



Time to grow

Annual Report 2010

Corporate Information

Australian Business Number: 50 008 942 827

Directors: Denis F Patten (Chairman)
Ian R Davies (Managing Director and Chief Executive Officer)
Ben M McKeown (Non-executive Director)
Robert J Pett (Non-executive Director)

Company secretary: Denis I Rakich

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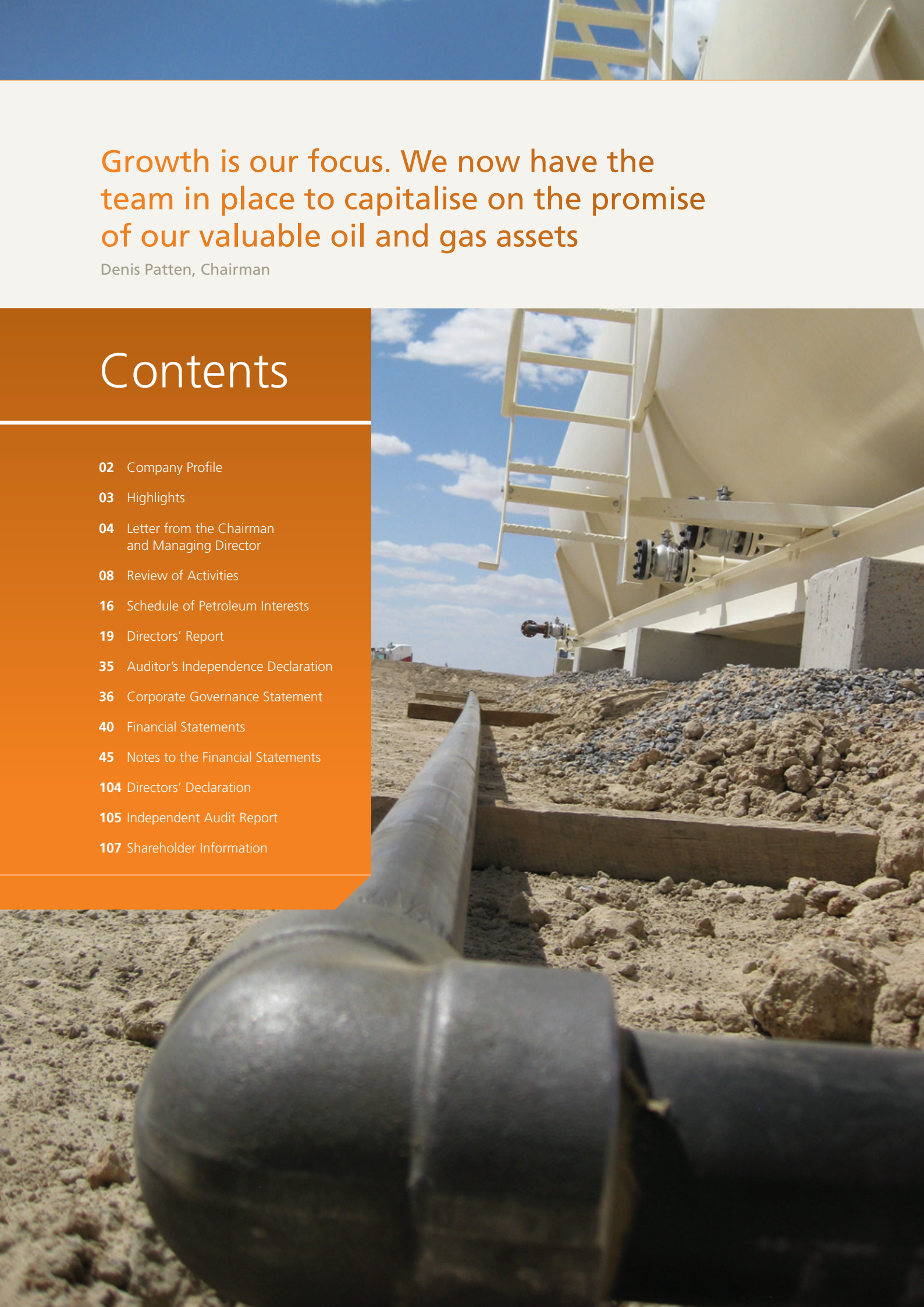
Facsimile: +61 8 9315 2233

Securities exchange: Australian Securities Exchange (ASX)
Code: VPE

Solicitors: Minter Ellison
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Bankers: Westpac Banking Corporation
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Perth, Western Australia, 6000

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



Growth is our focus. We now have the team in place to capitalise on the promise of our valuable oil and gas assets

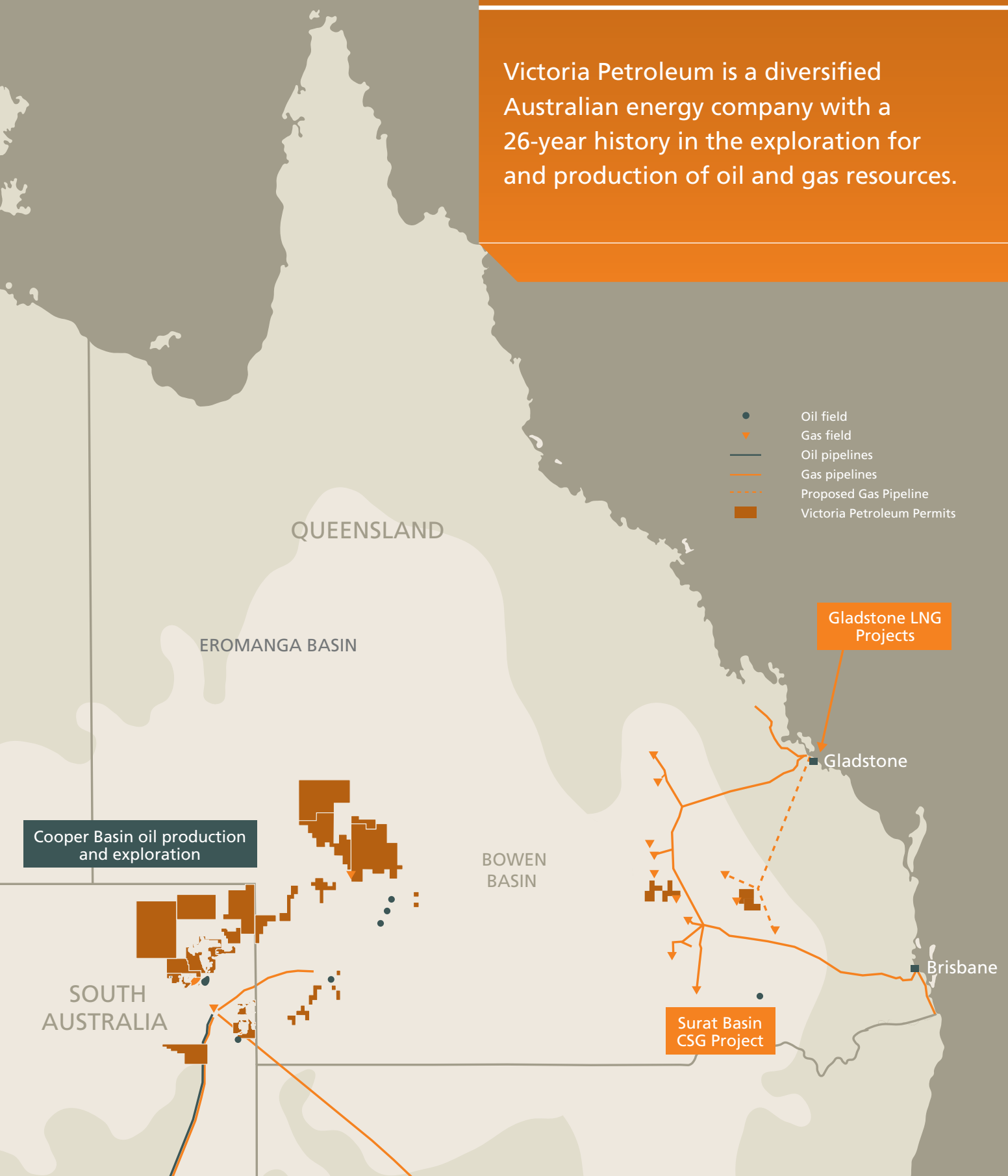
Denis Patten, Chairman

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Company Profile

Victoria Petroleum is a diversified Australian energy company with a 26-year history in the exploration for and production of oil and gas resources.



The Company has a dual focus:

Oil production and exploration in Australia's Cooper Basin; and

Coal Seam Gas (CSG) exploration and development in Australia's Surat Basin.

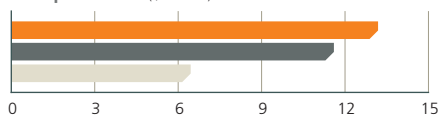
Victoria Petroleum is the third largest independent oil producer in the Cooper Basin and holds a major acreage position in the Western Margin Oil Project. In Queensland, the Company is in joint venture with QGC – a BG Group business and Bow Energy Limited in several strategically located CSG tenements in the Surat Basin's LNG feedstock region.

At 30 June 2010, Victoria Petroleum had a market capitalisation of \$124 million and was in a strong financial position with \$36.8 million cash at hand.

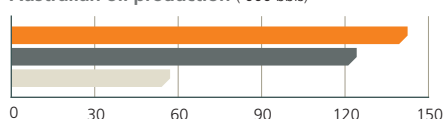
Trends for Financial Years

■ 2007-2008 ■ 2008-2009 ■ 2009-2010

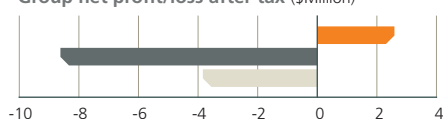
Group revenue (\$Million)



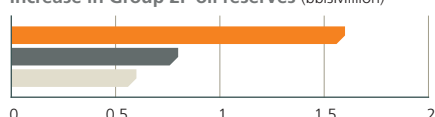
Australian oil production ('000 bbls)



Group net profit/loss after tax (\$Million)



Increase in Group 2P oil reserves (bblsMillion)



Highlights

The 2009-2010 year presented Victoria Petroleum with a series of opportunities and challenges. Notwithstanding some difficult circumstances, the Company achieved several major milestones:

Maiden Profit

The Company posted its maiden profit of \$2.6 million for the year, an improvement of \$11.2 million on the previous year.

Record Production

In January 2010 oil production reached an all time high of 1,559 barrels of oil per day from our Cooper Basin fields before being shut-in because of extensive flooding. Further, the Company posted a 15% improvement in annual oil production on the 2009 financial year to over 142,000 barrels notwithstanding the one in 20 year flood event.

Financial stability

As a result of a successful share placement, share purchase plan and option take-up, the Company has \$36.8 million cash at hand and no debt.

Excellent safety record

No lost time incidents or medical treatment injuries were reported for field operations or office environment.

Careful environmental management

No environmental incidents were recorded. Following flooding in the Cooper Basin, the Flood Management Plan was activated and all pumps, tanks and other equipment were made safe prior to inundation.

Focus on value

Assets held in America and Australia's Perth Basin were sold to enable a focus on value assets on Australia's East Coast.

