>2009</b> |
|                                 | <b>\$</b>           | <b>\$</b>   |
| Sundry receivables <sup>1</sup> | 99,750              | 99,816      |

<sup>1</sup> These receivables are non-interest bearing, unsecured and are not expected to be repaid within the next 12 months.

**Fair value and credit risk**

Due to the nature of these receivables, their carrying value is assumed to approximate their fair value.

The maximum exposure to credit risk is the fair value of the receivables. Collateral is not held as security, nor is it the Group's policy to transfer receivables to special purpose entities.

**Foreign exchange and interest rate risk**

Details regarding foreign exchange and interest rate risk are disclosed in note 3.

**VICTORIA PETROLEUM N.L. AND ITS CONTROLLED ENTITIES**  
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**NOTE 17:**

**NON-CURRENT ASSETS – AVAILABLE-FOR-SALE FINANCIAL ASSETS**

|                                     | <b>Consolidated</b> |             |
|-------------------------------------|---------------------|-------------|
|                                     | <b>2010</b>         | <b>2009</b> |
|                                     | <b>\$</b>           | <b>\$</b>   |
| Listed shares carried at fair value | 5,096,667           | 519,920     |

Available-for-sale investments consist of investments in ordinary shares, and therefore have no fixed maturity date or coupon rate.

The fair value of listed, available-for-sale investments has been determined directly by reference to published price quotations in an active market. Gains or losses on available-for-sale investments are recognised in equity. Available-for-sale investments are considered to be impaired when the fair value is significantly below cost for a prolonged period of time.

During the period, the Group recognised a net unrealised loss before tax of \$786,806 (2009: net unrealised gain of \$186,230) on re-measurement to fair value of available-for-sale investments in the reserve.

The available-for-sale investments were not impaired during the current period (2009: \$140,000).

Included in listed shares are the following material investments:

**Greenearth Energy Limited (GER)**

Greenearth Energy Limited ("Greenearth") is an Australian Geothermal energy company that aims to explore for and develop geothermal resources in Australia, Indonesia and in due course, the wider Pacific Rim. Greenearth is listed on the Australian Securities Exchange (code "GER").

During the period, the Group sold 292,332 Greenearth shares for total proceeds of \$55,532.

At 30 June 2010, the Group held 4,166,667 (2009: 4,541,002) Greenearth shares.

**Impress Energy Limited (ITC)**

Impress Energy Limited ("Impress") is an Australian based oil and gas exploration and production company and is the Group's joint venture partner for selected Cooper Basin projects. Impress is listed on the Australian Securities Exchange (code "ITC").

During the financial year, the Group acquired 90,000,000 (2009: nil) Impress shares, representing a total shareholding of 10.15%.

At 30 June 2010, there was no change in the number of Impress shares held.

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**NOTE 18:**

**NON-CURRENT ASSETS – PROPERTY, PLANT AND EQUIPMENT**

|                                                                        |             | <b>Consolidated</b> |               |
|------------------------------------------------------------------------|-------------|---------------------|---------------|
|                                                                        | <b>Note</b> | <b>2010</b>         | <b>2009</b>   |
|                                                                        |             | <b>\$</b>           | <b>\$</b>     |
| <b>Office equipment</b>                                                |             |                     |               |
| Balance at the beginning of the year, net of accumulated depreciation  |             | 5,213               | 21,401        |
| Additions                                                              |             | 19,680              | 4,014         |
| Depreciation charge for the year                                       | 7(b)        | (7,647)             | (12,239)      |
| Assets included in discontinued operations                             |             | -                   | (11,746)      |
| Foreign exchange adjustment                                            |             | -                   | 3,783         |
| <b>Balance at the end of the year, net of accumulated depreciation</b> |             | <b>17,246</b>       | <b>5,213</b>  |
| <b>Balance at the beginning of the year</b>                            |             |                     |               |
| Cost                                                                   |             | 37,172              | 148,498       |
| Accumulated depreciation                                               |             | (31,959)            | (127,097)     |
| <b>Net carrying amount</b>                                             |             | <b>5,213</b>        | <b>21,401</b> |
| <b>Balance at the beginning of the year</b>                            |             |                     |               |
| Cost                                                                   |             | 29,111              | 37,172        |
| Accumulated depreciation                                               |             | (11,865)            | (31,959)      |
| <b>Net carrying amount</b>                                             |             | <b>17,246</b>       | <b>5,213</b>  |

**VICTORIA PETROLEUM N.L. AND ITS CONTROLLED ENTITIES**  
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**NOTE 19:**  
**PARENT ENTITY INFORMATION**

|                                                        | <b>Parent Entity</b> |                    |
|--------------------------------------------------------|----------------------|--------------------|
|                                                        | <b>2010</b>          | <b>2009</b>        |
|                                                        | <b>\$</b>            | <b>\$</b>          |
| Total Current Assets                                   | 36,349,263           | 16,415,300         |
| Total Non-current Assets                               | 28,285,133           | 8,128,893          |
| <b>TOTAL ASSETS</b>                                    | <b>64,634,396</b>    | <b>24,544,193</b>  |
| Total Current Liabilities                              | 1,994,706            | 467,287            |
| Total Non-current Liabilities                          | 1,209,212            | 6,803,532          |
| <b>TOTAL LIABILITIES</b>                               | <b>3,203,918</b>     | <b>7,270,819</b>   |
| <b>NET ASSETS</b>                                      | <b>61,430,478</b>    | <b>17,273,374</b>  |
| <b>EQUITY</b>                                          |                      |                    |
| Contributed equity                                     | 151,266,106          | 110,018,067        |
| Share based payments reserve                           | 2,101,870            | 2,101,870          |
| Net unrealised gain / (loss) reserve                   | 178,442              | 229,241            |
| Accumulated losses                                     | (92,115,939)         | (95,075,804)       |
| <b>TOTAL EQUITY</b>                                    | <b>61,430,479</b>    | <b>17,273,374</b>  |
| <b>Net profit / (loss) of the parent entity</b>        | <b>2,959,869</b>     | <b>(9,110,126)</b> |
| <b>Other comprehensive income of the parent entity</b> | <b>(50,803)</b>      | <b>1,046,695</b>   |
| <b>Total comprehensive income of the parent entity</b> | <b>2,909,066</b>     | <b>(8,063,431)</b> |

There are no unrecorded contingent assets or liabilities in place for the Company at 30 June 2010 (2009: nil).



**VICTORIA PETROLEUM N.L. AND ITS CONTROLLED ENTITIES**  
**NOTES TO THE FINANCIAL STATEMENTS**  
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**NOTE 20:**  
**NON-CURRENT ASSETS – OIL AND GAS PROPERTIES**

|                                                                                       |      | <b>Consolidated</b> |                  |
|---------------------------------------------------------------------------------------|------|---------------------|------------------|
|                                                                                       |      | <b>2010</b>         | <b>2009</b>      |
|                                                                                       |      | <b>\$</b>           | <b>\$</b>        |
|                                                                                       |      | <b>Note</b>         |                  |
| <b>Oil and gas properties</b>                                                         |      |                     |                  |
| Balance at the beginning of the year, net of accumulated amortisation and impairment  |      | 7,752,655           | 5,549,302        |
| Additions                                                                             |      | 21,293,696          | 8,137,114        |
| Amortisation charge for the year                                                      | 7(b) | (1,068,623)         | (1,277,389)      |
| Reversal of impairment / (Impairment) of oil and gas properties                       | 7(b) | 99,535              | (4,683,518)      |
| Disposals                                                                             |      | (476,143)           | -                |
| Assets included in discontinued operations                                            |      | -                   | (1,073,324)      |
| Foreign exchange adjustment                                                           |      | -                   | 1,100,470        |
| <b>Balance at the end of the year, net of accumulated amortisation and impairment</b> |      | <b>27,601,120</b>   | <b>7,752,655</b> |
| <b>Balance at the beginning of the year</b>                                           |      |                     |                  |
| Cost                                                                                  |      | 16,381,080          | 17,620,610       |
| Accumulated amortisation                                                              |      | (5,605,064)         | (6,286,208)      |
| Accumulated impairment, net of reversals                                              |      | (3,023,361)         | (5,785,100)      |
| <b>Net carrying amount</b>                                                            |      | <b>7,752,655</b>    | <b>5,549,302</b> |
| <b>Balance at the end of the year</b>                                                 |      |                     |                  |
| Cost                                                                                  |      | 34,169,122          | 16,381,080       |
| Accumulated amortisation                                                              |      | (3,892,618)         | (5,605,064)      |
| Accumulated impairment, net of reversals                                              |      | (2,675,384)         | (3,023,361)      |
| <b>Net carrying amount</b>                                                            |      | <b>27,601,120</b>   | <b>7,752,655</b> |

**Impairment of oil and gas properties**

At 30 June 2010, the Group reviewed the carrying value of its oil and gas properties for impairment. The value of the oil and gas properties was reviewed on a field by field basis and has resulted in a reversal of impairment expense of \$99,535 (2009: impairment expense of \$4,683,518, including \$4,107,665 relating to Victoria Petroleum USA, Inc presented as discontinued operations). It is the Group's policy to use Proved and Probable (2P) reserves to support the carrying value of its oil and gas properties.

Events and circumstances that led to the recognition or reversal of impairment losses include changes in reserves estimates, budgeted revenue and expenses, estimated oil and gas prices and estimated foreign exchange rates.

The calculation of impairment losses / (reversal) was based on value-in-use and includes the following assumptions:

|                                 | <b>2010</b> | <b>2009</b> |
|---------------------------------|-------------|-------------|
|                                 | <b>\$</b>   | <b>\$</b>   |
| Oil price (USD per barrel)      | USD82.87    | USD68.00    |
| AUD / USD foreign exchange rate | \$0.90      | \$0.82      |
| Discount rate (% per annum)     | 20%         | 15%         |

**VICTORIA PETROLEUM N.L. AND ITS CONTROLLED ENTITIES**  
**NOTES TO THE FINANCIAL STATEMENTS**  
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**NOTE 21:**  
**NON-CURRENT ASSETS – EXPLORATION ASSETS**

|                    | <b>Consolidated</b> |             |
|--------------------|---------------------|-------------|
|                    | <b>2010</b>         | <b>2009</b> |
|                    | <b>\$</b>           | <b>\$</b>   |
| Exploration assets | 984,843             | -           |

**NOTE 22:**  
**CURRENT LIABILITIES – TRADE AND OTHER PAYABLES**

|                                                       | <b>Consolidated</b> |                  |
|-------------------------------------------------------|---------------------|------------------|
|                                                       | <b>2010</b>         | <b>2009</b>      |
|                                                       | <b>\$</b>           | <b>\$</b>        |
| Other creditors and accruals – unsecured <sup>1</sup> | 1,346,648           | 392,313          |
| Joint venture payables <sup>2</sup>                   | 1,713,545           | 1,167,981        |
|                                                       | <b>3,060,193</b>    | <b>1,560,294</b> |

<sup>1</sup> Other creditors and accruals are non-interest bearing, unsecured and will be paid in the next 12 months.

