AED Oil Limited

Condensed Half Yearly Financial Report

31 December 2008

Half-Year Financial Report to 31 December 2008

Results for Announcement to the Market Rule 4.2A.3

	31 Dec 2008 A$'M	31 Dec 2007 A$'M	Percentage Increase / (Decrease)
Sales revenue	13.0	66.7	(80.5)
Net profit/(loss) for the period	(42.6)	1.2	-
Net profit/(loss) attributable to members	(42.6)	1.2	-

Explanation of Results

Please refer to the commentary included in the Directors' Report of the 31 December 2008 Condensed Half Year Financial Report for an explanation of results.

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

Dividends	Six Months to 31 Dec 2008	Six Months to 31 Dec 2007
Interim dividend per share	Nil	Nil
Franked amount per share	N/A	N/A
Special dividend per share (paid in respect of 30 June 2008 financial year)	20 cents	N/A
Franked amount per share	100%	N/A

Net tangible assets per share	31 Dec 2008 $	31 Dec 2007 $
Net tangible assets per share	1.53	0.45

Control gained/lost over entities during the period

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

ABN 61 110 393 292

This condensed half-year report covers the consolidated entity comprising AED Oil Limited and its subsidiaries (the Group). A description of the Group's operations and of its principal activities is included in the review of operations and activities in the Directors' Report. The Directors' Report is unaudited and does not form part of the Financial Report.

Directors
David Dix, B.Ec; LLB; Grad Dip (Tax Law)
Kenneth Tregonning, B.Sc (Physics) (Hons), PhD (Theoretical Physics)
George Edward (Barry) McGuiness, Diploma of Public Administration
John Branson, LLB
Richard Price, B.Eng (Civil) (Hons), MBA

Company Secretary/General Manager, Marketing
Trevor Slater, B.Bus (Acctg) FCPA FCSA

Chief Financial Officer
Richard Little B.Ec CA

Chief Operating Officer
John Fear MEI (UK)

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Auditors
Ernst & Young
8 Exhibition Street
MELBOURNE VIC 3000

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

Your directors submit their report for the half-year ended 31 December 2008.

DIRECTORS

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

David Dix (Chairman)

Kenneth Tregonning (Managing Director)

George Edward (Barry) McGuiness

John Branson

Richard Price

REVIEW OF OPERATIONS AND FINANCIAL REVIEW

Puffin North East Operations

AED has an entitlement to 40% of the field production. Total (100%) field production for the period was 479,834 barrels (2007: 839,698 barrels). As at 31 December 2008 (100%) total crude oil inventory was 389,008 barrels (2007: 197,956 barrels). Production during the period was impacted by the cyclone activity in the area and the failure of the gas lift compressor, and previously reported impairment issues to the Puffin 7 & 8 wells.

Development Activity

Activities for the period centered on drilling in the Puffin NE and SW region. While analysis of the results are still being finalised, the Company is encouraged by the preliminary results from Puffin-11 where a 25m column of oil was identified. The Joint Venture is currently considering development scenarios for the South West region encompassing the Puffin-11 and Puffin-9 wells. (Puffin-9 was successfully drilled by AED in 2007).

The Puffin-12 results however were less encouraging. While oil was intersected at 2,033 metres TVDSS (True Vertical depth Sub-Sea) the well was suspended as it was deemed the column was uneconomic to develop at current oil prices. Like many other companies, AED and its joint venture partner East Puffin Pty Limited is reviewing its operations in the light of prevailing economic conditions.

The Company is taking measures to carefully monitor its cash position. Accordingly the Company continues to review its field development opportunities in the light of commodity prices, the predicted decline in drilling and development costs and a new plan to commercialise reserves within this region is currently being developed.