Surat Basin exploration

A five-well Coal Seam Gas drilling program commenced in the Surat Basin and budgets were approved for six additional appraisal wells.

Revitalised leadership

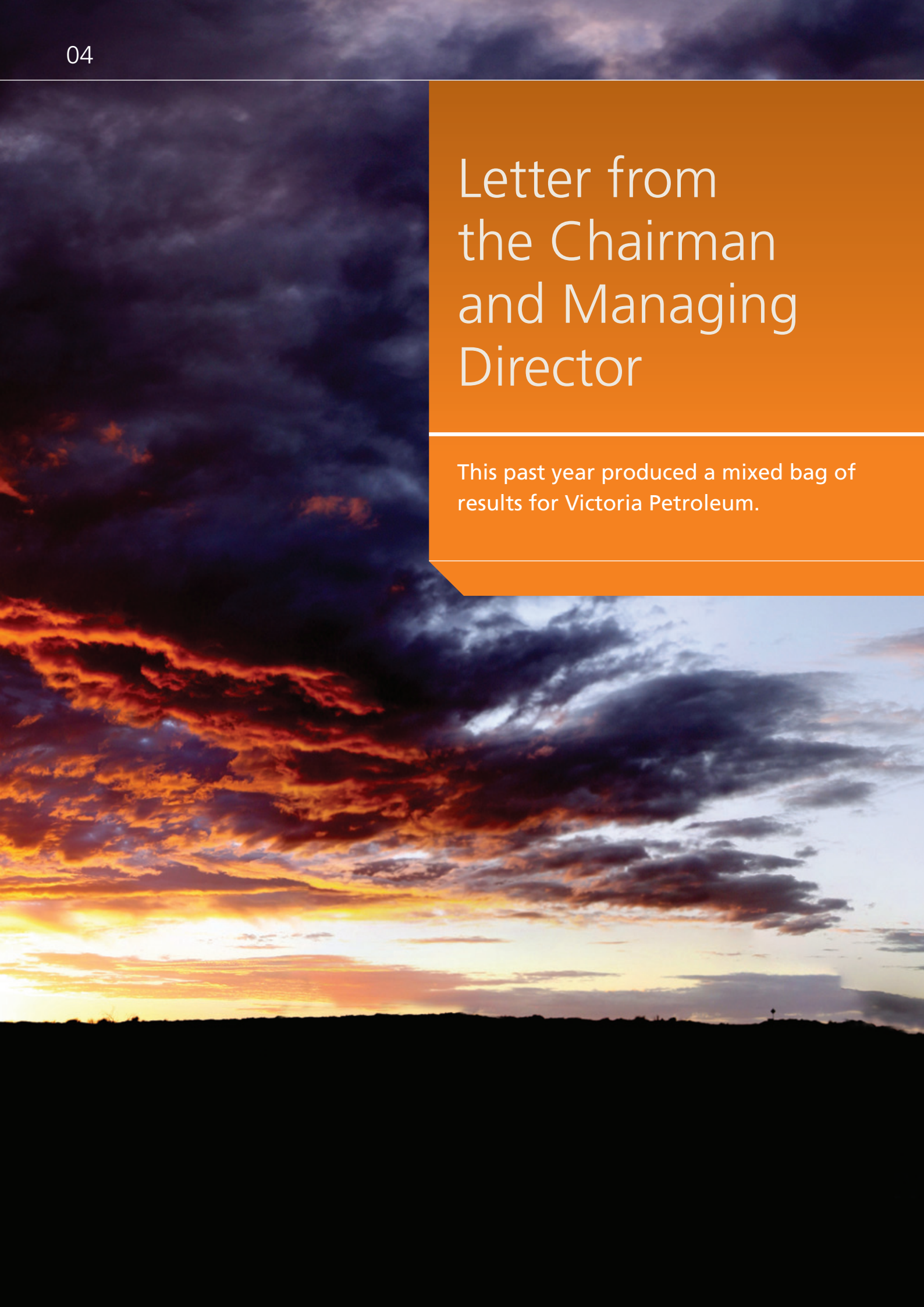
In late June 2010, the Board announced the appointment of Mr Ian Davies as the Company's Managing Director and increased senior management expertise with the key appointments of Mr Michael Herrington and Dr Steven Scott.

Retained expertise

Founding Managing Director John Kopcheff retired from the Board, being retained as a Special Advisor to the Company.

Headquarters relocated

Victoria Petroleum's Headquarters has been relocated from Perth to Brisbane, allowing closer management of key suppliers and valuable east-coast assets.



Letter from the Chairman and Managing Director

This past year produced a mixed bag of results for Victoria Petroleum.

Significant growth potential exists from Victoria Petroleum's valuable oil and gas assets.

Dear Shareholder,

This past year produced a mixed bag of results for Victoria Petroleum.

On a positive note, your Company continued to consolidate its position with regard to oil exploration and production in the Cooper Basin and further developed its Surat Basin Coal Seam Gas (CSG) assets in Queensland. This is consistent with our strategy of developing immediate cash flow from oil production to fund the development of a long term and sustainable oil and gas business. This will enable us to capitalise on our quality assets in Australia and realise real growth in shareholder value in the short term.

Unfortunately, heavy rains caused extensive flooding in the Cooper Basin, which halted all of our oil production operations from the end of January 2010, although production increased by 15% over the previous year. As a consequence, expected revenue increases have been postponed until production resumes. At the time of writing, this is expected to be in early 2011.

In the face of these challenging events, we are pleased to report that your Company maintained its unblemished record for safe and environmentally responsible management – both in the field and at the office. There were no reportable lost time accidents or medical treatment injuries during the year. Nor were there any reportable environmental incidents. The flooding of the Snatcher, Growler and Mirage Oil Fields tested our Flood Management Plan and proved it to be satisfactory.

Oil exploration and production

Prior to the challenging climatic conditions in the second half of the year, your Company achieved record oil production in the western Cooper Basin and successfully commenced its first oil production from the Cooper Basin in Queensland. In January 2010, the Company produced 1,559 barrels of oil per day (bopd) from the Snatcher, Growler, Mirage and Ventura oil fields, with 935 bopd net to Victoria Petroleum. In May 2010, oil production commenced from the Cuisinier Oil Field, producing 340 bopd, with 69 bopd net to the Company.

In addition to these encouraging production results, successful drilling and selective acquisitions throughout the year increased the Company's current and future net oil reserves in the Cooper Basin. This included development drilling in the Snatcher Oil Field, oil discoveries at Tigercat-1 in the Western Margin Oil Project and Fury-1 in the southern Cooper Basin, as well as an acquisition that increased Victoria Petroleum's interests in its Western Margin Oil Project in the South Australian Cooper Basin from 40 to 60 per cent.

The 50 per cent increase in your Company's interest in permits and oil fields associated with the Western Margin Oil Project is particularly significant as it increased Victoria Petroleum's net oil reserves and production and also increased its exposure to the upside that will come from successful exploration drilling in 2011 and into the future.

Your Company also acquired interests in four permits lying on the Western Margin Oil Trend extending to the north east of the Snatcher Oil Field. This makes Victoria Petroleum the dominant player in the Western Margin Oil Trend extending over a distance of around 120 kilometres from the Growler Oil Field in the southwest to the South Australian/Queensland border in the east.

As a result of these initiatives, the Company's net Proved and Probable (2P) recoverable reserves now stand at 1.6 million barrels of oil and Proved, Probable and Possible (3P) recoverable reserves of 4.5 million barrels of oil.

Looking forward, technical analysis of exploration data suggests there is significant growth potential for Victoria Petroleum in the Cooper Basin. Interpretation of the 3D seismic survey over the Western Margin Oil Project permits indicates there are 25 prospects with similar seismic characteristics to the Growler and Snatcher Oil Fields.





The ultimate objective of your Board and the prime focus of our strategy is to provide for growth. We are committed to strategies that deliver maximum value to our loyal shareholders.

Coal Seam Gas development

Victoria Petroleum has interests in several CSG tenements of strategic importance in Queensland's liquefied natural gas (LNG) feedstock region in the Surat Basin. Through these assets, your Company is extremely well placed to participate in the State's rapidly developing \$40 billion CSG to LNG industry. Estimates suggest your Company's holdings in the region contain total gas in place of more than 2,500 petajoules, providing ample opportunity for both short-term value realisation and long-term, sustainable growth.

Our primary focus in the Surat Basin this year was our joint venture with QGC – a BG Group business (QGC) in PL 171 and ATP 574P. QGC stepped up exploration in these tenements with three CSG Projects in ATP 574P (Pinelands, Marcus and Peebs) and two CSG projects in PL 171 (Lawton and Paradise Downs). Five wells were drilled in total during the year and the results are expected to contribute to an initial CSG reserve certification in these permits in late 2010.

To the west of our QGC-operated CSG permits, work continued in joint venture with Bow Energy on the Don Juan CSG Project. Further core well drilling is expected in late 2010 to establish initial 2P and 3P CSG reserves in ATP 593P.

Funds for growth

Victoria Petroleum is in the enviable position of being able to fund its immediate growth plans with cash in hand and substantial anticipated revenues for the 2010-2011 financial year. Your Company successfully raised \$37.9 million before costs during the financial year ended 30 June 2010. Together with the share purchase plan to shareholders and exercise of options, the Company ended the 2010 financial year with \$36.8 million cash at hand and zero debt.

Management strengthened

During the latter part of the year, and in line with its future growth strategy, your Board approved the appointment of a new Managing Director (Mr Ian Davies), General Manager Exploration (Dr Steven Scott) and General Manager Operations (Mr Michael Herrington). These appointments were designed to enhance the performance of the Company by ensuring it had the requisite expertise and experience to deliver future growth and improved shareholder value.

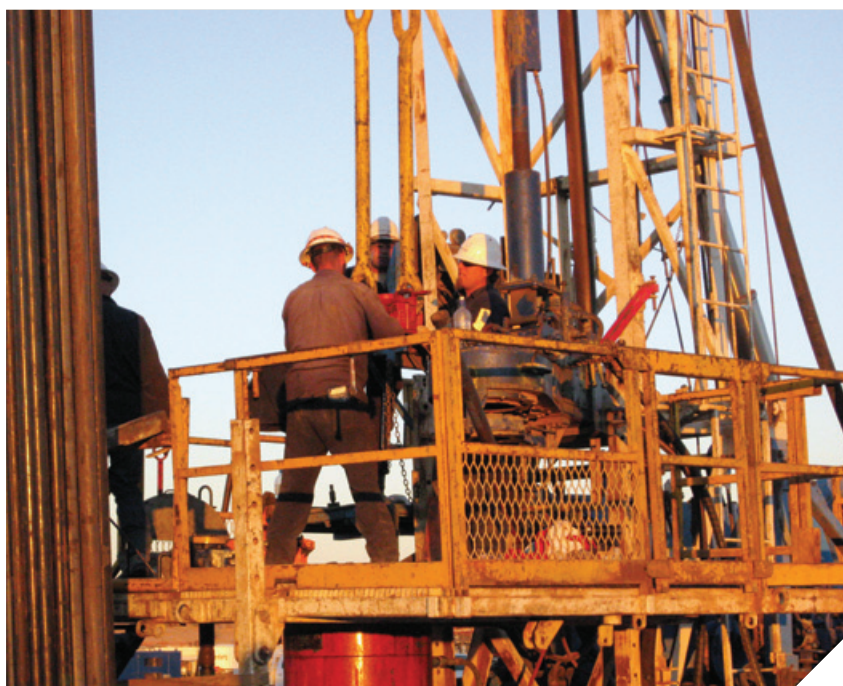
This experienced new management team commenced in July 2010. From August 2010, the team operated from the Company's newly established headquarters in Brisbane. These are significant changes for Victoria Petroleum that were not made lightly. They reflect the value of your Company's east coast assets and their importance to our future growth strategy.