<sup>2</sup> These payables relate to the portion of trade payables in joint ventures which is attributable to the Group.

**Fair value**

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

**Foreign exchange and interest rate risk**

Details regarding foreign exchange and interest rate risk are disclosed in note 3.

**NOTE 23:**  
**CURRENT LIABILITIES – PROVISIONS**

|                               | <b>Consolidated</b> |             |
|-------------------------------|---------------------|-------------|
|                               | <b>2010</b>         | <b>2009</b> |
|                               | <b>\$</b>           | <b>\$</b>   |
| Annual and long service leave | 208,451             | 174,105     |

**VICTORIA PETROLEUM N.L. AND ITS CONTROLLED ENTITIES**  
**NOTES TO THE FINANCIAL STATEMENTS**  
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**NOTE 24:**  
**NON-CURRENT LIABILITIES – PROVISIONS**

|                    | <b>Consolidated</b> |                  |
|--------------------|---------------------|------------------|
|                    | <b>2010</b>         | <b>2009</b>      |
|                    | <b>\$</b>           | <b>\$</b>        |
| Rehabilitation     | 2,080,000           | 1,720,852        |
| Long service leave | 40,368              | 31,653           |
|                    | <b>2,120,368</b>    | <b>1,752,505</b> |

**Movement in provisions**

Movement in each class of provision during the financial year, other than provisions relating to employee benefits, are set out below:

|                                                 | <b>Consolidated</b> |                  |
|-------------------------------------------------|---------------------|------------------|
|                                                 | <b>2010</b>         | <b>2009</b>      |
|                                                 | <b>\$</b>           | <b>\$</b>        |
| <b>Rehabilitation</b>                           |                     |                  |
| Balance at the beginning of the year            | 1,720,852           | 810,909          |
| Additional provision recognised during the year | 359,148             | 1,763,284        |
| Transfer to discontinued operations             | -                   | (853,341)        |
| <b>Balance at the end of the year</b>           | <b>2,080,000</b>    | <b>1,720,852</b> |

**Nature and timing of provisions**

**Rehabilitation**

A provision for rehabilitation is recognised for costs such as reclamation, waste site closure and other costs associated with the restoration of an oil or gas site. Estimates of the restoration obligations are based on anticipated technology and legal requirements and future costs. In determining the rehabilitation provision, the entity has assumed no significant changes will occur in the relevant Federal and State legislation in relation to restoration of such properties in the future. It is expected that rehabilitation costs for producing assets will be incurred at the end of the asset's useful life. For all other wells, all costs are expected to be incurred within 4 years.

**Long service leave**

Refer to note 2 (s) for the relevant accounting policy and a discussion of the significant estimations and assumptions applied in the measurement of this provision.

**VICTORIA PETROLEUM N.L. AND ITS CONTROLLED ENTITIES**  
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**NOTE 25:**  
**CONTRIBUTED EQUITY**

|                                                                      | <b>Parent Entity</b> |                    |
|----------------------------------------------------------------------|----------------------|--------------------|
|                                                                      | <b>2010</b>          | <b>2009</b>        |
|                                                                      | <b>\$</b>            | <b>\$</b>          |
| 518,078,680 ordinary fully paid shares (2009: 368,300,198)           | 151,212,731          | 109,964,692        |
| 270,000 ordinary partly paid shares, paid to 10 cents <sup>1</sup>   | 27,000               | 27,000             |
| 1,915,000 ordinary partly paid shares, paid to 1 cent <sup>2</sup>   | 19,150               | 19,150             |
| 7,225,000 ordinary partly paid shares, paid to 0.1 cent <sup>3</sup> | 7,225                | 7,225              |
| <b>Total issued capital</b>                                          | <b>151,266,106</b>   | <b>110,018,067</b> |

<sup>1</sup> 2,700,000 ordinary shares were issued at 35 cents, partly paid to 1 cent. On 12 December 2006, a consolidation of the Company's share capital was completed, on the basis of one new share for every 10 existing shares. As a result of the share consolidation, there are now 270,000 shares which are partly paid to 10 cents, with \$3.40 per share unpaid.

<sup>2</sup> 19,150,000 ordinary shares were issued at 6 cents, partly paid to 0.1 cent. On 12 December 2006, a consolidation of the Company's share capital was completed, on the basis of one new share for every 10 existing shares. As a result of the share consolidation, there are now 1,915,000 shares which are partly paid to 1 cent, with 59 cents per share unpaid.

<sup>3</sup> 72,250,000 ordinary shares were issued at 4 cents, partly paid to 0.01 cent. On 12 December 2006, a consolidation of the Company's share capital was completed, on the basis of one new share for every 10 existing shares. As a result of the share consolidation, there are now 7,225,000 shares which are partly paid to 0.1 cent, with 39.9 cents per share unpaid.

Effective 1 July 1998, the Corporations legislation in place abolished the concepts of authorised capital and par value shares. Accordingly, the parent entity does not have authorised capital or par value in respect of its issued shares.

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

Partly paid shares have the same rights as fully paid ordinary shares, however they are only entitled to receive dividends to the extent of the paid up amount. Voting rights associated with partly paid shares are pro rated to the extent of the paid up amount.

**VICTORIA PETROLEUM N.L. AND ITS CONTROLLED ENTITIES**  
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**NOTE 25:**  
**CONTRIBUTED EQUITY (CONTINUED)**

**Ordinary shares**

**Movement in ordinary fully paid shares on issue**

|                                       | Parent Entity       |                    |                     |                    |
|---------------------------------------|---------------------|--------------------|---------------------|--------------------|
|                                       | 2010                |                    | 2009                |                    |
|                                       | Number of<br>shares | \$                 | Number of<br>shares | \$                 |
| Balance at the beginning of the year  | 368,300,198         | 109,964,692        | 320,151,033         | 103,253,881        |
| Shares issued during the year         | 149,778,482         | 42,399,021         | 48,149,165          | 6,757,291          |
| Transaction costs on shares issued    | -                   | (1,150,982)        | -                   | (46,480)           |
| <b>Balance at the end of the year</b> | <b>518,078,680</b>  | <b>151,212,731</b> | <b>368,300,198</b>  | <b>109,964,692</b> |

On 4 December 2009, the Company issued 40,000,000 ordinary fully paid shares at 30 cents each, to raise \$12,000,000 before costs.

On the same day, a Share Purchase Plan ("SPP") was offered to all eligible shareholders of the Company at an issue price of 30 cents per share. The SPP closed on 15 January 2010. On 28 January 2010, the Company issued 34,388,000 ordinary fully paid shares at a price of 30 cents each pursuant to the SPP, raising \$10,316,400.

A total of 51,158,554 ordinary fully paid shares were also issued at a price of 25 cents each for the exercise of unlisted and listed options, which raised \$12,789,639 before costs. The listed options expired on 31 January 2010. At 31 January 2010, 82% of the options were exercised by options holders. The numbers which remained unexercised at that date was 11,231,928 options. RBS Morgans Ltd ("RBS Morgans") arranged for the placement of the remaining options at 25 cents each. A total of \$2,807,982 before costs was raised from this placement.

On 1 February 2010, 13,000,000 ordinary fully paid shares were issued to Bow Energy Ltd ("Bow") pursuant to the sale agreement on 3 November 2009 for the purchase of Bow's interest in ATP574P. The ordinary fully paid shares are subject to a voluntary escrow until 2 November 2010. The fair value of these shares was \$4,485,000.

**VICTORIA PETROLEUM N.L. AND ITS CONTROLLED ENTITIES**  
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**NOTE 25:**  
**CONTRIBUTED EQUITY (CONTINUED)**

**Partly paid shares**

**Movement in ordinary partly paid shares on issue**

|                                       | Parent Entity       |               |                     |               |
|---------------------------------------|---------------------|---------------|---------------------|---------------|
|                                       | 2010                |               | 2009                |               |
|                                       | Number of<br>shares | \$            | Number of<br>shares | \$            |
| Balance at the beginning of the year  | 9,410,000           | 53,375        | 9,410,000           | 53,375        |
| <b>Balance at the end of the year</b> | <b>9,410,000</b>    | <b>53,375</b> | <b>9,410,000</b>    | <b>53,375</b> |

The ordinary partly paid shares at balance date comprise of the following:

- 270,000 ordinary shares were issued at \$3.50, partly paid to 10 cents.
- 1,915,000 ordinary shares were issued at 60 cents, partly paid to 1 cent.
- 7,225,000 ordinary shares were issued at 40 cents, partly paid to 0.1 cent.

The partly paid shares will not be subject to call by the Company on uncalled capital.

The partly paid shares will be entitled to participate in pro-rata share issues, such as bonus and rights issues, and their entitlements will be subject to the same requirements as the other ordinary issued shares in the Company. The partly paid shares carry the same dividend entitlements as ordinary shares to the extent of the paid up amount.

There are no performance conditions attached to these partly paid shares and thus they all vest on grant date.

**VICTORIA PETROLEUM N.L. AND ITS CONTROLLED ENTITIES**  
**NOTES TO THE FINANCIAL STATEMENTS**  
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**NOTE 25:**  
**CONTRIBUTED EQUITY (CONTINUED)**

**Options**

**Movement in share options on issue**

|                                       | <b>Parent Entity</b> |                   |
|---------------------------------------|----------------------|-------------------|
|                                       | <b>2010</b>          | <b>2009</b>       |
|                                       | <b>Number of</b>     | <b>Number of</b>  |
|                                       | <b>options</b>       | <b>options</b>    |
| Balance at the beginning of the year  | 71,165,482           | 68,506,647        |
| Options issued during the year        | -                    | 9,525,000         |
| Options exercised during the year     | (62,390,482)         | (149,165)         |
| Options expired during the year       | -                    | (6,717,000)       |
| <b>Balance at the end of the year</b> | <b>8,775,000</b>     | <b>71,165,482</b> |

A total of 750,000 unlisted options and 50,408,554 listed options were exercised by option holders during the year ended 30 June 2010 at a price of 25 cents, which raised \$12,789,639 before costs. The listed options expired on 31 January 2010 and RBS Morgans arranged for placement of the remaining options of 11,231,928 at 25 cents each. A total of \$2,807,982 before costs was raised from the placement with RBS Morgans.