FINANCIAL RESULTS

Comparison to Prior Period

On 18 June 2008 the Company completed a sale transaction with Sinopec International Petroleum Exploration and Production Corporation ("SIPC"), in which SIPC acquired a 60% interest in the Company's assets held under AC/P22, AC/L6 and AC/RL1 which include the Puffin and Talbot fields. A joint venture was formed with SIPC who assumed the operator role. Therefore the current period results represent AED's 40% interest in the Puffin and Talbot Field operations compared to the previous period in which AED had a 100% interest.

During the comparative period the Company commenced production on 6 October 2007. Costs incurred prior to this date were capitalised as development costs.

Financial Results For The Period Were:

	2008 A$'M	2007 A$'M
Operating sales revenue at spot oil prices	13.0	66.7
Gross operating profit/(loss)	(16.1)	36.1
Underlying profit	13.5	35.2
Net profit/(loss) after tax	(42.6)	1.2
Net cash flow from operations	(30.9)	18.6

Operating Revenue and Costs

During the period there was only one offtake of 91,117 barrels (AED share) generating revenue of $13 million. No further offtakes were made due to the drilling activity within the area limiting the ability to safely berth an offtake vessel and the unfavourable oil prices during the period. The FPSO has sufficient storage capacity at this time to allow the deferral crude oil offtakes until oil prices recover from the present low levels. Accordingly there was approximately 156,000 barrels (AED share) in inventory which will be sold in the next period. In the prior period, there were two offtakes totaling 256,697 barrels (AED share).

The operating cost of $25.1 million is comprised of the following:

- Fixed leasing cost $18.2 million
- FPSO and support operating costs $13.0 million
- Operating costs capitalised to inventory ($6.1 million)

Inventory has been valued at net realisable value due to the fall in the commodity prices. This has resulted in an adjustment in production costs of $18.8 million being expensed in the current period.

Royalties are based on gross sales at a rate of 3.2%.

Depreciation for the period was $5.0 million of which was $3.5 million was expensed and $1.5 million was capitalised in inventory.

Other Revenue and Other Income

Other revenue and other income of $33.2 million relates to foreign exchange gains, interest received, rental recovery and terminal fees recovered. Foreign exchange gains primarily resulted from favorable gains on cash held in US Dollars.

Other Major Costs

The Company has recognised an impairment write-down of $50.6 million in relation to its production assets as a result of recent production performance, the current economic conditions and the fall in oil commodity prices. Refer note 9(ii).

The development costs of $20.8 million incurred in relation to the Puffin-12 well in the North East region has been written off to the income statement. Initial assessments indicate that the sand at this location was oil bearing however the oil column did not have sufficient thickness to warrant completion as a production well at the current time. AED will now evaluate further targets for drilling in the NE region but in the meantime the Puffin NE-12 well has been suspended.

Fair value changes on derivatives of $9.0 million represented a fair value loss on the valuation of the convertible notes. The prior period amount $27.0 million comprise a $43.2 million loss on the mark to market revaluation of oil commodity swaps (which were all closed out in June 2008), partly offset by a $16.2 million fair value gain on the convertible notes.

Total borrowing costs for the period were $5.3 million, representing the interest payable on the convertible note and unwind of the discount associated with the rehabilitation provision. Total borrowing costs for the prior period were $10.2 million of which $4.7million was capitalised up until the period production commenced.

Income tax benefit of $29.6 million includes a benefit mainly resulting from a research and development allowance and the recognition of the tax effect of the current period's tax loss.

Balance Sheet

The Group's total assets decreased by $86.4 million primarily due to the write-down for impairment of assets and Puffin-12 well costs written off during the period. At 31 December 2008, AED had a cash and cash equivalents balance of $264.9 million. The cash balance is held with a spread of major counterparties to minimise counterparty risk.

Current liabilities have decreased primarily due to reduction in the tax payable provision due to a favourable research and development allowance.

Non-current liabilities decreased due to:

- Offsetting the deferred tax assets with the deferred tax liabilities;
- The fair value change of the convertible notes; and
- The increase in the restoration provision as a result of recognising the increased liability for the new wells drilled and a change in the discount rate due to the reduction in the current interest rates.