Outlook

The ultimate objective of your Board and the prime focus of our strategy is to provide for growth. We are committed to strategies that deliver maximum value to our loyal shareholders.

The past year has been exciting and fruitful for the Company and, with our forward strategy now set in place, we are on a solid footing to provide you with future growth. The new year will see a well-coordinated, efficient approach to oil exploration and production with increased involvement in CSG exploration and appraisal.

On behalf of the Directors, we thank you for your continuing involvement in the Company and look forward to a rewarding year in 2011.



Review of Activities

Production Summary

During 2009-2010, Victoria Petroleum produced 142,579 barrels of oil generating Group revenue of \$13.2 million. This production came primarily from the Growler, Snatcher, Mirage and Ventura oil fields in the Cooper Basin in South Australia and represents seven months of production over the year.

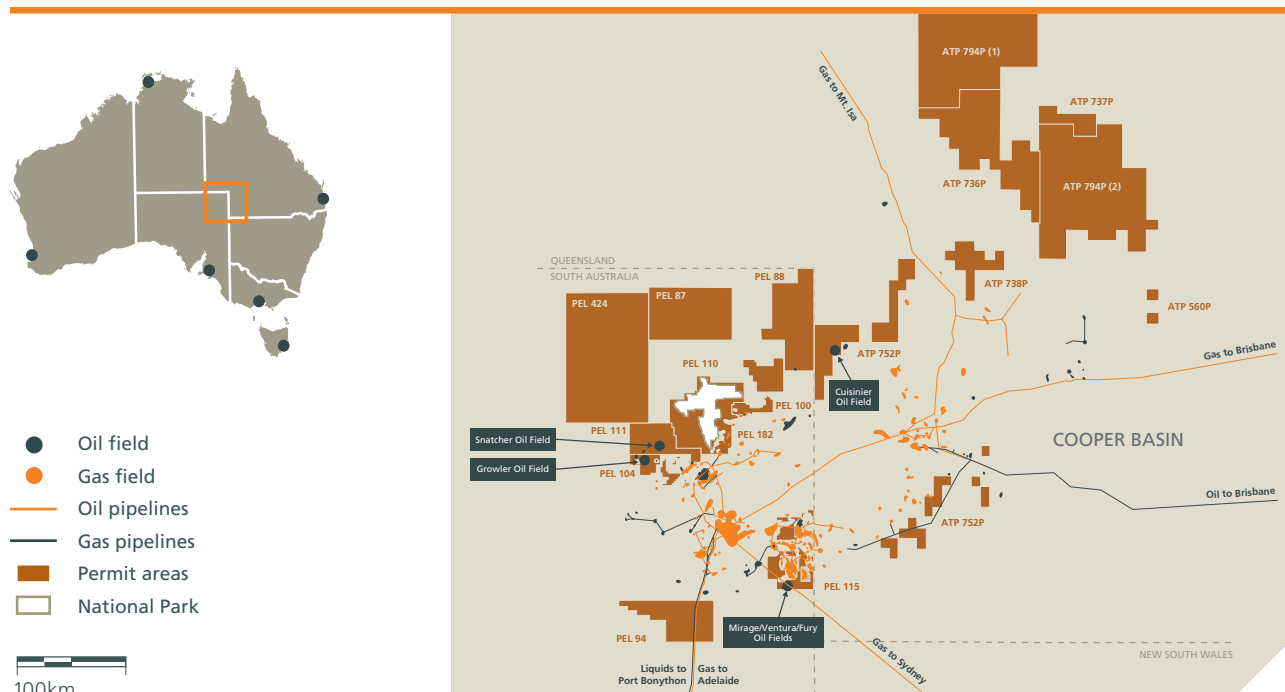
Significantly greater production was expected for the year, however the Cooper Creek major flood event, which broke a nine-year drought, resulted in all of Victoria Petroleum's Cooper Basin production being shut-in from February 2010.

Still with only seven months of oil production, net production was 15% higher than 2009, with Group revenue for the 2010 financial year 14% higher.

Access to the Mirage and Ventura oil fields was regained in May 2010. It is anticipated production will resume in early 2011 from the Western Margin Oil Project fields, Growler and Snatcher. These two fields, with their significant future development potential contributed the major part of Victoria Petroleum's oil production.

It is considered that significant future growth and production for Victoria Petroleum will come from the Company's Eromanga Basin and Cooper Basin oil fields in South Australia and Queensland.

Oil Exploration and Production Interests – South Australia and Queensland



Victoria Petroleum is a major holder of exploration acreage within the South Australian/Queensland portion of the Eromanga/Cooper Basins, with net acreage of 22,351 square kilometres (5.5 million acres).

Prior to the major flood event in January 2010, Victoria Petroleum drilled three exploration wells and one development well. This drilling program achieved an exploration drilling success rate of 67% and development drilling success rate of 100%.

Development activity during 2009-2010 focused on the Snatcher Oil Field in PEL 111. Following up on the Snatcher-1 discovery well, the Snatcher-2 exploration step out well and Snatcher-3 appraisal well were successfully drilled. Snatcher-1 was brought on stream in December 2009 with Snatcher-2 commencing production in January 2010, just prior to the flood event.

Approximately one hundred and twenty kilometres north east of the Snatcher Oil Field, the Cuisinier-1 oil discovery commenced oil production in May 2010. This was Victoria Petroleum's first producing well in the Cooper Basin in Queensland.

Through to mid-2011, an exploration and appraisal/development drilling program of up to ten wells is planned. Success in the drilling of these wells will add to the current projected production estimates.

The gross Proved and Probable (2P) reserves for the Growler and Snatcher oil fields is currently estimated at 2.8 million barrels of recoverable oil with net 1.6 million barrels to Victoria Petroleum.

The gross Proved, Probable and Possible (3P) reserves for the Growler and Snatcher oil fields is currently estimated at 7.5 million barrels of recoverable oil with net 4.5 million barrels of recoverable oil to Victoria Petroleum.

Western Margin Oil Project – PEL 111/ PRL 15/ PEL 104 (Victoria Petroleum interest: 60%)

These three permits cover an area of 1,706 square kilometres on the Western Margin Oil Trend in the Eromanga/Cooper Basin of north east South Australia. Within the "Jurassic Oil Fairway" of the Western Margin Oil Trend, five Jurassic oil fields have been discovered in Victoria Petroleum's permits: Growler, Snatcher, Wirraway, Tigercat and Warhawk. These fields and adjacent prospective areas in PEL 104 and PEL 111 collectively form the Western Margin Oil Project.

The exploration drilling success enjoyed in the Western Margin Oil Project and the 2009 Mollichuta 3D seismic survey of 268 square kilometres provides strong support for a significant oil province. The Jurassic oil fairway contained within the Western Margin Oil Project covers approximately 1,200 square kilometres in PEL 104 and PEL 111.

The exploration success rate to date for the Western Margin Oil Project stands at 67%, a success rate greater than the industry rate of 45% for the Eromanga/Cooper Basins in South Australia.

Two exploration wells were drilled in permit PEL 111 in July and August 2009 resulting in the discovery of the Snatcher Oil Field.

Snatcher Oil Field – PEL 111

The Snatcher Oil Field is adjacent to the Santos-operated Charo Oil Field. Flow rates of 218 and 207 barrels per day to surface were recorded for the Snatcher-1 and 2 discovery wells respectively.

In November 2009, drilling of the successful Snatcher-3 appraisal well confirmed the extent of the Snatcher Oil Field to the north west of Snatcher-2.

The drilling results for all three Snatcher wells are particularly significant as they confirm that 3D seismic data is a definitive exploration tool for the delineation of Birkhead Formation channel sands in the Snatcher Oil Field. This is the producing reservoir for the Snatcher Oil Field and adjacent Santos-operated Charo Oil Field.

Further appraisal drilling of the Snatcher Oil Field is planned for mid-2011 when access to the field is regained.

The temporary production facility built at Snatcher-1 to handle Snatcher-1, 2 and 3 production is to be decommissioned with a “flood proof” Snatcher Central Production Facility to be constructed by mid-2011 on high ground to the west of the Snatcher Oil Field.

The Snatcher Central Production Facility will have the capacity to handle 3,000 barrels of oil per day initially with the ability to be expanded to handle up to 6,000 barrels of oil per day.

Interpretation of the 3D seismic data and the production performance of the Charo Oil Field and the Snatcher-1 and 2 wells provides support for the interpretation that both fields are pressure connected and may be one large field extending over a distance of approximately 4 kilometres.

Reservoir studies by the operators of the Snatcher and Charo oil fields are in progress to determine the optimum development of these two fields along the shared permit boundary.

Confirmation that 3D seismic data can be used as a definitive exploration and appraisal tool for the delineation of potentially oil bearing Birkhead Formation sands in the Western Margin Oil Project area, as proved at the Snatcher Oil Field, will be further tested by the exploration drilling planned adjacent to the Snatcher Oil Field in 2011.

Growler Oil Field – PRL 15

The upgrade of the Growler Oil Field Central Production Facility was completed during the year to allow the treatment of 2,000 barrels of fluid per day. Prior to the January 2010 Cooper Creek flood event, gross production at the Growler Oil Field reached a new high of 1,080 barrels of oil per day.

Upon regaining access to the Growler Oil Field in early 2011, full field production is expected to resume at approximately 1,100 barrels of oil per day from the five existing wells in the field. Significantly, access to the Century Rig 3 stacked on location at the Growler-5 drill site will allow the postponed development drilling of the Growler Oil Field to resume without delay.

Interpretation of the 3D seismic data acquired over the Growler Oil Field has resulted in delineation of a further ten development locations on an eighty acre spacing. Given the linear nature of the oil bearing Birkhead Formation channel sands, Victoria Petroleum is also reviewing the possible application of horizontal drilling to increase the rate of production from the oil field discoveries already made at Growler and Snatcher.



3D seismic vibrator crew carrying out 2009 Mollichuta 3D seismic survey, Western Margin Oil Project, South Australia Cooper Basin.



Future Exploration and Appraisal Drilling – PEL 104/ PEL 111

Victoria Petroleum considers at least twenty-five exploration drill targets are present within the area of the Western Margin Oil Project covered by 3D seismic data.

Upon re-gaining access to PEL 104 and PEL 111 in early 2011, four prospects identified by the 3D are planned to be drilled using two rigs. The target Birkhead Formation sands in the Tomcat, Mustang, Jaguar and Growler East prospects are interpreted to have similar seismic character to the Snatcher and Growler oil bearing sands.