The balance of the options at 30 June 2010:

- 8,775,000 unlisted options, which have an exercise price of 25 cents each and an expiry date of 31 January 2012.

Option holders do not have any right by virtue of the option to participate in any share issue of the company or any related body corporate.

**Capital management**

When managing capital (being total equity of \$68,583,322 at 30 June 2010), the 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.

The Group funds its activities through capital raising, and does not have any debt facilities. The Group is not subject to any externally imposed capital requirements.

**VICTORIA PETROLEUM N.L. AND ITS CONTROLLED ENTITIES**  
**NOTES TO THE FINANCIAL STATEMENTS**  
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**NOTE 26:**  
**RESERVES**

|                                                                                                                              |             | <b>Consolidated</b> |                  |
|------------------------------------------------------------------------------------------------------------------------------|-------------|---------------------|------------------|
|                                                                                                                              | <b>Note</b> | <b>2010</b>         | <b>2009</b>      |
|                                                                                                                              |             | <b>\$</b>           | <b>\$</b>        |
| <b>Foreign currency translation reserve</b>                                                                                  |             |                     |                  |
| Balance at the beginning of the year                                                                                         |             | 269,662             | (1,126,235)      |
| Amount transferred to the profit or loss on disposal of foreign investment                                                   |             | (269,662)           | -                |
| Translation of foreign subsidiaries                                                                                          |             | -                   | 1,395,897        |
| <b>Balance at the end of the year</b>                                                                                        |             | <b>-</b>            | <b>269,662</b>   |
| <b>Share based payments reserve</b>                                                                                          |             |                     |                  |
| Balance at the beginning of the year                                                                                         |             | 2,101,870           | 1,177,675        |
| Options issued                                                                                                               |             | -                   | 924,195          |
| <b>Balance at the end of the year</b>                                                                                        |             | <b>2,101,870</b>    | <b>2,101,870</b> |
| <b>Net unrealised gain / (loss) reserve</b>                                                                                  |             |                     |                  |
| Balance at the beginning of the year                                                                                         |             | 237,102             | 106,741          |
| Net gain / (loss) recognised on re-measurement to fair value of available-for-sale investments                               |             | (786,806)           | 186,230          |
| Tax effect on (net gain) / reversal of net gain recognised on re-measurement to fair value of available-for-sale investments | 8           | 101,615             | (55,869)         |
| <b>Balance at the end of the year</b>                                                                                        |             | <b>(448,089)</b>    | <b>237,102</b>   |
| <b>Total reserves</b>                                                                                                        |             | <b>1,653,781</b>    | <b>2,608,634</b> |

**Nature and purpose of reserves**

**Foreign currency translation reserve**

This reserve is used to record exchange differences arising from the translation of the financial statements of foreign subsidiaries. At 30 June 2010, no foreign subsidiaries were reported in the Group, following the disposal of Victoria Petroleum USA, Inc.

**Share based payments reserve**

This reserve is used to record the value of equity benefits provided to employees and directors as part of their remuneration.

**Net unrealised gain / (loss) reserve**

This reserve is used to record movements in the fair value of available-for-sale financial assets.



**VICTORIA PETROLEUM N.L. AND ITS CONTROLLED ENTITIES**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2010**

**NOTE 27:**  
**ACCUMULATED LOSSES**

|                                                                                  | <b>Consolidated</b> |                     |
|----------------------------------------------------------------------------------|---------------------|---------------------|
|                                                                                  | <b>2010</b>         | <b>2009</b>         |
|                                                                                  | <b>\$</b>           | <b>\$</b>           |
| Balance at the beginning of the year                                             | (86,925,857)        | (78,296,967)        |
| Net profit / (loss) attributable to ordinary equity holders of the parent entity | 2,589,292           | (8,628,890)         |
| <b>Balance at the end of the year</b>                                            | <b>(84,336,565)</b> | <b>(86,925,857)</b> |

**NOTE 28:**  
**CONSOLIDATED CASH FLOW STATEMENT RECONCILIATION**

|                                                                                                 |   | <b>Consolidated</b> |                    |
|-------------------------------------------------------------------------------------------------|---|---------------------|--------------------|
|                                                                                                 |   | <b>2010</b>         | <b>2009</b>        |
|                                                                                                 |   | <b>\$</b>           | <b>\$</b>          |
| <b>Reconciliation of the net (loss) / profit after tax to net cash flows used in operations</b> |   |                     |                    |
| <b>Net loss</b>                                                                                 |   | <b>2,589,292</b>    | <b>(8,628,890)</b> |
| <i>Adjustments:</i>                                                                             |   |                     |                    |
| Depreciation, amortisation and impairment                                                       |   | 976,735             | 5,973,146          |
| (Gain) / Loss on foreign exchange translation                                                   |   | 4,734               | (872,746)          |
| (Gain) / Loss on sale of oil and gas properties                                                 |   | (23,858)            | -                  |
| (Gain) / Loss on sale of controlled entities                                                    |   | (126,002)           | -                  |
| Net (gain) / loss recognised on re-measurement to fair value of held-for-trading investments    |   | (160,017)           | 1,295,541          |
| Share options expensed                                                                          |   | -                   | 924,195            |
| Income tax (benefit) / expense                                                                  | 8 | 101,615             | (55,869)           |
| <i>Changes in assets and liabilities:</i>                                                       |   |                     |                    |
| Increase / (Decrease) in provisions                                                             |   | 43,060              | 313,074            |
| Increase / (Decrease) in trade and other payables                                               |   | 1,288,904           | (145,930)          |
| (Increase) / Decrease in trade and other receivables                                            |   | (37,394)            | (113,533)          |
| <b>Net cash flows used in operating activities</b>                                              |   | <b>4,657,069</b>    | <b>(1,311,012)</b> |

**VICTORIA PETROLEUM N.L. AND ITS CONTROLLED ENTITIES**  
**NOTES TO THE FINANCIAL STATEMENTS**  
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**NOTE 29:**  
**INTEREST IN JOINT VENTURE OPERATIONS**

The Group has an interest in the following joint venture operations whose principal activities were oil and gas exploration and production.

| <b>Permits</b>            | <b>Consolidated<br/>Working Interest</b> |                              |
|---------------------------|------------------------------------------|------------------------------|
|                           | <b>2010<br/>Percentage %</b>             | <b>2009<br/>Percentage %</b> |
| <b>Australian permits</b> |                                          |                              |
| ATP 471P                  | 20.7%                                    | 20.7%                        |
| ATP 560P                  | 17% - 50%                                | 17% - 50%                    |
| ATP 574P                  | 30% - 75%                                | 30% - 75%                    |
| ATP 593P                  | 24% - 45%                                | 24% - 45%                    |
| ATP 608P                  | -                                        | 24% - 29.69%                 |
| ATP 736P                  | -                                        | 80%                          |
| ATP 737P                  | -                                        | 80%                          |
| ATP 738P                  | -                                        | 80%                          |
| ATP 752P                  | 20%                                      | 15%                          |
| ATP 771P                  | 25% - 45%                                | 25% - 45%                    |
| ATP 794P                  | 12% - 60%                                | 12% - 60%                    |
| ATP 805P                  | -                                        | 15%                          |
| PL 171                    | 20%                                      | 20%                          |
| PL 231                    | -                                        | 40%                          |
| EP 413                    | -                                        | 5%                           |
| EP 427                    | -                                        | 25%                          |
| L 14                      | -                                        | 5%                           |
| WA 254P                   | 6.17% - 9.31%                            | 6.17% - 9.31%                |
| PEL 88                    | 50%                                      | 50%                          |
| PEL 94                    | 15%                                      | 15%                          |
| PEL 115                   | 33%                                      | 100%                         |
| PEL 110                   | 60%                                      | -                            |
| PEL 87 & 424              | 60%                                      | 40%                          |
| PEL 104                   | 60%                                      | 40%                          |
| PEL 111                   | 60%                                      | 40%                          |
| PEL 424                   | 60%                                      | 40%                          |
| PPL 213                   | 60%                                      | 40%                          |
| PPL 214                   | 60%                                      | 40%                          |
| PRL 15                    | 60%                                      | 40%                          |

**VICTORIA PETROLEUM N.L. AND ITS CONTROLLED ENTITIES**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2010**

**NOTE 29:**  
**INTEREST IN JOINT VENTURE OPERATIONS (CONTINUED)**

|                                 | <b>Consolidated<br/>Working Interest</b> |                     |
|---------------------------------|------------------------------------------|---------------------|
|                                 | <b>2010</b>                              | <b>2009</b>         |
| <b>Permits</b>                  | <b>Percentage %</b>                      | <b>Percentage %</b> |
| <b>International properties</b> |                                          |                     |
| Gouaro                          | -                                        | 27.7%               |
| Eagle                           | -                                        | 20%                 |
| Flour Bluff                     | -                                        | 12.50% - 16.67%     |
| Margarita                       | -                                        | 20%                 |
| Hal                             | -                                        | 100%                |
| San Antonio                     | -                                        | 3.75% - 7.33%       |
| Vallecitos                      | -                                        | 22.5%               |
| West Florence                   | -                                        | 41.7%               |

The Group's share of the joint venture operation assets and liabilities, including those relating to the discontinued operations of the Group, consist of:

|                                | <b>Consolidated</b> |                  |
|--------------------------------|---------------------|------------------|
|                                | <b>2010</b>         | <b>2009</b>      |
|                                | <b>\$</b>           | <b>\$</b>        |
| <b>Current Assets</b>          |                     |                  |
| Cash and cash equivalents      | 1,140,172           | 1,486,304        |
| Trade and other receivables    | 667,223             | 441,500          |
| <b>Non-current Assets</b>      |                     |                  |
| Oil and gas properties         | 27,601,120          | 7,882,288        |
| <b>TOTAL ASSETS</b>            | <b>29,408,515</b>   | <b>9,810,092</b> |
| <b>Current Liabilities</b>     |                     |                  |
| Trade and other payables       | 1,713,545           | 1,235,158        |
| <b>Non-current Liabilities</b> |                     |                  |
| Provision for rehabilitation   | 2,080,000           | 2,574,192        |
| <b>TOTAL LIABILITIES</b>       | <b>3,793,545</b>    | <b>3,809,350</b> |
| <b>NET ASSETS</b>              | <b>33,202,060</b>   | <b>6,000,742</b> |