Cash Flows

The net operating cash outflows of $30.9 million represent the Company's cash outflow from production operations, administration costs and settlement of the Company's final hedge contracts that matured at the end of June 2008. Receipts of $15.3 million were received from one offtake and net interest received was $3.6 million.

Capital investments costs paid in the period relates primarily to:

- $24.8 million for drilling and appraisal of the Puffin-11 well, equipment and geophysical and geology assessments in the Puffin South West region; and
- $20.7 million for drilling and subsequent suspending the Puffin-12 well and for other capital costs in the Puffin North East region.

Financing for the above net operating cash loss and capital development costs was funded by utilisation of cash funds available. A special fully franked dividend of 20 cents per share was paid resulting in a $30.9 million payment.

SUBSEQUENT EVENTS

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

AUDITOR'S INDEPENDENCE DECLARATION

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

ERNST & YOUNG

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

In relation to our review of the financial report of AED Oil Limited for the half year ended 31 December 2008, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the Corporations Act 2001 or any applicable code of professional conduct.

Ernst & Young

Ernst & Young

Michael Collins
Partner
Melbourne
13 March 2009

Signed in accordance with a resolution of the Directors.

David Dix

Executive Chairman

Melbourne
13 March 2009

For the Half Year Ended 31 December 2008

		CONSOLIDATED	
		2008	**2007**
	Note	**$'000**	**$'000**
Operating revenue from sale of oil		13,039	66,730
Operating costs		(25,146)	(21,323)
Royalty		(446)	(2,217)
Depreciation and amortisation		(3,502)	(7,100)
Total cost of sales		(29,094)	(30,640)
Gross operating profit/(loss)		**(16,055)**	**36,090**
Other revenue	4(a)	8,430	512
Other income	4(b)	24,816	6,227
Corporate administration and other expenses		(3,642)	(7,587)
Underlying profit before tax		**13,549**	**35,242**
Development costs expensed	9	(20,832)	-
Impairment write-down	9	(50,562)	-
Fair value change on financial instruments	4(c)	(9,014)	(26,992)
Finance costs	4(d)	(5,334)	(5,488)
Profit/(loss) before income tax		**(72,193)**	**2,762**
Income tax benefit/(expense)	14	29,571	(1,598)
Net profit/(loss) for the period		**(42,622)**	**1,164**
Earnings/(loss) per share for profit/(loss) attributable to ordinary equity holders of the parent (cents per share)			
- Basic		(27.55)	0.84
- Dilutive		(27.55)	(8.14)

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

As At 31 December 2008 **CONSOLIDATED**

	Note	As at 31 Dec 2008 $'000	As at 30 June 2008 $'000
ASSETS			
Current assets			
Cash and cash equivalents	6	264,939	348,008
Other financial assets	6	5,391	-
Trade and other receivables		4,241	5,722
Inventories	7	11,203	3,963
Prepayments		17	41
Total current assets		**285,791**	**357,734**
Non-current assets			
Plant and equipment		385	353
Deferred exploration, evaluation and development costs	8	79,445	43,356
Production assets	9	118,025	158,999
Deferred tax asset	14	-	9,626
Total non-current assets		**197,855**	**212,334**
TOTAL ASSETS		**483,646**	**570,068**
LIABILITIES			
Current liabilities			
Trade and other payables		46,171	45,824
Provisions		191	319
Income tax	14	40,147	50,603
Total current liabilities		**86,509**	**96,746**
Non-current liabilities			
Interest bearing loans and borrowings		92,018	83,004
Provisions	15	41,114	22,932
Deferred tax liabilities	14	26,622	55,444
Total non-current liabilities		**159,754**	**161,380**
TOTAL LIABILITIES		**246,263**	**258,126**
NET ASSETS		**237,383**	**311,942**
EQUITY			
Contributed equity	11	90,039	89,732
Retained earnings		144,172	216,554
Reserves		3,172	5,656
TOTAL EQUITY		**237,383**	**311,942**

The above balance sheet should be read in conjunction with the accompanying notes.