Appraisal drilling is planned over the next twelve months for the Tigercat, Warhawk and Snatcher oil discoveries.

Within PEL 111 and PEL 104, several attractive Permian gas prospects have been delineated for future drilling. For the present, Victoria Petroleum and the Joint Venture partners will focus on the drilling of exploration, appraisal and development wells on the Western Margin Oil Project in the western region of the permits.

Victoria Petroleum is the operator for PEL 104/ PRL 15/ PEL 111.

PEL 115

(Victoria Petroleum interest: 33%)

PEL 115 is located on the southern edge of the Cooper Basin adjacent to the major oil and gas producing fields at Dullingari, Toolachee, Strzelecki, Della, and Kidman, with cumulative recoverable reserves of 104 million barrels of oil and 2.5 trillion cubic feet of gas.

Mapping of the existing 2D and 3D seismic data over PEL 115 has identified up to twenty-eight prospects, with the proximity to infrastructure suggesting that the economic viability of any exploration success is assured.

Following the farmin of Monitor Energy Limited and Lion Petroleum Pty Ltd into PEL 115 in late 2009, two prospects identified on 3D seismic data were drilled: Fury and Airacobra. Fury-1 was drilled in November 2009 intersecting oil in the target sands of the Murta Formation. Airacobra-1 recorded non-commercial oil shows in the Permian. Fury-1 was completed for production testing in October 2010. Production from Fury-1 will be treated through the adjacent Victoria Petroleum-operated Mirage Production Facility.

PEL 115 surrounds the Mirage and Ventura Oil Field Petroleum Production Licences (PPL), PPL 213 and PPL 214 respectively.

Victoria Petroleum is the operator for PEL 115.

Mirage and Ventura Oil Fields – PPL 213 and PPL 214

(Victoria Petroleum interest: 60%)

The Mirage and Ventura Oil fields are currently producing on optimised beam pump operation at an average rate of 70 barrels of oil a day from three wells: Mirage-1, Mirage-4 and Ventura-1.

With the variable nature of the productive Murta Formation sands over the area of the Mirage Oil Field, a Goresorb soil geochemical survey has determined the location of a Mirage-5 development well for possible drilling in late 2011.

Victoria Petroleum is the operator for the Mirage and Ventura oil fields.

PEL 87 AND PEL 424

(Victoria Petroleum interest: 60%)

These permits lie to the north of the Snatcher and Growler oil fields and west of PEL 88.

Data review of the sparse seismic well control in these permits continues with the south eastern corner of PEL 424 possibly lying within the Jurassic oil fairway of the Western Margin Oil Trend. This is currently being explored with success in the adjoining permit to the south, PEL 111, where the Snatcher Oil Field is located.

Victoria Petroleum is the operator for PEL 87 and PEL 424.

Following a data review of the seismic and well information within the permit, Victoria Petroleum acquired a 50% interest in PEL 88 from Traditional Oil Exploration Pty Limited, increasing Victoria Petroleum's interest to 100%.

PEL 88

(Victoria Petroleum interest: 100%)

Following a data review of the seismic and well information within the permit, Victoria Petroleum acquired a 50% interest in PEL 88 from Traditional Oil Exploration Pty Limited, subject to Regulatory Authority approvals, increasing Victoria Petroleum's interest to 100%. Evaluation of the petroleum prospectivity of this permit is continuing with a view to the acquisition of a 3D seismic program in 2012 to define future drilling targets.

Victoria Petroleum is the operator for PEL 88.

PEL 94

(Victoria Petroleum interest: 15%)

PEL 94 lies in the southern part of the Cooper Basin. The northern part of the permit is being evaluated further as it is adjacent to the southern part of PEL 113, which contains the Stuart Petroleum Limited and Cooper Energy Limited Harpoono-1 Murta Formation oil discovery.

An indication of the Coal Seam Gas potential of the Permian Patchawarra Formation coal interval present in the southern part of the permit may be provided by the coring results of the Permian Coal Seam Gas wells being drilled by Strike Energy Limited in the adjacent permit PEL 93. Strike Energy is also a Joint Venture partner in PEL 94.

Beach Energy Limited is the operator for PEL 94.

PEL 100

(Victoria Petroleum interest: 5%)

PEL 100 lies on the northern margin of the Cooper Basin. Following an evaluation of the Jurassic oil potential of the permit, Victoria Petroleum acquired a 5% interest in PEL 100 from Traditional Oil Exploration Pty Limited, subject to Joint Venture parties and Regulatory Authority approvals. Jurassic oil has been produced from Cleansweep-1 within PEL 100. The operator has identified an up dip drill location for the Angelica Prospect. A 3D seismic program is planned once access to the permit can be regained following the January 2010 Cooper Basin rain and flood event.

Stuart Petroleum Limited is the operator for PEL 100.

PEL 110

(Victoria Petroleum interest: 60%)

During the past year, Victoria Petroleum acquired a 60% interest in PEL 110 from Magellan Petroleum (Southern) Pty Ltd. PEL 110 lies on the northern margin of the Cooper Basin. Although no commercial oil wells have been discovered in the permit, good oil shows have been recorded in several of the wells drilled. A 3D seismic program is planned to define Jurassic and Permian structural and stratigraphic targets that may be present, once access can be regained following the January 2010 Cooper Basin rain and flood event.

Cooper Energy Limited is the operator for PEL 110.

PEL 182

(Victoria Petroleum interest: 49.9%)

During the past year, Victoria Petroleum acquired a 49.9% interest in PEL 182 from AuDAX Resources Ltd. PEL 182 lies on the northern margin of the Cooper Basin and is contiguous with PEL 111 to the west and PEL 100 to the east. Several prospects with the potential to contain oil and gas have been mapped by the previous operator in the Jurassic and Permian horizons. A 3D seismic program is planned to define Jurassic and Permian structural and stratigraphic targets that may be present, once access can be regained following the January 2010 Cooper Basin flood and rain event.

Victoria Petroleum is the operator for PEL 182.

ATP 560P – McIver Block

(Victoria Petroleum interest: 100%)

This sub-block of ATP 560P is located in the central Eromanga Basin of south west Queensland. Evaluation of the future exploration potential of the Canaway Ridge prospects including the Coal Seam Gas potential within the Winton Formation is being considered.

Victoria Petroleum is the operator for the McIver Block.

ATP 560P – U11 Block

(Victoria Petroleum interest: 42%)

This sub-block of ATP 560P is located in the central Eromanga Basin in south west Queensland on the Canaway Ridge. Further evaluation of the prospects and leads in the U11 block is planned.

Victoria Petroleum is the operator for the U11 Block.

ATP 736P, ATP 737P and ATP 738P

(Victoria Petroleum interest: 80%)

These permits were successfully applied for as part of Victoria Petroleum's strategy to become a major exploration player in the Eromanga/Cooper Basins in Queensland as well as South Australia, and will be granted following the successful conclusion of Right To Negotiate agreements with traditional owners.

Victoria Petroleum is the operator for these permits.

ATP 752P

(Victoria Petroleum Interest: 15% after farmout completion)

ATP 752P comprises the Barta Block in the north and the Wompi Block in the south.

Victoria Petroleum entered into a farmin agreement with Santos Limited and Avery Resources (Australian) Pty Ltd which through the exercise of staged drilling options by Santos and Avery Resources provides Victoria Petroleum with a 15% free carried interest though the next three wells to be drilled in ATP 752P.

During 2009-2010, Santos Limited completed the construction of production facilities for the Cuisinier-1 oil discovery. Cuisinier-1 was placed on production in late May 2010 with an initial production rate on pump of approximately 340 barrels of oil per day.

In the northern Barta Block, interpretation of the Cuisinier 3D seismic survey provided two drilling locations: Barta North-1, an exploration well and Cuisinier-2, a Cuisinier Oil Field appraisal well. Both wells are planned to be drilled in the fourth quarter of 2010.

In the southern Wompi Block, 3D seismic data has defined the Sampadoria Prospect as a drill target. Sampadoria-1 is planned to be drilled in the first half of 2012 as the last of the Victoria Petroleum free carried wells.

Santos Limited is the operator for ATP 752P.

ATP 794P

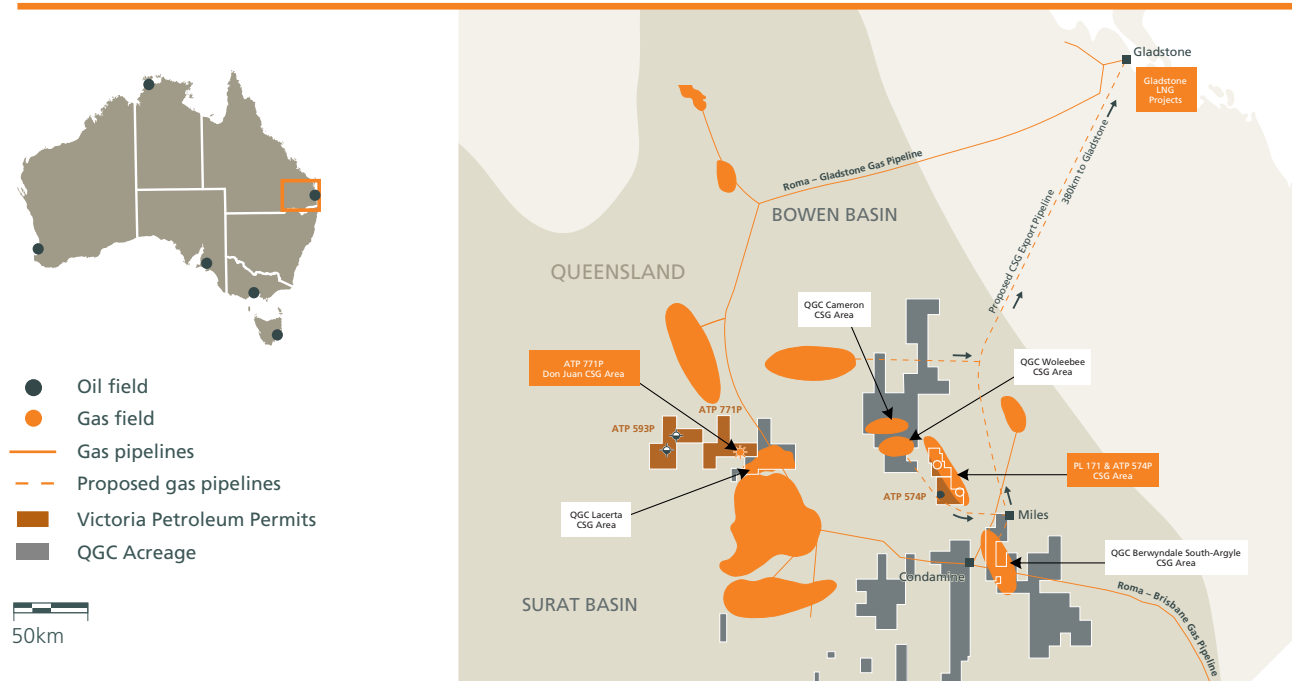
(Victoria Petroleum interest: 12%-60%)

ATP 794P is situated in the south west Queensland portion of the Eromanga Basin. Evaluation of the Jurassic and Permian structural and stratigraphic potential is in progress.