**VICTORIA PETROLEUM N.L. AND ITS CONTROLLED ENTITIES**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2010**

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**NOTE 29:**  
**INTEREST IN JOINT VENTURE OPERATIONS (CONTINUED)**

The Group's share of the joint venture operations revenue and expenses, including those relating to the discontinued operations of the Group, consists of:

|                                  | <b>Consolidated</b> |                     |
|----------------------------------|---------------------|---------------------|
|                                  | <b>2010</b>         | <b>2009</b>         |
|                                  | <b>\$</b>           | <b>\$</b>           |
| <b>Revenue</b>                   |                     |                     |
| Oil sales                        | 10,512,989          | 9,731,634           |
| Technical service fees           | 1,457,850           | -                   |
| Gas sales                        | -                   | 502,351             |
|                                  | <b>11,970,839</b>   | <b>10,233,985</b>   |
| <b>Expenses</b>                  |                     |                     |
| Cost of sales                    | (5,429,245)         | (5,785,653)         |
| Oil and gas exploration expenses | (2,392,512)         | (6,424,477)         |
|                                  | <b>(7,821,757)</b>  | <b>(12,210,130)</b> |

**VICTORIA PETROLEUM N.L. AND ITS CONTROLLED ENTITIES**  
**NOTES TO THE FINANCIAL STATEMENTS**  
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**NOTE 30:**  
**RELATED PARTY DISCLOSURE**

**Controlled entities / Subsidiaries**

The consolidated financial statements include the financial statements of Victoria Petroleum N.L. and its controlled entities listed in the following table.

| Name                                                                | Country of incorporation | Equity Interest Percentage % |      |
|---------------------------------------------------------------------|--------------------------|------------------------------|------|
|                                                                     |                          | 2010                         | 2009 |
| <b>Parent entity</b>                                                |                          |                              |      |
| Victoria Petroleum N.L.                                             | Australia                |                              |      |
| <b>Directly controlled by Victoria Petroleum N.L.</b>               |                          |                              |      |
| Azeeza Pty Ltd                                                      | Australia                | 100%                         | 100% |
| Victoria Petroleum Offshore Pty Ltd                                 | Australia                | 100%                         | 100% |
| Victoria Oil Pty Ltd                                                | Australia                | 100%                         | 100% |
| Victoria International Petroleum N.L.                               | Australia                | 100%                         | 100% |
| Remers Pty Ltd                                                      | Australia                | 100%                         | 100% |
| Permian Oil Pty Ltd                                                 | Australia                | 100%                         | -    |
| Lansvale Oil & Gas Pty Ltd <sup>1</sup>                             | Australia                | -                            | 100% |
| Victoria Petroleum (WA-209P) Pty Ltd <sup>2</sup>                   | Australia                | -                            | 100% |
| Victoria Petroleum (Middle East) Pty Ltd <sup>2</sup>               | Australia                | -                            | 100% |
| Victoria Minerals Exploration Ltd                                   | Australia                | -                            | 100% |
| <b>Directly controlled by Victoria Minerals Exploration Ltd</b>     |                          |                              |      |
| Victoria Diamond Exploration Pty Ltd <sup>1</sup>                   | Australia                | -                            | 100% |
| Victoria Oil Exploration (1977) Pty Ltd                             | Australia                | 100%                         | 100% |
| <b>Directly controlled by Victoria International Petroleum N.L.</b> |                          |                              |      |
| Victoria Petroleum USA, Inc <sup>3</sup>                            | United States            | -                            | 100% |
| <b>Directly controlled by Remers Pty Ltd</b>                        |                          |                              |      |
| Victoria Exploration (PNG) Pty Ltd                                  | PNG                      | -                            | 100% |
| Whitewood Nominees Pty Ltd                                          | Australia                | 100%                         | 100% |

<sup>1</sup> The sale of the shares and assets of the subsidiaries Lansvale Oil & Gas Pty Ltd and Victoria Diamond Exploration Pty Ltd, to Rough Range Oil Pty Ltd, was completed on 20 August 2009. The Share and Assets Sale Agreement was signed on 6 May 2009.

<sup>2</sup> The Group applied for a voluntary deregistration of Victoria Petroleum (WA-209P) Pty Ltd, Victoria Petroleum (Middle East) Pty Ltd and Victoria Minerals Exploration Ltd on 29 April 2009, and was advised by the Australian Securities and Investments Commission that the deregistration application had been approved on 18 June 2009. These subsidiaries were officially deregistered on 22 July 2009.

<sup>3</sup> On 12 August 2009, the Company entered into a sale and purchase agreement with R&M Oil and Gas, LLLP to dispose of the Company's controlled entity, Victoria Petroleum USA, Inc. The date of control of the business passed to the acquirer on that date. The Company received the sale proceeds of \$300,000 from the acquirer in September 2009.

**VICTORIA PETROLEUM N.L. AND ITS CONTROLLED ENTITIES**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2010**

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**NOTE 30:**  
**RELATED PARTY DISCLOSURE (CONTINUED)**

**Key Management Personnel**

Details relating to Key Management Personnel, including remuneration paid, are included in note 31.

**Transactions with related parties**

Elstree Nominees Pty Ltd ("Elstree") provides the Group with office premises and facilities at cost. Mr DI Rakich is the sole director of Elstree and the Company Secretary for Victoria Petroleum N.L.

There were no other transactions between Victoria Petroleum N.L. and its controlled entities during the financial year.

**VICTORIA PETROLEUM N.L. AND ITS CONTROLLED ENTITIES**  
**NOTES TO THE FINANCIAL STATEMENTS**  
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**NOTE 31:**  
**KEY MANAGEMENT PERSONNEL**

**Details of Key Management Personnel**

**Compensation of Key Management Personnel**

|                     | <b>Consolidated</b> |                  |
|---------------------|---------------------|------------------|
|                     | <b>2010</b>         | <b>2009</b>      |
|                     | <b>\$</b>           | <b>\$</b>        |
| Short-term          | 936,666             | 944,327          |
| Post employment     | 83,229              | 89,411           |
| Share based payment | -                   | 906,450          |
|                     | <b>1,019,895</b>    | <b>1,940,188</b> |

**Option holdings of Key Management Personnel (Consolidated)**

The numbers of options in the Company held during the financial year by each director and executive of Victoria Petroleum N.L., including their personally related entities, are set out below.

**Options held in Victoria Petroleum N.L. for the year ended 30 June 2010**

Unlisted options were issued on 18 February 2009, vested immediately, have an exercise price of 25 cents each and an expiry date of 31 January 2012. There are no performance conditions attached to these unlisted options and thus they all vest on grant date.

| <b>Number of Options</b> | <b>Balance at beginning of period 1-Jul-09</b> | <b>Granted as compensation</b> | <b>Options exercised</b> | <b>Options expired</b> | <b>Net Change Other</b> | <b>Balance at end of period 30-Jun-10</b> |
|--------------------------|------------------------------------------------|--------------------------------|--------------------------|------------------------|-------------------------|-------------------------------------------|
| <b>Directors</b>         |                                                |                                |                          |                        |                         |                                           |
| DF Patten                | 1,500,000                                      | -                              | -                        | -                      | -                       | 1,500,000                                 |
| JT Kopcheff <sup>2</sup> | 3,000,000                                      | -                              | -                        | -                      | -                       | 3,000,000                                 |
| NC Fearis <sup>1</sup>   | -                                              | -                              | -                        | -                      | -                       | -                                         |
| BM McKeown               | 1,000,000                                      | -                              | -                        | -                      | -                       | 1,000,000                                 |
| RJ Pett                  | 1,000,000                                      | -                              | -                        | -                      | -                       | 1,000,000                                 |
| <b>Executives</b>        |                                                |                                |                          |                        |                         |                                           |
| DI Rakich                | 1,000,000                                      | -                              | -                        | -                      | -                       | 1,000,000                                 |
| CM Lane                  | 500,000                                        | -                              | -                        | -                      | -                       | 500,000                                   |
| <b>Total</b>             | <b>8,000,000</b>                               | <b>-</b>                       | <b>-</b>                 | <b>-</b>               | <b>-</b>                | <b>8,000,000</b>                          |

<sup>1</sup> NC Fearis resigned on 19 November 2009

<sup>2</sup> JT Kopcheff retired from the Board as Executive Director on 22 September 2010

**VICTORIA PETROLEUM N.L. AND ITS CONTROLLED ENTITIES**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2010**

**NOTE 31:**  
**KEY MANAGEMENT PERSONNEL (CONTINUED)**

**Option holdings of Key Management Personnel (Consolidated) (Continued)**

**Options held in Victoria Petroleum N.L. for the year ended 30 June 2009**

Unlisted options were issued on 18 February 2009, vested immediately, have an exercise price of 25 cents each and an expiry date of 31 January 2012. There are no performance conditions attached to these unlisted options and thus they all vest on grant date.

| <b>Number of Options</b> | <b>Balance at beginning of period<br/>1-Jul-08</b> | <b>Granted as compensation <sup>6</sup></b> | <b>Options exercised</b> | <b>Options expired <sup>7</sup></b> | <b>Net Change<br/>Other <sup>5</sup></b> | <b>Balance at end of period<br/>30-Jun-09</b> |
|--------------------------|----------------------------------------------------|---------------------------------------------|--------------------------|-------------------------------------|------------------------------------------|-----------------------------------------------|
| <b>Directors</b>         |                                                    |                                             |                          |                                     |                                          |                                               |
| DF Patten                | -                                                  | 1,500,000                                   | -                        | -                                   | -                                        | 1,500,000                                     |
| JT Kopcheff              | 4,200,000                                          | 3,000,000                                   | -                        | (4,200,000)                         | -                                        | 3,000,000                                     |
| A Bajada <sup>1</sup>    | -                                                  | -                                           | -                        | -                                   | -                                        | -                                             |
| A Dimsey <sup>2</sup>    | -                                                  | -                                           | -                        | -                                   | -                                        | -                                             |
| NC Fearis                | -                                                  | -                                           | -                        | -                                   | -                                        | -                                             |
| BM McKeown <sup>3</sup>  | -                                                  | 1,000,000                                   | -                        | -                                   | -                                        | 1,000,000                                     |
| RJ Pett                  | -                                                  | 1,000,000                                   | -                        | -                                   | -                                        | 1,000,000                                     |
| AN Short <sup>4</sup>    | -                                                  | -                                           | -                        | -                                   | -                                        | -                                             |
| B Wrixon <sup>5</sup>    | 350,000                                            | 1,000,000                                   | -                        | (350,000)                           | (1,000,000)                              | -                                             |
| <b>Executives</b>        |                                                    |                                             |                          |                                     |                                          |                                               |
| DI Rakich                | 1,175,000                                          | 1,000,000                                   | -                        | (1,175,000)                         | -                                        | 1,000,000                                     |
| CM Lane                  | 350,000                                            | 500,000                                     | -                        | (350,000)                           | -                                        | 500,000                                       |
| <b>Total</b>             | <b>6,075,000</b>                                   | <b>9,000,000</b>                            | <b>-</b>                 | <b>(6,075,000)</b>                  | <b>(1,000,000)</b>                       | <b>8,000,000</b>                              |

<sup>1</sup> A Bajada resigned on 27 October 2008

<sup>2</sup> A Dimsey resigned on 27 October 2008

<sup>3</sup> BM McKeown was appointed on 17 December 2008

<sup>4</sup> AN Short resigned on 27 October 2008

<sup>5</sup> B Wrixon resigned on 29 June 2009

<sup>6</sup> These options were issued on 18 February 2009, vested immediately, have an exercise price of 25 cents each and an expiry date of 31 January 2012.