For The Half Year Ended 31 December 2008

	CONSOLIDATED			
	Issued Capital	**Employee Benefits Reserve**	**Retained Earnings**	**Total**
	$'000	**$'000**	**$'000**	**$'000**
At 1 July 2008	89,732	5,656	216,554	311,942
Loss for the period	-	-	(42,622)	(42,622)
Dividends	-	-	(30,958)	(30,958)
Cost and transfers of share based payments	82	(2,484)	1,198	(1,204)
Shares issued	225	-	-	225
At 31 December 2008	90,039	3,172	144,172	237,383

For The Half Year Ended 31 December 2007

	CONSOLIDATED			
	Issued Capital	**Employee Benefits Reserve**	**Retained Earnings**	**Total**
	$'000	**$'000**	**$'000**	**$'000**
At 1 July 2007	60,836	7,702	(25,989)	42,549
Profit for the period	-	-	1,164	1,164
Cost and transfers of share based payments	-	2,778	-	2,778
Shares issued	22,802	-	-	22,802
At 31 December 2007	83,638	10,480	(24,825)	69,293

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

For The Half Year Ended 31 December 2008

	Note	CONSOLIDATED 2008 $'000	2007 $'000
Cash flows from operating activities			
Receipts from customers		15,276	62,532
Settlement of oil commodity swaps		(12,623)	(10,092)
Payments to suppliers and employees		(37,192)	(31,606)
Interest received		6,771	427
Interest paid		(3,138)	(2,680)
Net cash from/(used in) operating activities		**(30,906)**	**18,581**
Cash flows from investing activities			
Purchase of plant and equipment		(125)	(245)
Exploration, evaluation and development costs		(45,516)	(146,660)
Purchase of other financial assets		(5,391)	-
Transaction costs paid on sale of assets		(7,403)	-
Borrowing costs capitalised		-	(5,602)
Net cash used in investing activities		**(58,435)**	**(152,507)**
Cash flows from financial activities			
Proceeds from issue of shares		225	22,802
Proceeds from bank borrowings		-	117,238
Loans to joint venture operator repaid		4,671	-
Dividends paid		(30,958)	-
Net cash from/(used in) financing activities		**(26,062)**	**140,040**
Net increase/(decrease) in cash and cash equivalents		(115,403)	6,114
Net foreign exchange differences		32,334	2,618
Cash and cash equivalents at beginning of period		348,008	18,165
CASH AND CASH EQUIVALENTS AT END OF PERIOD	6	**264,939**	**26,897**

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

For The Half Year Ended 31 December 2008

1. CORPORATE INFORMATION

The condensed financial report of AED Oil Limited (the Group) for the half-year ended 31 December 2008 was authorised for issue in accordance with a resolution of the Directors. AED Oil Limited is a company incorporated in Australia and limited by shares, which are publicly traded on the Australian Stock Exchange.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Preparation

This general purpose condensed financial report for the half year ended 31 December 2008 has been prepared in accordance with AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001.*

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

It is recommended that the half-year financial report be read in conjunction with the annual report for the year ended 30 June 2008 and considered together with any public announcements made by AED Oil Limited during the half year ended 31 December 2008 in accordance with the continuous disclosure obligations of the *ASX listing rules.*

The accounting policies and methods of computation are the same as those adopted in the most recent annual financial report.

(b) Rounding

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

(c) Comparative Figures

Where necessary, comparative figures have been restated to be consistent with current period disclosure requirements.

(d) Significant Accounting Judgements, Estimates and Assumptions

In the application of the Group's accounting policies, management is required to make judgements, estimates and assumptions about carrying value of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements. Actual results may differ from these estimates.