Bow Energy Limited is the operator for ATP 794P.



Coal Seam Gas Development Projects – Surat Basin, Queensland



PL 171

(Victoria Petroleum interest: 20%)

PL 171 is situated in the central portion of the Surat Basin and lies within Queensland's LNG feedstock corridor, which will provide CSG to planned LNG facilities at Gladstone.

In 2009-2010, QGC drilled three CSG exploration wells in the permit. These CSG wells were drilled in the Paradise Downs and Lawton CSG projects. Net coal thicknesses of approximately 30 metres were intersected in the Walloon Coal Measures in these wells. This is among the thickest in the Surat Basin.

A further CSG exploration and development drilling program of eleven wells is planned over the next 12 months. This drilling will focus on the Carla, Lawton, Paradise Downs and Alex CSG projects.

QGC Pty Limited is the operator for PL 171.

ATP 574P

(Victoria Petroleum: 30%)

ATP 574P is immediately adjacent and to the south of PL 171.

Four CSG exploration wells were drilled during the year on the Pinelands, Marcus and Peebs CSG projects. This followed on from the initial CSG wells drilled in the Pinelands area by QGC in 2001, which flowed gas to surface. An active CSG drilling and development program is underway, with nine wells to be drilled over the next twelve months.

QGC Pty Limited is the operator for ATP 574P.

ATP 593P and ATP 771P

(Victoria Petroleum interest: 45%)

ATP 593P and ATP 771P are situated on the western margin of the Surat/ Bowen Basin and form the Don Juan CSG Project, near Roma in Queensland. The Walloon Coal Measures, the primary target coal seams in the area, are interpreted to be present and gassy over the Don Juan CSG Project area at depths between 250 to 600 metres.

Following on from the 2009 CSG coring program and subsequent production testing and initial reserve certification of 2P reserves of 34 petajoules (PJ) and 3P reserves of 197 PJ, the Operator advised in October 2009 a near tripling of the certified 2P CSG reserves for the Don Juan CSG Project to 101 PJ.

Victoria Petroleum now has a net total of 45 PJ of 2P reserves and 89 PJ of 3P reserves in the Don Juan CSG Project.

Additional CSG core drilling is planned for late 2010 in ATP 593P to prove up additional 3P reserves for this western part of the Don Juan Project.



The Lacerta CSG field immediately adjacent to the Don Juan CSG Project has certified gas reserves of 44 PJ – 1P, 469 PJ – 2P and 1,097 PJ – 3P. The Don Juan Joint Venture interprets the Don Juan CSG field to be a westerly extension of the Lacerta gas field.

Bow Energy Limited is the operator for both ATP 593P and ATP 771P.

Disposal of permit interests – Australia & USA

Over the past twelve months, Victoria Petroleum sold non-core assets and permit interests in Australia and the USA. This was in keeping with the Company's strategy of focusing on oil exploration and production in the Cooper Basin to increase short-term cash flow and develop a long-term and sustainable oil and gas business.

In Australia, all permit interests in the Perth Basin and non CSG interests in the Surat Basin were sold. All permit interests in the onshore Carnarvon Basin were sold with the offshore Carnarvon Basin interest in the process of being offered to the industry for sale.

Victoria Petroleum's US subsidiary, Victoria Petroleum USA Inc, was also sold in the past year.

Other Assets

Samson Oil & Gas Limited

(Victoria Petroleum interest: 0.49%)

Victoria Petroleum has a 0.49% interest in Samson Oil & Gas Limited, an ASX Listed Company. Samson is an active oil and gas exploration, development and production Company with its producing properties in the Rocky Mountain region of Wyoming, Oklahoma and New Mexico.

Greenearth Energy Limited

(Victoria Petroleum interest: 6.01%)

Victoria Petroleum has a 6.01% interest in Greenearth Energy Limited, an active geothermal exploration Company. Greenearth Energy holds three promising geothermal exploration licenses in Victoria immediately adjacent to power generating infrastructure and the major electricity markets of Melbourne and Geelong.

Impress Energy Limited

(Victoria Petroleum interest: 10.15%)

Victoria Petroleum has a 10.15% interest in Impress Energy Limited, an active oil exploration and production Company. Impress Energy is Victoria Petroleum's joint venture partner in the Western Margin Oil Project in the Cooper Basin of South Australia.

Schedule of Petroleum Interests

Permit	Basin	Area (km ²)	Interest (%)	Joint Venturers
WA-254-P (Parts 1, 3, 4)	Offshore Carnarvon	243	6.17	Apache*, FAR, Sun, Pan Pacific
WA-254-P (Part 2)	Offshore Carnarvon	81	9.305	Apache*, FAR, Sun, Pan Pacific
PL 171	Surat/Bowen	176	20	QGC*
ATP 471P (Weribone)	Surat	12	20.65	Mosaic*, OCA
ATP 560P# (Mclver)	Eromanga	89	100	
ATP 560P# (Ueleven)	Eromanga	105	42	Icon, Private Interests
ATP 574P	Surat/Bowen	231	30	QGC*, Arrow, Shell, BG Group
ATP 593P	Surat	617	45	Bow Energy*
ATP 736P***	Cooper/Eromanga	4,827	80	Bow Energy
ATP 737P***	Cooper/Eromanga	624	80	Bow Energy
ATP 738P***	Cooper/Eromanga	1,082	80	Bow Energy
ATP 752P	Cooper/Eromanga	3,512	15	Santos*, Bow Energy, Avery
ATP 771P	Surat	541	45	Bow Energy*
ATP 794P	Cooper/Eromanga	9,948	12-60	Icon, Bow Energy*
PEL 87#	Cooper/Eromanga	2,854	60	Impress
PEL 88#	Cooper/Eromanga	3,304	100	
PEL 94	Cooper/Eromanga	1,801	15	Beach*, Strike
PEL 100	Cooper/Eromanga	296	5	Stuart*, Sundance, Cooper, Liberty
PEL 104#	Cooper/Eromanga	519	60	Impress
PEL 110	Cooper/Eromanga	728	60	Cooper*, Monitor
PEL 111#	Cooper/Eromanga	1,174	60	Impress
PEL 115#	Cooper/Eromanga	266	33	Monitor, Lion
PEL 182#	Cooper/Eromanga	1,745	49.9	Innaminka, AOC
PEL 424#	Cooper/Eromanga	6,138	60	Impress
PPL 213#	Cooper/Eromanga	10	60	Impress
PPL 214#	Cooper/Eromanga	2	60	Impress
PRL 15#	Eromanga	13	60	Impress

Total gross VPE acreage (km²): 40,938

Total net VPE acreage (km²): 22,351

Notes: # Victoria Petroleum is the permit operator * Denotes permit operator ** Permit to be granted

Competent Person Statements

Information for this report was compiled by J T Kopcheff BSc (Hons Eco.Geol), FAIMM, MAAPG, MSPE, MPESA, with 38 years experience in petroleum geology and geophysics.

The estimates of gas reserves and resources for the Don Juan CSG Field have been prepared by MHA Petroleum Consultants, LLC (MHA) in accordance with the definitions and guidelines set forth in the 2007 Petroleum Resources Management System approved by the Society of Petroleum Engineers. The reserve statement has been compiled by Mr Timothy L Hower Chairman of MHA, together with personnel under his supervision. Mr Hower, who has over 28 years industry experience, and MHA have consented to the inclusion of the technical information contained in this announcement.

Financial Report

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Directors' Report

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 *
- Greenerth Energy Limited *

* denotes current directorship

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.

Directors' Report (continued)

DIRECTORS (continued)

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 companies:

- 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.

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:

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

¹ 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 25 of this Directors' Report.

Directors' Report (continued)

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).

OPERATING AND FINANCIAL REVIEW

Operating results for the year

Financial performance

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

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.

Directors' Report (continued)

OPERATING AND FINANCIAL REVIEW (continued)

Operating results for the year (continued)

Financial position

	2010 \$	Consolidated 2009 \$		Change
Total Current Assets	40,172,708	21,856,964	▲	84%
Total Non-current Assets	33,799,626	8,377,604	▲	303%
Total Assets	73,972,334	30,234,568	▲	145%
Total Current Liabilities	3,268,644	2,781,219	▲	18%
Total Non-current Liabilities	2,120,368	1,752,505	▲	21%
Total Liabilities	5,389,012	4,533,724	▲	19%
NET ASSETS	68,583,322	25,700,844	▲	167%
EQUITY				
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%)
TOTAL EQUITY	68,583,322	25,700,844	▲	167%

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 24 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.

Directors' Report (continued)

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.

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.

Directors' Report (continued)

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 Jingemia 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 Jingemia 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.

Ordinary fully paid shares issued during the year

	Parent Entity			
	2010		2009	
	Number of shares	\$	Number of 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)
Balance at the end of the year	518,078,680	151,212,731	368,300,198	109,964,692

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.

Directors' Report (continued)

OPERATING AND FINANCIAL REVIEW (continued)

Ordinary fully paid shares issued during the year (continued)

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	2009
	\$	\$
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
Total issued capital	151,266,106	110,018,067

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.

Directors' Report (continued)

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.

SHARE OPTIONS

Unissued shares

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

Class of security	Number	Exercise Price	Expiry Date
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 ¹	3,000,000	27 cents	31 August 2014
Unlisted options ¹	1,200,000	25.5 cents	9 September 2015
Unlisted options ¹	800,000	25.5 cents	19 July 2016
Unlisted options ¹	1,000,000	25.5 cents	19 July 2017
Unlisted options ¹	1,000,000	25.5 cents	19 July 2018

¹ 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.

Directors' Report (continued)

SHARE OPTIONS (continued)

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

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.

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 ³	7	7
BM McKeown	7	7
RJ Pett	7	7
IR Davies ¹	1	1
NC Fearis ²	-	-

¹ IR Davies was appointed on 19 July 2010

² NC Fearis resigned on 19 November 2009

³ JT Kopcheff retired from the Board on 22 September 2010

AUDITOR INDEPENDENCE

The independence declaration received from the auditor of Victoria Petroleum N.L. is set out on page 35 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.

Directors' Report (continued)

NON-AUDIT SERVICES (continued)

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

	Consolidated 2010 \$
Amounts received or due and receivable by Ernst & Young (Australia) for the following:	
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	-
	185,068

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 (appointed on 19 July 2010)
RJ Pett	Independent Non-Executive Director
BM McKeown	Non-Executive Director
JT Kopcheff ¹	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

¹ 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.

Directors' Report (continued)

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.

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).