<sup>7</sup> These options were issued on 8 January 2004, vested immediately and had an original exercise price of 2.8 cents. As a result of the share consolidation on 12 December 2006, the options had an exercise price of 28 cents each. These options expired on 30 November 2008.



**VICTORIA PETROLEUM N.L. AND ITS CONTROLLED ENTITIES**  
**NOTES TO THE FINANCIAL STATEMENTS**  
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**NOTE 31:**  
**KEY MANAGEMENT PERSONNEL (CONTINUED)**

**Shareholdings of Key Management Personnel (Consolidated)**

The numbers of shares in the Company held during the financial year by each director and executive of Victoria Petroleum N.L., including their personally related entities, are set out below.

**Ordinary fully paid shares held in Victoria Petroleum N.L. for the year ended 30 June 2010**

| <b>Number of<br/>ordinary fully<br/>paid shares</b> | <b>Balance at<br/>beginning of<br/>period<br/>1-Jul-09</b> | <b>Granted as<br/>compensation</b> | <b>Options<br/>exercised</b> | <b>Options<br/>expired</b> | <b>Net Change<br/>Other</b> | <b>Balance at<br/>end of<br/>period<br/>30-Jun-10</b> |
|-----------------------------------------------------|------------------------------------------------------------|------------------------------------|------------------------------|----------------------------|-----------------------------|-------------------------------------------------------|
| <b>Directors</b>                                    |                                                            |                                    |                              |                            |                             |                                                       |
| DF Patten                                           | 330,000                                                    | -                                  | -                            | -                          | 170,000                     | 500,000                                               |
| JT Kopcheff <sup>2</sup>                            | 1,000,000                                                  | -                                  | -                            | -                          | 400,000                     | 1,400,000                                             |
| NC Fearis <sup>1</sup>                              | -                                                          | -                                  | -                            | -                          | -                           | -                                                     |
| BM McKeown                                          | -                                                          | -                                  | -                            | -                          | -                           | -                                                     |
| RJ Pett                                             | 433,200                                                    | -                                  | -                            | -                          | 108,300                     | 541,500                                               |
| <b>Executives</b>                                   |                                                            |                                    |                              |                            |                             |                                                       |
| DI Rakich                                           | -                                                          | -                                  | -                            | -                          | -                           | -                                                     |
| CM Lane                                             | -                                                          | -                                  | -                            | -                          | -                           | -                                                     |
| <b>Total</b>                                        | <b>1,763,200</b>                                           | <b>-</b>                           | <b>-</b>                     | <b>-</b>                   | <b>678,300</b>              | <b>2,441,500</b>                                      |

<sup>1</sup> NC Fearis resigned on 19 November 2009

<sup>2</sup> JT Kopcheff retired from the Board as Executive Director on 22 September 2010

**VICTORIA PETROLEUM N.L. AND ITS CONTROLLED ENTITIES**  
**NOTES TO THE FINANCIAL STATEMENTS**  
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**NOTE 31:**  
**KEY MANAGEMENT PERSONNEL (CONTINUED)**

**Shareholdings of Key Management Personnel (Consolidated) (Continued)**

**Ordinary fully paid shares held in Victoria Petroleum N.L. for the year ended 30 June 2009**

| <b>Number of<br/>ordinary fully<br/>paid shares</b> | <b>Balance at<br/>beginning of<br/>period<br/>1-Jul-08</b> | <b>Granted as<br/>compensation</b> | <b>Options<br/>exercised</b> | <b>Options<br/>expired</b> | <b>Net Change<br/>Other</b> | <b>Balance at<br/>end of<br/>period<br/>30-Jun-09</b> |
|-----------------------------------------------------|------------------------------------------------------------|------------------------------------|------------------------------|----------------------------|-----------------------------|-------------------------------------------------------|
| <b>Directors</b>                                    |                                                            |                                    |                              |                            |                             |                                                       |
| DF Patten <sup>1</sup>                              | -                                                          | -                                  | -                            | -                          | 330,000                     | 330,000                                               |
| JT Kopcheff                                         | 1,000,000                                                  | -                                  | -                            | -                          | -                           | 1,000,000                                             |
| A Bajada <sup>2</sup>                               | -                                                          | -                                  | -                            | -                          | -                           | -                                                     |
| A Dimsey <sup>3</sup>                               | -                                                          | -                                  | -                            | -                          | -                           | -                                                     |
| NC Fearis                                           | -                                                          | -                                  | -                            | -                          | -                           | -                                                     |
| BM McKeown <sup>4</sup>                             | -                                                          | -                                  | -                            | -                          | -                           | -                                                     |
| RJ Pett                                             | 433,200                                                    | -                                  | -                            | -                          | -                           | 433,200                                               |
| AN Short <sup>5</sup>                               | -                                                          | -                                  | -                            | -                          | -                           | -                                                     |
| B Wrixon <sup>6</sup>                               | -                                                          | -                                  | -                            | -                          | -                           | -                                                     |
| <b>Executives</b>                                   |                                                            |                                    |                              |                            |                             |                                                       |
| DI Rakich                                           | -                                                          | -                                  | -                            | -                          | -                           | -                                                     |
| CM Lane                                             | -                                                          | -                                  | -                            | -                          | -                           | -                                                     |
| <b>Total</b>                                        | <b>1,433,200</b>                                           | <b>-</b>                           | <b>-</b>                     | <b>-</b>                   | <b>330,000</b>              | <b>1,763,200</b>                                      |

<sup>1</sup> DF Patten acquired 330,000 ordinary fully paid shares on the market in the following transactions:

- 100,000 shares were acquired on 12 September 2008
- 114,000 shares were acquired on 27 October 2008
- 130,000 shares were acquired on 25 November 2008
- 14,000 shares were disposed on 18 February 2009

<sup>2</sup> A Bajada resigned on 27 October 2008

<sup>3</sup> A Dimsey resigned on 27 October 2008

<sup>4</sup> BM McKeown was appointed on 17 December 2008

<sup>5</sup> AN Short resigned on 27 October 2008

<sup>6</sup> B Wrixon resigned on 29 June 2009

**VICTORIA PETROLEUM N.L. AND ITS CONTROLLED ENTITIES**  
**NOTES TO THE FINANCIAL STATEMENTS**  
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**NOTE 31:**  
**KEY MANAGEMENT PERSONNEL (CONTINUED)**

**Shareholdings of Key Management Personnel (Consolidated) (Continued)**

**Ordinary partly paid shares (issued at 35 cents, partly paid to 1 cent) held in Victoria Petroleum N.L. for the year ended 30 June 2010**

On 12 December 2006, a consolidation of the Company's share capital was completed, on the basis of one new share for every 10 existing shares. As a result of the share consolidation, the shares are now partly paid to 10 cents, with \$3.40 per share unpaid.

| <b>Number of<br/>ordinary partly<br/>paid shares</b> | <b>Balance at<br/>beginning of<br/>period<br/>1-Jul-09</b> | <b>Granted as<br/>compensation</b> | <b>Options<br/>exercised</b> | <b>Options<br/>expired</b> | <b>Net Change<br/>Other</b> | <b>Balance at<br/>end of<br/>period<br/>30-Jun-10</b> |
|------------------------------------------------------|------------------------------------------------------------|------------------------------------|------------------------------|----------------------------|-----------------------------|-------------------------------------------------------|
| <b>Directors</b>                                     |                                                            |                                    |                              |                            |                             |                                                       |
| DF Patten                                            | -                                                          | -                                  | -                            | -                          | -                           | -                                                     |
| JT Kopcheff <sup>2</sup>                             | 100,000                                                    | -                                  | -                            | -                          | -                           | 100,000                                               |
| NC Fearis <sup>1</sup>                               | -                                                          | -                                  | -                            | -                          | -                           | -                                                     |
| BM McKeown                                           | -                                                          | -                                  | -                            | -                          | -                           | -                                                     |
| RJ Pett                                              | 140,000                                                    | -                                  | -                            | -                          | -                           | 140,000                                               |
| <b>Executives</b>                                    |                                                            |                                    |                              |                            |                             |                                                       |
| DI Rakich                                            | -                                                          | -                                  | -                            | -                          | -                           | -                                                     |
| CM Lane                                              | -                                                          | -                                  | -                            | -                          | -                           | -                                                     |
| <b>Total</b>                                         | <b>240,000</b>                                             | <b>-</b>                           | <b>-</b>                     | <b>-</b>                   | <b>-</b>                    | <b>240,000</b>                                        |

<sup>1</sup> NC Fearis resigned on 19 November 2009

<sup>2</sup> JT Kopcheff retired from the Board as Executive Director on 22 September 2010

**VICTORIA PETROLEUM N.L. AND ITS CONTROLLED ENTITIES**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2010**

**NOTE 31:**  
**KEY MANAGEMENT PERSONNEL (CONTINUED)**

**Shareholdings of Key Management Personnel (Consolidated) (Continued)**

**Ordinary partly paid shares (issued at 35 cents, partly paid to 1 cent) held in Victoria Petroleum N.L. for the year ended 30 June 2009**

On 12 December 2006, a consolidation of the Company's share capital was completed, on the basis of one new share for every 10 existing shares. As a result of the share consolidation, the shares are now partly paid to 10 cents, with \$3.40 per share unpaid.