The following significant judgements, estimates and assumptions have been made in applying the Group's accounting policies at 31 December 2008:

(i) Valuation of inventory: Note 7

(ii) Impairment of assets: Note 9

(iii) Valuation of convertible notes: Note 13

(iv) Income tax: Note 14

(v) Provision for restoration: Note 15

For The Half Year Ended 31 December 2008

(e) Going Concern

As at 31 December 2008, the Group had a net current asset position of $199.3 million. At the date of this report, the Group has significant operating cash flow commitments in respect of its current production assets and capital expenditure obligations under the Puffin Joint Venture. Further, the US$85 million convertible notes are first redeemable on 23 February 2010.

The Group is currently focused on optimising returns from the Puffin Field by completing studies of the geological potential of the Puffin Field by analysis of the recent drilling results and reprocessed seismic data and on not diminishing assets while the oil price is unfavourable.

The ability of the Group to commit to a further significant development of the Puffin Field in excess of its existing obligations will require further funding. Commitment to such capital expenditure will depend upon the size of the economically recoverable resources in the Puffin SW and NE Regions, the cost of development and the expected oil price. It is also conditional upon any project being financeable based on any funding criteria set by potential financiers.

The Group remains enthusiastic about the potential of the Puffin Field, and continues to review all its options in this regard as part of its broader capital management strategy.

Therefore the accounts have been prepared on a going concern basis and no adjustments have been made relating to the recoverability and classification of recorded asset and liabilities.

3. SEGMENT INFORMATION

The company operates solely in the oil production and oil and gas exploration industry in Australia

For The Half Year Ended 31 December 2008

4. REVENUE, INCOME AND EXPENSES

	CONSOLIDATED	
	2008	**2007**
	$'000	**$'000**
(a) Other revenue		
Interest	8,172	427
Rental income	69	85
Other	189	-
	8,430	512
(b) Other income		
Net foreign exchange differences	24,816	6,227
(c) Fair value change on derivatives		
Fair value change on oil commodity swaps	-	(43,212)
Fair value change on convertible note	(9,014)	16,220
	(9,014)	(26,992)
(d) Finance costs		
Interest on loans	-	5,570
Interest on convertible notes	3,966	3,408
Discount on rehabilitation assets	1,368	1,265
	5,334	10,243
Less: Borrowing costs capitalised	-	(4,755)
	5,334	5,488

5. DIVIDENDS PAID AND PROPOSED

During the financial period, the directors' declared and paid a fully franked special dividend of 20 cents per share totaling $30.9 million to the holders of fully paid ordinary shares in respect of the financial year ended 30 June 2008.

No other dividends were paid or proposed to members in respect of the half year ended 31 December 2008.

For The Half Year Ended 31 December 2008

6. CASH AND CASH EQUIVALENTS AND OTHER FINANCIAL ASSETS

For the purpose of the half-year cash flow statement, cash and cash equivalents are comprised of the following:

	CONSOLIDATED	
	As at 31 Dec 2008 $'000	As at 31 Dec 2007 $'000
Cash at bank and in hand	21,714	956
Short term deposits	140,227	25,941
Cash equivalents	102,998	-
	264,939	26,897

Investments in cash equivalents represent investments in USD liquidity institutional distribution funds as well as other AUD money market investments.

As part of the Group's overall cash management strategy, investments are also made in other liquid financial assets. Other financial assets consist of fixed and floating rate notes of $5.4 million (measured at fair value). These can be redeemed at short notice at their fair value.

7. INVENTORIES

	CONSOLIDATED	
	As at 31 Dec 2008 $'000	As at 30 June 2008 $'000
Oil inventories (at cost)	-	3,963
Oil inventories (at net realisable value)	11,203	-
	11,203	3,963

Inventory write-downs of $18.8 million (2007: nil) were recognised in operating costs, resulting from a reduction in relevant oil prices. Net realisable value has been determined with reference to forward prices at the expected date of sale.