Directors' Report (continued)

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 ⁹		
		\$	\$	\$	\$	\$	%
DF Patten ¹	2010	75,000	4,084	6,750	-	85,834	-
	2009	75,000	2,692	6,750	171,150	255,592	-
JT Kopcheff ⁸	2010	341,423	4,084	33,000	-	378,507	-
	2009	302,844	2,692	31,500	342,300	679,336	-
A Bajada ²	2010	-	-	-	-	-	-
	2009	12,935	872	-	-	13,807	-
A Dimsey ³	2010	-	-	-	-	-	-
	2009	-	872	-	-	872	-
NC Fearis ⁷	2010	-	1,581	-	-	1,581	-
	2009	-	2,692	-	-	2,692	-
BM McKeown ⁴	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 ⁵	2010	-	-	-	-	-	-
	2009	12,935	872	-	-	13,807	-
B Wrixon ⁶	2010	-	-	-	-	-	-
	2009	50,000	2,684	4,500	114,100	171,284	-
Sub-Total Directors	2010	516,423	17,917	44,250	-	578,590	-
	2009	530,752	17,510	47,250	855,750	1,451,262	-

Directors' Report (continued)

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 Payment	Total	Total Performance Related
		Salary & Directors Fees	Non-monetary Benefits *	Superannuation	Options ⁹		
		\$	\$	\$	\$	\$	%
DI Rakich	2010	162,507	4,084	16,251	-	182,842	-
	2009	169,689	2,692	18,708	33,800	224,889	-
CM Lane	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	-

¹ DF Patten was appointed as a director on 27 March 2008

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

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

⁴ BM McKeown was appointed on 17 December 2008

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

⁶ B Wrixon resigned on 29 June 2009

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

⁸ JT Kopcheff retired from the Board as Executive Director on 22 September 2010

⁹ 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.

Directors' Report (continued)

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

	Notice period	Payment in lieu of notice
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:

	Notice period	Payment in lieu of notice
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.

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.

Directors' Report (continued)

REMUNERATION REPORT (AUDITED) (continued)

Employment contracts (continued)

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:

	Notice period	Payment in lieu of notice
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.

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 granted during the year	Value of options granted during the year \$	Remuneration consisting of options for the year %	Value per option at grant date (cents)
Directors					
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					
Executives					
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.

Directors' Report (continued)

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

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

Gavin A Buckingham
Partner
Perth
24 September 2010

Corporate Governance Statement

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 19 to 34.

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.

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:

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

Corporate Governance Statement (continued)

PRINCIPLE 2 – STRUCTURE THE BOARD TO ADD VALUE (continued)

COMPOSITION OF THE BOARD (continued)

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.

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.

Corporate Governance Statement *(continued)*

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

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.

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.

Corporate Governance Statement (continued)

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 or the ASX website: 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.

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.

Consolidated Statement of Financial Position

as at 30 June 2010

		Consolidated	
	Note	2010 \$	2009 \$
ASSETS			
Current Assets			
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
Total Current Assets		40,172,708	21,856,964
Non-current Assets			
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
Total Non-current Assets		33,799,626	8,377,604
TOTAL ASSETS		73,972,334	30,234,568
LIABILITIES			
Current Liabilities			
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
Total Current Liabilities		3,268,644	2,781,219
Non-current Liabilities			
Trade and other payables		-	-
Provisions	24	2,120,368	1,752,505
Total Non-current Liabilities		2,120,368	1,752,505
TOTAL LIABILITIES		5,389,012	4,533,724
NET ASSETS		68,583,322	25,700,844
EQUITY			
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)
TOTAL EQUITY		68,583,322	25,700,844

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

Consolidated Statement of Comprehensive Income

for the year ended 30 June 2010

		Consolidated	
	Note	2010 \$	2009 \$
Continuing operations			
Revenue	6(a)	13,188,194	11,602,749
Cost of sales	6(c)	(5,429,245)	(5,186,605)
Gross profit / (loss)		7,758,949	6,416,144
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)
Profit / (Loss) from continuing operations before tax		2,564,905	(4,188,426)
Income tax benefit / (expense)	8	(101,615)	55,869
Profit / (Loss) from continuing operations after tax		2,463,290	(4,132,557)
Discontinued operations			
Gain / (Loss) from discontinued operations after tax	33	126,002	(4,496,333)
Net profit / (loss) for the period attributable to owners of the parent entity		2,589,292	(8,628,890)
Other comprehensive income			
Foreign currency translation movements		(269,662)	1,395,897
Movements in fair value of available-for-sale financial assets		(685,191)	130,361
Other comprehensive income / (loss) for the period net of tax		(954,853)	1,526,258
Total comprehensive income / (loss) for the period attributable to owners of parent entity		1,634,439	(7,102,632)
Earnings per share from continuing operations attributable to the ordinary equity holders of the parent entity (cents per share):			
Basic earnings / (loss) per share	10	1.03	(1.19)
Diluted earnings / (loss) per share	10	1.02	(1.19)
Earnings per share attributable to the ordinary equity holders of the parent entity (cents per share):			
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.

Consolidated Cash Flow Statement

for the year ended 30 June 2010

		Consolidated	
	Note	2010 \$	2009 \$
Cash flows from operating activities			
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	-
Net cash flows from operating activities	28	4,657,069	(1,311,012)
Cash flows from investing activities			
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	33	248,533	-
Proceeds from disposal of available-for-sale investments		56,150	49,696
Term deposit placements		(20,000,000)	-
Net cash flows from investing activities		(42,820,975)	(5,877,043)
Cash flows from financing activities			
Proceeds from share issues		37,914,021	6,757,291
Payments of transaction costs of issue of shares		(1,150,982)	(62,514)
Net cash flows from financing activities		36,763,039	6,694,777
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
Cash and cash equivalents at the end of the year	11	16,791,150	18,341,344

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

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
	\$	\$	\$	\$	\$	\$
Balance at 1 July 2009	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)
Total comprehensive income	-	2,589,292	(269,662)	-	(685,191)	1,634,439
Transactions with owners, recorded directly in equity:						
Issue of share capital	42,399,021	-	-	-	-	42,399,021
Share issue costs, net of tax	(1,150,982)	-	-	-	-	(1,150,982)
Balance at 30 June 2010	151,266,106	(84,336,565)	-	2,101,870	(448,089)	68,583,322

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:

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

Notes to the Financial Statements

for the year ended 30 June 2010

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
- 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

Notes to the Financial Statements (continued)

for the year ended 30 June 2010

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) New accounting standards and interpretations (continued)

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.

Notes to the Financial Statements (continued)

for the year ended 30 June 2010

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) New accounting standards and interpretations (continued)

These are outlined in the table below:

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]	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: 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. 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 no affect its classification. 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. 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: • has primary responsibility for providing the goods or service; • has inventory risk; • has discretion in establishing prices; • bears the credit risk. 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. 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.	1 January 2010	1 July 2010

Notes to the Financial Statements (continued)

for the year ended 30 June 2010

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) New accounting standards and interpretations (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]	The revised Standard introduces a number of changes to the accounting for financial assets, the most significant of which includes: • Two categories for financial assets being amortised cost or fair value • Removal of the requirement to separate embedded derivatives in financial assets • 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: (a) the contractual cash flows from the instrument represent principal and interest; and (b) the entity's purpose for holding the instrument is to collect the contractual cash flows • 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 • reclassifications between amortised cost and fair value no longer permitted unless the entity's business model for holding the asset changes • changes to the accounting and additional disclosures for equity instruments classified as fair value through other comprehensive income	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]	This amendment makes numerous editorial changes to a range of Australian Accounting Standards and Interpretations. 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)	1 January 2011	1 July 2011

Notes to the Financial Statements *(continued)*

for the year ended 30 June 2010

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

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

Reference	Title	Summary	Application date of standard	Application date for Group
Interpretation 19	Interpretation 19 Extinguishing Financial Liabilities with Equity Instruments	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. 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.	1 July 2010	1 July 2010
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]	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. 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. Clarifies that contingent consideration from a business combination that occurred before the effective date of AASB 3 Revised is not restated. 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.	1 July 2010	1 July 2010

Notes to the Financial Statements (continued)

for the year ended 30 June 2010

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) New accounting standards and interpretations (continued)

Reference	Title	Summary	Application date of standard	Application date for Group
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]	Emphasises the interaction between quantitative and qualitative AASB 7 disclosures and the nature and extent of risks associated with financial instruments. 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. Provides guidance to illustrate how to apply disclosure principles in AASB 134 for significant events and transactions 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.	1 January 2011	1 July 2011
AASB 9	Financial Instruments	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). 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. (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. (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. 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.	1 January 2013	1 July 2013

Notes to the Financial Statements (continued)

for the year ended 30 June 2010

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) New accounting standards and interpretations (continued)

Reference	Title	Summary	Application date of standard	Application date for Group
AASB 124 (Revised)	Related Party Disclosures (December 2009)	The revised AASB 124 simplifies the definition of a related party, clarifying its intended meaning and eliminating inconsistencies from the definition, including: (a) the definition now identifies a subsidiary and an associate with the same investor as related parties of each other; (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 (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. 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.	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.

(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.

Notes to the Financial Statements *(continued)*

for the year ended 30 June 2010

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

(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.

(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.

Notes to the Financial Statements *(continued)*

for the year ended 30 June 2010

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

(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.

(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.

Notes to the Financial Statements *(continued)*

for the year ended 30 June 2010

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

(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.

(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.

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.

Notes to the Financial Statements *(continued)*

for the year ended 30 June 2010

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

(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.

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.

(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.

Notes to the Financial Statements *(continued)*

for the year ended 30 June 2010

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

(t) Share-based payment transactions – refer note 26 (continued)

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.

(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.

Notes to the Financial Statements (continued)

for the year ended 30 June 2010

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(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.

(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.

Notes to the Financial Statements *(continued)*

for the year ended 30 June 2010

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

(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.

(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.

Notes to the Financial Statements (continued)

for the year ended 30 June 2010

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.

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:

	Consolidated	
	2010	2009
	\$	\$
Financial assets		
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:

	Consolidated Higher / (Lower)	
	2010	2009
	\$	\$
Judgements of reasonably possible movements		
Post tax gain / (loss)		
+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.

Notes to the Financial Statements (continued)

for the year ended 30 June 2010

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:

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

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:

	Consolidated Higher / (Lower)	
	2010	2009
	\$	\$
Judgements of reasonably possible movements		
Post tax gain / (loss)		
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.

Notes to the Financial Statements (continued)

for the year ended 30 June 2010

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 \$
Financial assets			
Held-for-trading financial assets	15	356,030	218,473
Available-for-sale financial assets	17	5,096,667	519,920
Net exposure		5,452,697	738,393

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 \$
Judgements of reasonably possible movements		
Post tax gain / (loss)		
Price +10%	35,603	37,445
Price -10%	(35,603)	(37,445)
Net unrealised gain / (loss) reserve		
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.

Notes to the Financial Statements (continued)

for the year ended 30 June 2010

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:

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

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

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.

Notes to the Financial Statements (continued)

for the year ended 30 June 2010

NOTE 3: FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Risk exposures and responses (continued)

Fair Value (continued)

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

	2010				2009			
	Level 1 \$	Level 2 \$	Level 3 \$	Total \$	Level 1 \$	Level 2 \$	Level 3 \$	Total \$
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.

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.

Notes to the Financial Statements (continued)

for the year ended 30 June 2010

NOTE 4: SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS (continued)

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.

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).