| <b>Number of<br/>ordinary partly<br/>paid shares</b> | <b>Balance at<br/>beginning of<br/>period<br/>1-Jul-08</b> | <b>Granted as<br/>compensation</b> | <b>Options<br/>exercised</b> | <b>Options<br/>expired</b> | <b>Net Change<br/>Other</b> | <b>Balance at<br/>end of<br/>period<br/>30-Jun-09</b> |
|------------------------------------------------------|------------------------------------------------------------|------------------------------------|------------------------------|----------------------------|-----------------------------|-------------------------------------------------------|
| <b>Directors</b>                                     |                                                            |                                    |                              |                            |                             |                                                       |
| DF Patten                                            | -                                                          | -                                  | -                            | -                          | -                           | -                                                     |
| JT Kopcheff                                          | 100,000                                                    | -                                  | -                            | -                          | -                           | 100,000                                               |
| A Bajada <sup>1</sup>                                | -                                                          | -                                  | -                            | -                          | -                           | -                                                     |
| A Dimsey <sup>2</sup>                                | -                                                          | -                                  | -                            | -                          | -                           | -                                                     |
| NC Fearis                                            | -                                                          | -                                  | -                            | -                          | -                           | -                                                     |
| BM McKeown <sup>3</sup>                              | -                                                          | -                                  | -                            | -                          | -                           | -                                                     |
| RJ Pett                                              | 140,000                                                    | -                                  | -                            | -                          | -                           | 140,000                                               |
| AN Short <sup>4</sup>                                | -                                                          | -                                  | -                            | -                          | -                           | -                                                     |
| B Wrixon <sup>5</sup>                                | -                                                          | -                                  | -                            | -                          | -                           | -                                                     |
| <b>Executives</b>                                    |                                                            |                                    |                              |                            |                             |                                                       |
| DI Rakich                                            | -                                                          | -                                  | -                            | -                          | -                           | -                                                     |
| CM Lane                                              | -                                                          | -                                  | -                            | -                          | -                           | -                                                     |
| <b>Total</b>                                         | <b>240,000</b>                                             | <b>-</b>                           | <b>-</b>                     | <b>-</b>                   | <b>-</b>                    | <b>240,000</b>                                        |

<sup>1</sup> A Bajada resigned on 27 October 2008

<sup>2</sup> A Dimsey resigned on 27 October 2008

<sup>3</sup> BM McKeown was appointed on 17 December 2008

<sup>4</sup> AN Short resigned on 27 October 2008

<sup>5</sup> B Wrixon resigned on 29 June 2009

**VICTORIA PETROLEUM N.L. AND ITS CONTROLLED ENTITIES**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2010**

**NOTE 31:**  
**KEY MANAGEMENT PERSONNEL (CONTINUED)**

**Shareholdings of Key Management Personnel (Consolidated) (Continued)**

**Ordinary partly paid shares (issued at 6 cents, partly paid to 0.1 cent) held in Victoria Petroleum N.L. for the year ended 30 June 2010**

On 12 December 2006, a consolidation of the Company's share capital was completed, on the basis of one new share for every 10 existing shares. As a result of the share consolidation, the shares are now partly paid to 1 cent, with 59 cents per share unpaid.

| <b>Number of<br/>ordinary partly<br/>paid shares</b> | <b>Balance at<br/>beginning of<br/>period<br/>1-Jul-09</b> | <b>Granted as<br/>compensation</b> | <b>Options<br/>exercised</b> | <b>Options<br/>expired</b> | <b>Net Change<br/>Other</b> | <b>Balance at<br/>end of<br/>period<br/>30-Jun-10</b> |
|------------------------------------------------------|------------------------------------------------------------|------------------------------------|------------------------------|----------------------------|-----------------------------|-------------------------------------------------------|
| <b>Directors</b>                                     |                                                            |                                    |                              |                            |                             |                                                       |
| DF Patten                                            | -                                                          | -                                  | -                            | -                          | -                           | -                                                     |
| JT Kopcheff <sup>2</sup>                             | 1,080,000                                                  | -                                  | -                            | -                          | -                           | 1,080,000                                             |
| NC Fearis <sup>1</sup>                               | -                                                          | -                                  | -                            | -                          | -                           | -                                                     |
| BM McKeown                                           | -                                                          | -                                  | -                            | -                          | -                           | -                                                     |
| RJ Pett                                              | -                                                          | -                                  | -                            | -                          | -                           | -                                                     |
| <b>Executives</b>                                    |                                                            |                                    |                              |                            |                             |                                                       |
| DI Rakich                                            | 200,000                                                    | -                                  | -                            | -                          | -                           | 200,000                                               |
| CM Lane                                              | 100,000                                                    | -                                  | -                            | -                          | -                           | 100,000                                               |
| <b>Total</b>                                         | <b>1,380,000</b>                                           | <b>-</b>                           | <b>-</b>                     | <b>-</b>                   | <b>-</b>                    | <b>1,380,000</b>                                      |

<sup>1</sup> NC Fearis resigned on 19 November 2009

<sup>2</sup> JT Kopcheff retired from the Board as Executive Director on 22 September 2010

**VICTORIA PETROLEUM N.L. AND ITS CONTROLLED ENTITIES**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2010**

**NOTE 31:**  
**KEY MANAGEMENT PERSONNEL (CONTINUED)**

**Shareholdings of Key Management Personnel (Consolidated) (Continued)**

**Ordinary partly paid shares (issued at 6 cents, partly paid to 0.1 cent) held in Victoria Petroleum N.L. for the year ended 30 June 2009**

On 12 December 2006, a consolidation of the Company's share capital was completed, on the basis of one new share for every 10 existing shares. As a result of the share consolidation, the shares are now partly paid to 1 cent, with 59 cents per share unpaid.

| <b>Number of<br/>ordinary partly<br/>paid shares</b> | <b>Balance at<br/>beginning of<br/>period<br/>1-Jul-08</b> | <b>Granted as<br/>compensation</b> | <b>Options<br/>exercised</b> | <b>Options<br/>expired</b> | <b>Net Change<br/>Other</b> | <b>Balance at<br/>end of<br/>period<br/>30-Jun-09</b> |
|------------------------------------------------------|------------------------------------------------------------|------------------------------------|------------------------------|----------------------------|-----------------------------|-------------------------------------------------------|
| <b>Directors</b>                                     |                                                            |                                    |                              |                            |                             |                                                       |
| DF Patten                                            | -                                                          | -                                  | -                            | -                          | -                           | -                                                     |
| JT Kopcheff                                          | 1,080,000                                                  | -                                  | -                            | -                          | -                           | 1,080,000                                             |
| A Bajada <sup>1</sup>                                | -                                                          | -                                  | -                            | -                          | -                           | -                                                     |
| A Dimsey <sup>2</sup>                                | -                                                          | -                                  | -                            | -                          | -                           | -                                                     |
| NC Fearis                                            | -                                                          | -                                  | -                            | -                          | -                           | -                                                     |
| BM McKeown <sup>3</sup>                              | -                                                          | -                                  | -                            | -                          | -                           | -                                                     |
| RJ Pett                                              | -                                                          | -                                  | -                            | -                          | -                           | -                                                     |
| AN Short <sup>4</sup>                                | -                                                          | -                                  | -                            | -                          | -                           | -                                                     |
| B Wrixon <sup>5</sup>                                | 200,000                                                    | -                                  | -                            | -                          | (200,000)                   | -                                                     |
| <b>Executives</b>                                    |                                                            |                                    |                              |                            |                             |                                                       |
| DI Rakich                                            | 200,000                                                    | -                                  | -                            | -                          | -                           | 200,000                                               |
| CM Lane                                              | 100,000                                                    | -                                  | -                            | -                          | -                           | 100,000                                               |
| <b>Total</b>                                         | <b>1,580,000</b>                                           | <b>-</b>                           | <b>-</b>                     | <b>-</b>                   | <b>(200,000)</b>            | <b>1,380,000</b>                                      |

<sup>1</sup> A Bajada resigned on 27 October 2008

<sup>2</sup> A Dimsey resigned on 27 October 2008

<sup>3</sup> BM McKeown was appointed on 17 December 2008

<sup>4</sup> AN Short resigned on 27 October 2008

<sup>5</sup> B Wrixon resigned on 29 June 2009

**VICTORIA PETROLEUM N.L. AND ITS CONTROLLED ENTITIES**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2010**

**NOTE 31:**  
**KEY MANAGEMENT PERSONNEL (CONTINUED)**

**Shareholdings of Key Management Personnel (Consolidated) (Continued)**

**Ordinary partly paid shares (issued at 4 cents, partly paid to 0.01 cent) held in Victoria Petroleum N.L. for the year ended 30 June 2010**

On 12 December 2006, a consolidation of the Company's share capital was completed, on the basis of one new share for every 10 existing shares. As a result of the share consolidation, the shares are now partly paid to 0.1 cent, with 39.9 cents per share unpaid.

| <b>Number of<br/>ordinary partly<br/>paid shares</b> | <b>Balance at<br/>beginning of<br/>period<br/>1-Jul-09</b> | <b>Granted as<br/>compensation</b> | <b>Options<br/>exercised</b> | <b>Options<br/>expired</b> | <b>Net Change<br/>Other</b> | <b>Balance at<br/>end of<br/>period<br/>30-Jun-10</b> |
|------------------------------------------------------|------------------------------------------------------------|------------------------------------|------------------------------|----------------------------|-----------------------------|-------------------------------------------------------|
| <b>Directors</b>                                     |                                                            |                                    |                              |                            |                             |                                                       |
| DF Patten                                            | -                                                          | -                                  | -                            | -                          | -                           | -                                                     |
| JT Kopcheff <sup>2</sup>                             | 4,200,000                                                  | -                                  | -                            | -                          | -                           | 4,200,000                                             |
| NC Fearis <sup>1</sup>                               | -                                                          | -                                  | -                            | -                          | -                           | -                                                     |
| BM McKeown                                           | -                                                          | -                                  | -                            | -                          | -                           | -                                                     |
| RJ Pett                                              | -                                                          | -                                  | -                            | -                          | -                           | -                                                     |
| <b>Executives</b>                                    |                                                            |                                    |                              |                            |                             |                                                       |
| DI Rakich                                            | 1,175,000                                                  | -                                  | -                            | -                          | -                           | 1,175,000                                             |
| CM Lane                                              | 450,000                                                    | -                                  | -                            | -                          | -                           | 450,000                                               |
| <b>Total</b>                                         | <b>5,825,000</b>                                           | <b>-</b>                           | <b>-</b>                     | <b>-</b>                   | <b>-</b>                    | <b>5,825,000</b>                                      |

<sup>1</sup> NC Fearis resigned on 19 November 2009

<sup>2</sup> JT Kopcheff retired from the Board as Executive Director on 22 September 2010

**VICTORIA PETROLEUM N.L. AND ITS CONTROLLED ENTITIES**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2010**

**NOTE 31:**  
**KEY MANAGEMENT PERSONNEL (CONTINUED)**

**Shareholdings of Key Management Personnel (Consolidated) (Continued)**

**Ordinary partly paid shares (issued at 4 cents, partly paid to 0.01 cent) held in Victoria Petroleum N.L. for the year ended 30 June 2009**

On 12 December 2006, a consolidation of the Company's share capital was completed, on the basis of one new share for every 10 existing shares. As a result of the share consolidation, the shares are now partly paid to 0.1 cent, with 39.9 cents per share unpaid.