Notes to the Financial Statements (continued)

for the year ended 30 June 2010

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.

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

	Coal Seam Gas		Consolidated Oil		Total	
	2010	2009	2010	2009	2010	2009
	\$	\$	\$	\$	\$	\$
Revenue						
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
Total segment revenue	-	-	11,970,839	10,775,651	11,970,839	10,775,651
<i>Unallocated item:</i>						
Other revenue					1,217,355	827,098
Total revenue per Statement of Comprehensive Income					13,188,194	11,602,749

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

Notes to the Financial Statements (continued)

for the year ended 30 June 2010

NOTE 5: OPERATING SEGMENTS (continued)

Accounting policies (continued)

	Coal Seam Gas		Consolidated Oil		Total	
	2010	2009	2010	2009	2010	2009
	\$	\$	\$	\$	\$	\$
Results						
Segment profit / (loss)	(1,539,241)	(706,839)	7,005,213	(4,015,961)	5,465,972	(3,309,122)
Reconciliation of segment net profit / (loss) after tax to net profit / (loss) from continuing operations before tax						
<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
Net profit / (loss) from continuing operations before tax per the Statement of Comprehensive Income					2,564,905	(4,188,426)

Notes to the Financial Statements (continued)

for the year ended 30 June 2010

NOTE 5: OPERATING SEGMENTS (continued)

Accounting policies (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
	\$	\$	\$	\$	\$	\$
Segment assets						
Segment operating assets	667,766	148,186	28,740,749	9,269,021	29,408,515	9,417,207
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 ¹					39,111,122	18,588,488
Total assets per the Statement of Financial Position					73,972,334	30,234,568
Segment liabilities	462,129	-	3,331,414	3,935,652	3,793,544	3,935,652
Unallocated liabilities					1,595,468	598,072
Total liabilities per the Statement of Financial Position					5,389,012	4,533,724

¹ 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).

Notes to the Financial Statements (continued)

for the year ended 30 June 2010

NOTE 5: OPERATING SEGMENTS (continued)

Accounting policies (continued)

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

	Coal Seam Gas		Consolidated Oil		Total	
	2010	2009	2010	2009	2010	2009
	\$	\$	\$	\$	\$	\$
Cash flow information						
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	-	-	-	-	-	-
Total segment cash flow	(2,107,754)	(706,839)	(9,959,071)	(6,526,898)	(12,066,825)	(7,233,737)
Unallocated cash flow					10,665,958	6,740,459
Total cash flow					(1,400,867)	(493,278)

Notes to the Financial Statements *(continued)*

for the year ended 30 June 2010

NOTE 6: REVENUE

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

Notes to the Financial Statements (continued)

for the year ended 30 June 2010

NOTE 7: EXPENSES

		Consolidated	
	Note	2010 \$	2009 \$
(a) Employee benefits expense			
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)
		(1,572,035)	(2,253,681)
(b) Depreciation, amortisation and impairment			
Included in cost of sales:			
Amortisation of oil and gas properties	20	(1,068,623)	(1,277,389)
		(1,068,623)	(1,277,389)
Not included in cost of sales:			
Depreciation expense	18	(7,647)	(6,091)
Reversal of impairment / (impairment) of oil and gas properties	20	99,535	(575,853)
		91,888	(581,944)
(c) Other expenses			
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)
		(3,061,084)	(4,856,214)

Notes to the Financial Statements (continued)

for the year ended 30 June 2010

NOTE 8: INCOME TAX

Income tax expense

	Consolidated	
	2010	2009
	\$	\$
The major components of income tax expense are:		
Income statement		
Current income tax		
Current income tax benefit	-	-
Adjustments in respect of current income tax of previous years	-	-
Deferred income tax		
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)
Income tax benefit / (expense) reporting in the Statement of Comprehensive Income	(101,615)	55,869

Amounts charged or credited directly to equity

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

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:

	Consolidated	
	2010	2009
	\$	\$
Accounting profit / (loss) before income tax	2,690,907	(8,684,759)
At the Group's statutory income tax rate of 30% (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 uncertainty of recoupment	-	(2,272,301)
Income tax benefit / (expense) reporting in the Statement of Comprehensive Income	(101,615)	55,869

Notes to the Financial Statements (continued)

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:

	Consolidated			
	Statement of Financial Position		Statement of Comprehensive Income	
	2010	2009	2010	2009
	\$	\$	\$	\$
Deferred tax assets / (liabilities)				
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)
Net deferred income tax assets recognised	-	-	(101,615)	-

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.

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.

Notes to the Financial Statements (continued)

for the year ended 30 June 2010

NOTE 9: AUDITORS' REMUNERATION

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

	Consolidated	
	2010	2009
	\$	\$
Amounts received or due and receivable by Ernst & Young (Australia) for the following:		
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	-	-
	185,068	176,203

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

	Consolidated	
	2010	2009
	\$	\$
For basic and diluted earnings per share:		
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)
Net profit / (loss) attributable to ordinary equity holders of the parent entity	2,589,292	(8,628,890)

Weighted average number of shares

	Consolidated	
	2010	2009
	\$	\$
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	-
Weighted average number of ordinary shares adjusted for the effect of dilution	240,598,217	347,845,837

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.

Notes to the Financial Statements (continued)

for the year ended 30 June 2010

NOTE 11: CURRENT ASSETS – CASH AND CASH EQUIVALENTS

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

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:

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

NOTE 12: TERM DEPOSITS

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%.

	Consolidated	
	2010	2009
	\$	\$
Term Deposits	20,000,000	-

Notes to the Financial Statements (continued)

for the year ended 30 June 2010

NOTE 13: CURRENT ASSETS – PREPAYMENTS

	Consolidated	
	2010	2009
	\$	\$
Payment for oil and gas properties ¹	1,100,000	-
Prepayments - other	30,000	-
	1,130,000	-

¹ 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.

NOTE 14: CURRENT ASSETS – TRADE AND OTHER RECEIVABLES

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

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

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

³ 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.

Notes to the Financial Statements (continued)

for the year ended 30 June 2010

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

Financial assets fair value through profit and loss

	Consolidated	
	2010	2009
	\$	\$
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 (co

NOTE 16: NON-CURRENT ASSETS – TRADE AND OTHER RECEIVABLES

	Consolidated	
	2010	2009
	\$	\$
Sundry receivables ¹	99,750	99,816

¹ 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.

NOTE 17: NON-CURRENT ASSETS – AVAILABLE-FOR-SALE FINANCIAL ASSETS

	Consolidated	
	2010	2009
	\$	\$
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).

Notes to the Financial Statements (continued)

for the year ended 30 June 2010

NOTE 17: NON-CURRENT ASSETS – AVAILABLE-FOR-SALE FINANCIAL ASSETS (continued)

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.

NOTE 18: NON-CURRENT ASSETS – PROPERTY, PLANT AND EQUIPMENT

	Note	Consolidated	
		2010 \$	2009 \$
Office equipment			
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
Balance at the end of the year, net of accumulated depreciation		17,246	5,213
Balance at the beginning of the year			
Cost		37,172	148,498
Accumulated depreciation		(31,959)	(127,097)
Net carrying amount		5,213	21,401
Balance at the beginning of the year			
Cost		29,111	37,172
Accumulated depreciation		(11,865)	(31,959)
Net carrying amount		17,246	5,213

Notes to the Financial Statements (continued)

for the year ended 30 June 2010

NOTE 19: PARENT ENTITY INFORMATION

	Parent Entity	
	2010	2009
	\$	\$
Total Current Assets	36,349,263	16,415,300
Total Non-current Assets	28,285,133	8,128,893
TOTAL ASSETS	64,634,396	24,544,193
Total Current Liabilities	1,994,706	467,287
Total Non-current Liabilities	1,209,212	6,803,532
TOTAL LIABILITIES	3,203,918	7,270,819
NET ASSETS	61,430,478	17,273,374
EQUITY		
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)
TOTAL EQUITY	61,430,479	17,273,374
Net profit / (loss) of the parent entity	2,959,869	(9,110,126)
Other comprehensive income of the parent entity	(50,803)	1,046,695
Total comprehensive income of the parent entity	2,909,066	(8,063,431)

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

Notes to the Financial Statements (continued)

for the year ended 30 June 2010

NOTE 20: NON-CURRENT ASSETS – OIL AND GAS PROPERTIES

		Consolidated	
		2010	2009
	Note	\$	\$
Oil and gas properties			
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
Balance at the end of the year, net of accumulated amortisation and impairment		27,601,120	7,752,655
Balance at the beginning of the year			
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)
Net carrying amount		7,752,655	5,549,302
Balance at the end of the year			
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)
Net carrying amount		27,601,120	7,752,655

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:

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

Notes to the Financial Statements (continued)

for the year ended 30 June 2010

NOTE 21: NON-CURRENT ASSETS – EXPLORATION ASSETS

	Consolidated	
	2010	2009
	\$	\$
Exploration assets	984,843	-

NOTE 22: CURRENT LIABILITIES – TRADE AND OTHER PAYABLES

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

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

² 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

	Consolidated	
	2010	2009
	\$	\$
Annual and long service leave	208,451	174,105

NOTE 24: NON-CURRENT LIABILITIES – PROVISIONS

	Consolidated	
	2010	2009
	\$	\$
Rehabilitation	2,080,000	1,720,852
Long service leave	40,368	31,653
	2,120,368	1,752,505

Movement in provisions

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

	Consolidated	
	2010	2009
	\$	\$
Rehabilitation		
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)
Balance at the end of the year	2,080,000	1,720,852

Notes to the Financial Statements (continued)

for the year ended 30 June 2010

NOTE 24: NON-CURRENT LIABILITIES – PROVISIONS (continued)

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.

NOTE 25: CONTRIBUTED EQUITY

	Parent Entity	
	2010	2009
	\$	\$
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 ¹	27,000	27,000
1,915,000 ordinary partly paid shares, paid to 1 cent ²	19,150	19,150
7,225,000 ordinary partly paid shares, paid to 0.1 cent ³	7,225	7,225
Total issued capital	151,266,106	110,018,067

¹ 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.

² 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.

³ 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.

Notes to the Financial Statements (continued)

for the year ended 30 June 2010

NOTE 25: CONTRIBUTED EQUITY (continued)

Ordinary shares

Movement in ordinary fully paid shares on issue

	Parent Entity			
	2010		2009	
	Number of shares	\$	Number of 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)
Balance at the end of the year	518,078,680	151,212,731	368,300,198	109,964,692

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.

Partly paid shares

Movement in ordinary partly paid shares on issue

	Parent Entity			
	2010		2009	
	Number of shares	\$	Number of shares	\$
Balance at the beginning of the year	9,410,000	53,375	9,410,000	53,375
Balance at the end of the year	9,410,000	53,375	9,410,000	53,375

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.

Notes to the Financial Statements (continued)

for the year ended 30 June 2010

NOTE 25: CONTRIBUTED EQUITY (continued)

Options

Movement in share options on issue

	Parent Entity	
	2010	2009
	Number of options	Number of options
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)
Balance at the end of the year	8,775,000	71,165,482

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.

Notes to the Financial Statements (continued)

for the year ended 30 June 2010

NOTE 26: RESERVES

		Consolidated	
	Note	2010 \$	2009 \$
Foreign currency translation reserve			
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
Balance at the end of the year		-	269,662
Share based payments reserve			
Balance at the beginning of the year		2,101,870	1,177,675
Options issued		-	924,195
Balance at the end of the year		2,101,870	2,101,870
Net unrealised gain / (loss) reserve			
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)
Balance at the end of the year		(448,089)	237,102
Total reserves		1,653,781	2,608,634

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.

NOTE 27: ACCUMULATED LOSSES

	Consolidated	
	2010 \$	2009 \$
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)
Balance at the end of the year	(84,336,565)	(86,925,857)

Notes to the Financial Statements *(continued)*

for the year ended 30 June 2010

NOTE 28: CONSOLIDATED CASH FLOW STATEMENT RECONCILIATION

		Consolidated	
	Note	2010 \$	2009 \$
Reconciliation of the net (loss) / profit after tax to net cash flows used in operations			
Net loss		2,589,292	(8,628,890)
<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)
Net cash flows used in operating activities		4,657,069	(1,311,012)

Notes to the Financial Statements (continued)

for the year ended 30 June 2010

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.

Permits	Consolidated Working Interest	
	2010 Percentage %	2009 Percentage %
Australian permits		
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%

Notes to the Financial Statements (continued)

for the year ended 30 June 2010

NOTE 29: INTEREST IN JOINT VENTURE OPERATIONS (continued)

	Consolidated Working Interest	
	2010 Percentage %	2009 Percentage %
Permits		
International properties		
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:

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

Notes to the Financial Statements (continued)

for the year ended 30 June 2010

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:

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

Notes to the Financial Statements (continued)

for the year ended 30 June 2010

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
Parent entity			
Victoria Petroleum N.L.	Australia		
Directly controlled by Victoria Petroleum N.L.			
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 ¹	Australia	-	100%
Victoria Petroleum (WA-209P) Pty Ltd ²	Australia	-	100%
Victoria Petroleum (Middle East) Pty Ltd ²	Australia	-	100%
Victoria Minerals Exploration Ltd	Australia	-	100%
Directly controlled by Victoria Minerals Exploration Ltd			
Victoria Diamond Exploration Pty Ltd ¹	Australia	-	100%
Victoria Oil Exploration (1977) Pty Ltd	Australia	100%	100%
Directly controlled by Victoria International Petroleum N.L.			
Victoria Petroleum USA, Inc ³	United States	-	100%
Directly controlled by Remers Pty Ltd			
Victoria Exploration (PNG) Pty Ltd	PNG	-	100%
Whitewood Nominees Pty Ltd	Australia	100%	100%

¹ 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.

² 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.

³ 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.

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.

Notes to the Financial Statements (continued)

for the year ended 30 June 2010

NOTE 31: KEY MANAGEMENT PERSONNEL

Details of Key Management Personnel

Compensation of Key Management Personnel

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

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.

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

¹ NC Fearis resigned on 19 November 2009

² JT Kopcheff retired from the Board as Executive Director on 22 September 2010

Notes to the Financial Statements (continued)

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.

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

¹ A Bajada resigned on 27 October 2008

² A Dimsey resigned on 27 October 2008

³ BM McKeown was appointed on 17 December 2008

⁴ AN Short resigned on 27 October 2008

⁵ B Wrixon resigned on 29 June 2009

⁶ 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.

⁷ 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.

Notes to the Financial Statements (continued)

for the year ended 30 June 2010

NOTE 31: KEY MANAGEMENT PERSONNEL (continued)

Shareholdings of Key Management Personnel (consolidated) (continued)

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

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

¹ NC Fearis resigned on 19 November 2009

² JT Kopcheff retired from the Board as Executive Director on 22 September 2010

Notes to the Financial Statements (continued)

for the year ended 30 June 2010

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

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

¹ 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

² A Bajada resigned on 27 October 2008

³ A Dimsey resigned on 27 October 2008

⁴ BM McKeown was appointed on 17 December 2008

⁵ AN Short resigned on 27 October 2008

⁶ B Wrixon resigned on 29 June 2009

Notes to the Financial Statements (continued)

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 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.

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

¹ NC Fearis resigned on 19 November 2009

² JT Kopcheff retired from the Board as Executive Director on 22 September 2010

Notes to the Financial Statements (continued)

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.

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

¹ A Bajada resigned on 27 October 2008

² A Dimsey resigned on 27 October 2008

³ BM McKeown was appointed on 17 December 2008

⁴ AN Short resigned on 27 October 2008

⁵ B Wrixon resigned on 29 June 2009

Notes to the Financial Statements (continued)

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.

Number of ordinary partly paid shares	Balance at beginning of period 1 Jul 09	Granted as compensation	Options exercised	Options expired	Net Change Other	Balance at end of period 30 Jun 10
Directors						
DF Patten	-	-	-	-	-	-
JT Kopcheff ²	1,080,000	-	-	-	-	1,080,000
NC Fearis ¹	-	-	-	-	-	-
BM McKeown	-	-	-	-	-	-
RJ Pett	-	-	-	-	-	-
Executives						
DI Rakich	200,000	-	-	-	-	200,000
CM Lane	100,000	-	-	-	-	100,000
Total	1,380,000	-	-	-	-	1,380,000

¹ NC Fearis resigned on 19 November 2009

² JT Kopcheff retired from the Board as Executive Director on 22 September 2010

Notes to the Financial Statements (continued)

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.

Number of ordinary partly paid shares	Balance at beginning of period 1 Jul 08	Granted as compensation	Options exercised	Options expired	Net Change Other	Balance at end of period 30 Jun 09
Directors						
DF Patten	-	-	-	-	-	-
JT Kopcheff	1,080,000	-	-	-	-	1,080,000
A Bajada ¹	-	-	-	-	-	-
A Dimsey ²	-	-	-	-	-	-
NC Fearis	-	-	-	-	-	-
BM McKeown ³	-	-	-	-	-	-
RJ Pett	-	-	-	-	-	-
AN Short ⁴	-	-	-	-	-	-
B Wrixon ⁵	200,000	-	-	-	(200,000)	-
Executives						
DI Rakich	200,000	-	-	-	-	200,000
CM Lane	100,000	-	-	-	-	100,000
Total	1,580,000	-	-	-	(200,000)	1,380,000

¹ A Bajada resigned on 27 October 2008

² A Dimsey resigned on 27 October 2008

³ BM McKeown was appointed on 17 December 2008

⁴ AN Short resigned on 27 October 2008

⁵ B Wrixon resigned on 29 June 2009

Notes to the Financial Statements (continued)

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.

Number of ordinary partly paid shares	Balance at beginning of period 1 Jul 09	Granted as compensation	Options exercised	Options expired	Net Change Other	Balance at end of period 30 Jun 10
Directors						
DF Patten	-	-	-	-	-	-
JT Kopcheff ²	4,200,000	-	-	-	-	4,200,000
NC Fearis ¹	-	-	-	-	-	-
BM McKeown	-	-	-	-	-	-
RJ Pett	-	-	-	-	-	-
Executives						
DI Rakich	1,175,000	-	-	-	-	1,175,000
CM Lane	450,000	-	-	-	-	450,000
Total	5,825,000	-	-	-	-	5,825,000

¹ NC Fearis resigned on 19 November 2009

² JT Kopcheff retired from the Board as Executive Director on 22 September 2010

Notes to the Financial Statements (continued)

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.

Number of ordinary partly paid shares	Balance at beginning of period 1 Jul 08	Granted as compensation	Options exercised	Options expired	Net Change Other	Balance at end of period 30 Jun 09
Directors						
DF Patten	-	-	-	-	-	-
JT Kopcheff	4,200,000	-	-	-	-	4,200,000
A Bajada ¹	-	-	-	-	-	-
A Dimsey ²	-	-	-	-	-	-
NC Fearis	-	-	-	-	-	-
BM McKeown ³	-	-	-	-	-	-
RJ Pett	-	-	-	-	-	-
AN Short ⁴	-	-	-	-	-	-
B Wrixon ⁵	350,000	-	-	-	(350,000)	-
Executives						
DI Rakich	1,175,000	-	-	-	-	1,175,000
CM Lane	450,000	-	-	-	-	450,000
Total	6,175,000	-	-	-	(350,000)	5,825,000

¹ A Bajada resigned on 27 October 2008

² A Dimsey resigned on 27 October 2008

³ BM McKeown was appointed on 17 December 2008

⁴ AN Short resigned on 27 October 2008

⁵ B Wrixon resigned on 29 June 2009

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.

Notes to the Financial Statements (continued)

for the year ended 30 June 2010

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.

	Consolidated	
	2010	2009
	\$	\$
Minimum lease payments		
- not later than one year	252,234	246,082
- later than one year and not later than five years	387,580	639,814
	639,814	885,896

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.

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.

	Consolidated	
	2010	2009
	\$	\$
Remuneration commitments		
- not later than one year	330,000	330,000
- later than one year and not later than five years	165,000	495,000
	495,000	825,000

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:

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

Notes to the Financial Statements (continued)

for the year ended 30 June 2010

NOTE 32: COMMITMENTS (continued)

Remuneration commitments (continued)

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.

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:

	2010 \$	2009 \$
Revenue	-	770,610
Cost of sales	-	(599,048)
Gross profit / (loss)	-	171,562
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)
Profit / (Loss) from discontinued operations before tax	126,002	(4,496,333)
Income tax	-	-
Profit / (Loss) from discontinued operations after tax	126,002	(4,496,333)

Notes to the Financial Statements (continued)

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:

	\$
ASSETS	
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
Assets classified as held for sale	1,490,480
LIABILITIES	
Trade and other payables	193,479
Provisions	853,341
Liabilities directly associated with assets classified as held for sale	1,046,820
Net assets attributable to discontinued operations	443,660

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 \$	2009 \$
Operating activities	-	(43,742)
Investing activities	248,533	(809,437)
Net cash flow	248,533	(853,179)

Earnings / (Loss) per share from discontinued operations disposed of

	Note	2010 \$	2009 \$
Earnings / (Loss) per share from discontinuing operations attributable to the ordinary equity holders of the parent entity (cents per share):			
Basic earnings / (loss) per share	10	0.05	(1.29)
Diluted earnings / (loss) loss per share	10	0.05	(1.29)

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.

Notes to the Financial Statements *(continued)*

for the year ended 30 June 2010

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.

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).

Directors' Declaration

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

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

Independent Audit Report (continued)



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*.

Ernst & Young

Gavin A Buckingham
Partner
Perth
24 September 2010

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
Total	4	9	12	10,515	21

(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%
	Total	242,832,498	46.9%

Shareholders Information (continued)

- (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:

No.	Name	Number	Percentage %
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%
Total		163,792,928	31.6%

- (f) Directors' security holdings and relevant interest at 21 September 2010 were as follows:

Director	Number of securities				Options
	Partly Paid to 10 cents	Partly Paid to 1 cent	Partly Paid to 0.1 cent	Fully Paid	
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
Total	140,000	-	-	1,172,500	7,500,000

- (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.