| <b>Number of<br/>ordinary partly<br/>paid shares</b> | <b>Balance at<br/>beginning of<br/>period<br/>1-Jul-08</b> | <b>Granted as<br/>compensation</b> | <b>Options<br/>exercised</b> | <b>Options<br/>expired</b> | <b>Net Change<br/>Other</b> | <b>Balance at<br/>end of<br/>period<br/>30-Jun-09</b> |
|------------------------------------------------------|------------------------------------------------------------|------------------------------------|------------------------------|----------------------------|-----------------------------|-------------------------------------------------------|
| <b>Directors</b>                                     |                                                            |                                    |                              |                            |                             |                                                       |
| DF Patten                                            | -                                                          | -                                  | -                            | -                          | -                           | -                                                     |
| JT Kopcheff                                          | 4,200,000                                                  | -                                  | -                            | -                          | -                           | 4,200,000                                             |
| A Bajada <sup>1</sup>                                | -                                                          | -                                  | -                            | -                          | -                           | -                                                     |
| A Dimsey <sup>2</sup>                                | -                                                          | -                                  | -                            | -                          | -                           | -                                                     |
| NC Fearis                                            | -                                                          | -                                  | -                            | -                          | -                           | -                                                     |
| BM McKeown <sup>3</sup>                              | -                                                          | -                                  | -                            | -                          | -                           | -                                                     |
| RJ Pett                                              | -                                                          | -                                  | -                            | -                          | -                           | -                                                     |
| AN Short <sup>4</sup>                                | -                                                          | -                                  | -                            | -                          | -                           | -                                                     |
| B Wrixon <sup>5</sup>                                | 350,000                                                    | -                                  | -                            | -                          | (350,000)                   | -                                                     |
| <b>Executives</b>                                    |                                                            |                                    |                              |                            |                             |                                                       |
| DI Rakich                                            | 1,175,000                                                  | -                                  | -                            | -                          | -                           | 1,175,000                                             |
| CM Lane                                              | 450,000                                                    | -                                  | -                            | -                          | -                           | 450,000                                               |
| <b>Total</b>                                         | <b>6,175,000</b>                                           | <b>-</b>                           | <b>-</b>                     | <b>-</b>                   | <b>(350,000)</b>            | <b>5,825,000</b>                                      |

<sup>1</sup> A Bajada resigned on 27 October 2008

<sup>2</sup> A Dimsey resigned on 27 October 2008

<sup>3</sup> BM McKeown was appointed on 17 December 2008

<sup>4</sup> AN Short resigned on 27 October 2008

<sup>5</sup> B Wrixon resigned on 29 June 2009



**VICTORIA PETROLEUM N.L. AND ITS CONTROLLED ENTITIES  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2010**

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**NOTE 31:  
KEY MANAGEMENT PERSONNEL (CONTINUED)**

**Loans to Key Management Personnel**

No loans have been granted to key management personnel during the current or prior year.

**Other transactions and balances with Key Management Personnel**

During the year, the Group made payments of \$21,730 (2009: \$16,431) to Minter Ellison, a company associated with Mr NC Fearis. These payments comprised fees payable for corporate legal advice. These services were not provided by Mr Fearis as a director of Victoria Petroleum N.L. Mr Fearis resigned as alternate director for Mr JT Kopcheff on 19 November 2009.

There were no other transactions with key management personnel or their related parties during the current or prior year, other than those mentioned above.

**VICTORIA PETROLEUM N.L. AND ITS CONTROLLED ENTITIES**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2010**

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**NOTE 32:**  
**COMMITMENTS**

**Leasing commitments**

**Operating lease commitments (Group as lessee)**

These commitments represent payment due for lease premises under a non-cancellable operating lease.

The commitments disclosed in the current year represent payments due for leased premises under a non-cancellable five year operating lease. The lease expires on 31 December 2012.

The lessor is Elstree Nominees Pty Ltd ("Elstree"), a Company in which Mr DI Rakich is the sole director. Elstree provides the Group with office premises and facilities at cost.

**Minimum lease payments**

- not later than one year
- later than one year and not later than five years

| 2010<br>\$     | 2009<br>\$     |
|----------------|----------------|
| 252,234        | 246,082        |
| 387,580        | 639,814        |
| <b>639,814</b> | <b>885,896</b> |

**Exploration and development commitments**

Due to the nature of the Group's operations in exploration and evaluation of areas of interest, it is not possible to forecast the nature or amount of future expenditure, although it will be necessary to incur expenditure in order to retain present interests. In order to maintain its interests in present permit areas, the Group must expend by 30 June 2011 approximately \$18,200,000 (2009: \$14,287,000). Commitments beyond one year cannot be determined and are subject to negotiation depending on future exploration results.

**VICTORIA PETROLEUM N.L. AND ITS CONTROLLED ENTITIES**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2010**

**NOTE 32:**  
**COMMITMENTS (CONTINUED)**

**Remuneration commitments**

Amounts disclosed as remuneration commitments include commitments arising from the service contracts of directors and executives referred to in the Remuneration Report of the Directors' Report that are not recognised as liabilities and are not included in the compensation of Key Management Personnel.

|                                                     | <b>Consolidated</b> |                |
|-----------------------------------------------------|---------------------|----------------|
|                                                     | <b>2010</b>         | <b>2009</b>    |
|                                                     | <b>\$</b>           | <b>\$</b>      |
| <b>Remuneration commitments</b>                     |                     |                |
| - not later than one year                           | 330,000             | 330,000        |
| - later than one year and not later than five years | 165,000             | 495,000        |
|                                                     | <b>495,000</b>      | <b>825,000</b> |

The Company entered into a new employment contract with Mr IR Davies. The contract allows for remuneration of \$480,000 commencing 19 July 2010. Under the terms of the contract, the Company may terminate the agreement with six months notice. Alternatively, the Company may terminate the agreement immediately if Mr Davies is guilty of serious misconduct. Mr Davies does not have a fixed term of employment with the Company.

Mr Davies' termination provision is as follows:

|                                    | <b>Notice period</b> | <b>Payment in lieu of notice</b> |
|------------------------------------|----------------------|----------------------------------|
| Employer-initiated termination     | 6 months             | 6 months                         |
| Termination for serious misconduct | None                 | None                             |
| Employee-initiated termination     | 3 months             | 3 months                         |

On 9 September 2010, shareholders approval was obtained for the issuance to Mr Davies of 4,000,000 unlisted options at an exercise price of 25.5 cents each. The unlisted options provide for various vesting and expiry dates.

The purpose of the issue of unlisted options to Mr Davies as Managing Director and Chief Executive Officer is to provide Mr Davies with additional incentive to develop the Group and create value for shareholders. The unlisted options will form part of Mr Davies remuneration package.

**VICTORIA PETROLEUM N.L. AND ITS CONTROLLED ENTITIES**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2010**

**NOTE 33:**  
**DISCONTINUED OPERATIONS**

**Disposal of Victoria Petroleum USA, Inc.**

On 12 August 2009, the Company entered into a sale agreement with R&M Oil and Gas, LLLP to dispose of the Company's subsidiary, Victoria Petroleum USA, Inc. The date of control of the business passed to the acquirer on that date. As at 30 June 2009, the assets and liabilities of Victoria Petroleum USA, Inc were classified as a disposal group held for sale. The Company received the sale proceeds of \$300,000 from the acquirer in September 2009.

**Financial performance of operations disposed of**

The results from discontinued operations for the years ended 30 June 2010 and 30 June 2009 are presented below:

|                                                                | <b>2010</b>    | <b>2009</b>        |
|----------------------------------------------------------------|----------------|--------------------|
|                                                                | <b>\$</b>      | <b>\$</b>          |
| Revenue                                                        | -              | 770,610            |
| Cost of sales                                                  | -              | (599,048)          |
| <b>Gross profit / (loss)</b>                                   | <b>-</b>       | <b>171,562</b>     |
| Impairment of oil and gas properties                           | -              | (4,107,665)        |
| Oil and gas exploration expenses                               | -              | (355,841)          |
| Gain on sale of Victoria Petroleum USA, Inc                    | 126,002        | -                  |
| Other expenses                                                 | -              | (204,389)          |
| <b>Profit / (Loss) from discontinued operations before tax</b> | <b>126,002</b> | <b>(4,496,333)</b> |
| Income tax                                                     | -              | -                  |
| <b>Profit / (Loss) from discontinued operations after tax</b>  | <b>126,002</b> | <b>(4,496,333)</b> |

**VICTORIA PETROLEUM N.L. AND ITS CONTROLLED ENTITIES**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2010**

**NOTE 33:**  
**DISCONTINUED OPERATIONS (CONTINUED)**

**Financial position of operations disposed of**

The major classes of assets and liabilities disposed of were as follows:

|                                                                                | \$               |
|--------------------------------------------------------------------------------|------------------|
| <b>ASSETS</b>                                                                  |                  |
| Cash and cash equivalents                                                      | 51,467           |
| Trade and other receivables                                                    | 353,943          |
| Oil and gas properties                                                         | 11,746           |
| Property, plant and equipment                                                  | 1,073,324        |
| <b>Assets classified as held for sale</b>                                      | <b>1,490,480</b> |
| <b>LIABILITIES</b>                                                             |                  |
| Trade and other payables                                                       | 193,479          |
| Provisions                                                                     | 853,341          |
| <b>Liabilities directly associated with assets classified as held for sale</b> | <b>1,046,820</b> |
| <b>Net assets attributable to discontinued operations</b>                      | <b>443,660</b>   |

The assets and liabilities of Victoria Petroleum USA, Inc were classified as assets and liabilities of disposal group classified as held for sale at 30 June 2009.

**Cash flow information of operations disposed of**

The net cash flows are as follows:

|                      | 2010<br>\$     | 2009<br>\$       |
|----------------------|----------------|------------------|
| Operating activities | -              | (43,742)         |
| Investing activities | 248,533        | (809,437)        |
| <b>Net cash flow</b> | <b>248,533</b> | <b>(853,179)</b> |

**Earnings / (Loss) per share from discontinued operations disposed of**

|                                                                                                                                                      | Note | \$   | \$     |
|------------------------------------------------------------------------------------------------------------------------------------------------------|------|------|--------|
| <b>Earnings / (Loss) per share from discontinuing operations attributable to the ordinary equity holders of the parent entity (cents per share):</b> |      |      |        |
| Basic earnings / (loss) per share                                                                                                                    | 10   | 0.05 | (1.29) |
| Diluted earnings / (loss) loss per share                                                                                                             | 10   | 0.05 | (1.29) |

**VICTORIA PETROLEUM N.L. AND ITS CONTROLLED ENTITIES**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2010**

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**NOTE 34:**  
**CONTINGENCIES**

There are no unrecorded contingent assets or liabilities in place for the Group at 30 June 2010 (2009: nil).

The Group is aware of native title claims made in respect of areas in Queensland in which the Group has an interest and recognises that there might be additional claims made in the future. A definitive assessment cannot be made at this time of what impact the current or future claims, if any, may have on the Group.

**NOTE 35:**  
**EVENTS AFTER THE BALANCE SHEET DATE**

**Acquisition of PEL 182**

On 15 June 2010, the Group executed a conditional sale and purchase agreement with AuDAX Energy Ltd ("ADX") to acquire all of ADX's 49.90% working interest in PEL 182, South Australia. The total consideration for the purchase is cash settlement of \$1,100,000 which was prepaid on 17 June 2010 and ADX share of the future plugging and abandonment liability for the Emily-1 and Vanessa-1 wells estimated at \$200,000.

The acquisition of PEL 182 from ADX was completed on 26 July 2010 – refer note 13.

**Key Management Personnel**

On 24 June 2010, the Group announced the appointment of the following key management personnel on the Australian Securities Exchange:

- Mr IR Davies – Managing Director and Chief Executive Officer;
- Mr MR Herrington – General Manager Operations; and
- Dr SG Scott – General Manager Exploration.

Mr Davies commenced with the Group on 19 July 2010, and Mr Herrington and Dr Scott commenced with the Group on 26 July 2010.

Mr JT Kopcheff retired from the Board as Executive Director on 22 September 2010. Mr Kopcheff will remain as an employee of the Company. Mr Kopcheff's terms of employment with the Company and his entitlements to the unlisted options and ordinary partly paid shares remain substantially unchanged.

**VICTORIA PETROLEUM N.L. AND ITS CONTROLLED ENTITIES**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2010**

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**NOTE 35:**  
**EVENTS AFTER THE BALANCE SHEET DATE (CONTINUED)**

**Issue of Unlisted Options to Employees**

On 6 July 2010, the Company issued 2,210,000 unlisted options to the employees of the Company. The unlisted options are exercisable from 1 July 2011, with an exercise price of 37 cents each and an expiry date of 30 June 2014.

**Issue of Unlisted Options to Key Management Personnel**

On 5 August 2010, the Company issued 2,000,000 unlisted options to two key management personnel of the Company, being:

- Mr MR Herrington – General Manager Operations; and
- Dr SG Scott – General Manager Exploration.

The unlisted options issued to Mr Herrington and Dr Scott have various vesting dates, an exercise price of 25.5 cents each, and with an expiry date of 2 February 2014.

On 9 September 2010, shareholder approval was obtained for the issuance of 4,000,000 unlisted options to Mr IR Davies (25.5 cents each, various vesting dates, and expiry dates between 9 September 2015 to 19 July 2018) and 3,000,000 unlisted options to Mr JT Kopcheff (27 cents each, various vesting dates, and an expiry date of 31 August 2014).

**VICTORIA PETROLEUM N.L. AND ITS CONTROLLED ENTITIES  
DIRECTORS' DECLARATION**

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In accordance with a resolution of the directors of Victoria Petroleum N.L., I state that:

- (1) In the opinion of the directors:
  - (a) the financial statements, notes and additional disclosures included in the Directors' Report designated as audited of the consolidated entity are in accordance with the *Corporations Act 2001*, including:
    - (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2010 and of its performance for the year ended on that date; and
    - (ii) complying with Accounting Standards and Corporations Regulations 2001; and
  - (b) there are reasonable grounds to believe that the parent entity will be able to pay its debts as and when they become due and payable.
- (2) The financial statements and notes also comply with International Financial Reporting Standards as disclosed in note 2.

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

On behalf of the Board



IR Davies  
Managing Director

Perth, Western Australia  
24 September 2010



# VICTORIA PETROLEUM N.L. AND ITS CONTROLLED ENTITIES INDEPENDENT AUDIT REPORT

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## Independent auditor's report to the members of Victoria Petroleum NL

### Report on the Financial Report

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

#### *Directors' Responsibility for the Financial Report*

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

#### *Auditor's Responsibility*

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

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

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

#### *Independence*

In conducting our audit we have met the independence requirements of the Corporations Act 2001. We have given to the directors of the company a written Auditor's Independence Declaration, a copy of which is included in the directors' report. In addition to our audit of the financial report, we were engaged to undertake the services disclosed in the notes to the financial statements. The provision of these services has not impaired our independence.

Liability limited by a scheme approved  
under Professional Standards Legislation

GB:MB:VICPET:065

# VICTORIA PETROLEUM N.L. AND ITS CONTROLLED ENTITIES INDEPENDENT AUDIT REPORT

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## **Auditor's Opinion**

In our opinion:

1. the financial report of Victoria Petroleum NL is in accordance with the *Corporations Act 2001*, including:
  - i giving a true and fair view of the consolidated entity's financial position at 30 June 2010 and of its performance for the year ended on that date; and
  - ii complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*.
2. the financial report also complies with International Financial Reporting Standards as issued by the International Accounting Standards Board.

## **Report on the Remuneration Report**

We have audited the Remuneration Report included in pages 19 to 27 of the directors' report for the year ended 30 June 2010. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

## **Auditor's Opinion**

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

A handwritten signature in black ink that reads "Ernst &amp; Young".

Ernst & Young

A handwritten signature in black ink that reads "Gavin A Buckingham".

Gavin A Buckingham  
Partner  
Perth  
24 September 2010

GB:MB:VICPET:065

**VICTORIA PETROLEUM N.L.**  
**SHAREHOLDERS INFORMATION**

Additional information provided pursuant to Chapter 4.10 of the official listing requirements of the Australian Securities Exchange Limited and not shown elsewhere in this report is as follows:

- (a) The distribution of security holders as at 21 September 2010 were as follows:

| Number of shares | Number of shareholders  |                       |                         |               | Options   |
|------------------|-------------------------|-----------------------|-------------------------|---------------|-----------|
|                  | Partly Paid to 10 cents | Partly Paid to 1 cent | Partly Paid to 0.1 cent | Fully Paid    |           |
| 1 – 1,000        | -                       | -                     | -                       | 2,440         | -         |
| 1,001 – 5,000    | -                       | -                     | -                       | 2,896         | -         |
| 5,001 – 10,000   | -                       | -                     | -                       | 1,475         | -         |
| 10,001 – 100,000 | 3                       | 5                     | 7                       | 3,176         | 4         |
| 100,001 +        | 1                       | 4                     | 5                       | 528           | 17        |
| <b>Total</b>     | <b>4</b>                | <b>9</b>              | <b>12</b>               | <b>10,515</b> | <b>21</b> |

- (b) Shareholders not holding a marketable parcel of fully paid shares as at 21 September 2010 was 3,106 holders.
- (c) The shareholdings of the 20 largest holders of quoted ordinary fully paid shares in the capital of the company at 21 September 2010 were as follows:

| No. | Name                            | Number             | Percentage % |
|-----|---------------------------------|--------------------|--------------|
| 1   | Sentient Executive Group        | 70,473,127         | 13.6%        |
| 2   | Queensland Gas Company Limited  | 41,750,000         | 8.1%         |
| 3   | Bryan, Robert                   | 31,716,667         | 6.1%         |
| 4   | Elphinstone Holdings Pty Ltd    | 22,500,000         | 4.3%         |
| 5   | Berne No 132 Nominees (80688)   | 19,853,134         | 3.8%         |
| 6   | Bow Energy Ltd                  | 13,000,000         | 2.5%         |
| 7   | UBS Wealth Management Australia | 6,756,753          | 1.3%         |
| 8   | Amcil Limited                   | 4,000,000          | 0.8%         |
| 9   | Mirrabooka Inv Ltd              | 4,000,000          | 0.8%         |
| 10  | Shaw Murray + B + L A           | 3,897,500          | 0.8%         |
| 11  | Dunn Robert + Hosking N B       | 3,776,000          | 0.7%         |
| 12  | Allman Dallas J W + J D         | 3,000,000          | 0.6%         |
| 13  | Lorilaw PL                      | 2,850,000          | 0.6%         |
| 14  | Forty Traders Limited           | 2,679,094          | 0.5%         |
| 15  | Hopkins Andrew                  | 2,500,000          | 0.5%         |
| 16  | ANZ Nom Ltd                     | 2,095,801          | 0.4%         |
| 17  | Citicorp Nom PL                 | 2,041,781          | 0.4%         |
| 18  | Harburg Nom PL                  | 2,000,000          | 0.4%         |
| 19  | Ryalls Michael                  | 2,000,000          | 0.4%         |
| 20  | JP Morgan Nom Aust Ltd          | 1,942,641          | 0.4%         |
|     | <b>Total</b>                    | <b>242,832,498</b> | <b>46.9%</b> |

**VICTORIA PETROLEUM N.L.  
SHAREHOLDERS INFORMATION**

- (d) The names of the substantial shareholders and the number of shares to which they are entitled are, pursuant to notices issued by those entities to the Australian Securities Exchange, were as follows:

| <b>No.</b>   | <b>Name</b>                    | <b>Number</b>      | <b>Percentage %</b> |
|--------------|--------------------------------|--------------------|---------------------|
| 1            | Sentient Executive Group       | 70,473,127         | 13.6%               |
| 2            | Queensland Gas Company Limited | 61,603,134         | 11.9%               |
| 3            | Bryan, Robert                  | 31,716,667         | 6.1%                |
| <b>Total</b> |                                | <b>163,792,928</b> | <b>31.6%</b>        |

- (f) Directors' security holdings and relevant interest at 21 September 2010 were as follows:

| <b>Director</b> | <b>Number of securities</b>        |                                  |                                    |                       | <b>Options</b>   |
|-----------------|------------------------------------|----------------------------------|------------------------------------|-----------------------|------------------|
|                 | <b>Partly Paid<br/>to 10 cents</b> | <b>Partly Paid<br/>to 1 cent</b> | <b>Partly Paid<br/>to 0.1 cent</b> | <b>Fully<br/>Paid</b> |                  |
| DF Patten       | -                                  | -                                | -                                  | 500,000               | 1,500,000        |
| BM McKeown      | -                                  | -                                | -                                  | -                     | 1,000,000        |
| RJ Pett         | 140,000                            | -                                | -                                  | 541,500               | 1,000,000        |
| IR Davies       | -                                  | -                                | -                                  | 131,000               | 4,000,000        |
| <b>Total</b>    | <b>140,000</b>                     | <b>-</b>                         | <b>-</b>                           | <b>1,172,500</b>      | <b>7,500,000</b> |

- (g) Voting Rights

The holder of one fully paid share shall have one vote. The holder of one partly paid share shall have a portion of one vote, being the proportion of the issue price paid up to the total issue price.