8. DEFERRED EXPLORATION, EVALUATION AND DEVELOPMENT

	CONSOLIDATED	
	As at 31 Dec 2008 $'000	As at 30 June 2008 $'000
Carrying amount at the beginning of the financial year	43,356	283,057
Expenditure capitalised during the period	34,005	186,292
Transfer to producing assets	-	(361,553)
Restoration asset	2,084	2,171
Disposals	-	(66,611)
Carrying amount at the end of the period	79,445	43,356

For The Half Year Ended 31 December 2008

8. DEFERRED EXPLORATION, EVALUATION AND DEVELOPMENT (cont.)

	CONSOLIDATED	
	As at 31 Dec 2008 $'000	**As at 30 June 2008 $'000**
Comprises:		
Exploration and evaluation - Puffin South West	74,390	41,688
Exploration and evaluation - Talbot acquisition	800	800
Restoration asset	4,255	868
	79,445	43,356

9. PRODUCTION ASSETS

	CONSOLIDATED	
	As at 31 Dec 2008 $'000	**As at 30 June 2008 $'000**
Producing assets		
Puffin North East development costs	167,132	146,443
Restoration asset	33,605	18,877
Development costs expensed (i)	(20,832)	-
Impairment write-down (ii)	(50,562)	-
Accumulated depreciation	(11,318)	(6,321)
	118,025	158,999

(i) Development costs expensed relate to expenditure on the Puffin-12 well in the Puffin North East Region. Initial assessments of drilling results did not warrant completion and the Puffin-12 well has been suspended.

(ii) At each reporting date, Accounting Standards impose regulatory requirements for the Company to review non-current assets for impairment for any indication that the carrying value exceeds recoverable amount. In light of the current economic conditions, the sharp fall in oil and commodity prices and the lower than expected production performance in Puffin North East, the half year financial results reflect a $50.6 million write-down for impairment. This impairment has been based on a fair value less costs to sell methodology. However, the company is continuing to review its assets and the full Puffin Field development opportunities, particularly in the South West region where the Company is reassessing reserves and resources following recent drilling activity and in light of current economics. The Company believes this value is not yet fully reflected in the Company's share price and valuations. This impairment write-down against the carrying value of the non-current assets may be reversed, to the extent allowed; at a future date should there be a recovery in commodity prices and upon other changes in the estimates used to determine reserves and resources.

For The Half Year Ended 31 December 2008

10. COMMITMENTS AND CONTIGENCIES

Legal Claims

The Company and its 100% owned incorporated joint venture (Puffin Installation Services Pte Ltd) received a claim in the previous period for costs from its installation contractor seeking amounts alleged to be owed arising out of the installation contract. The Company has issued proceedings in the Supreme Court of Victoria against the installation contractor, its directors, legal advisers and others for an amount substantially greater than the amount claimed by the installation contractor. Further, the Company has other claims against the installation contractor.

The amount currently claimed by the installation contractor is US $11,272,948. The Company disputes it is indebted to the installation contractor. As such, no provision has been made in the financial statements.

Lease Commitments

During the half-year, the East Puffin Joint Venture agreed to execute an option extending the Charter Agreement with Frontline FPSO Ltd for the supply and operation of the Front Puffin to be used as a Floating Production Storage and Offloading facility for a period of one year to 16 June 2010. As a result of the extension of the agreement, the Group's share of future minimum rental payments under non-cancellable operating leases has increased by $34,772,000.

11. CONTRIBUTED EQUITY

	CONSOLIDATED	
	As at 31 Dec 2008 $'000	**As at 30 June 2008 $'000**
Ordinary shares (i)	90,039	89,732

(i) **Ordinary Shares**

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

	Shares	**$'000**
Movement in ordinary shares on issue		
At 1 July 2007	117,589	60,837
Transfer from employee equity reserves	-	5,775
Exercise of share options	34,938	7,720
Additional shares issued	2,000	15,400
At 30 June 2008	154,527	89,732
Transfer from employee equity reserves	-	82
Exercise of share options	265	225
At 31 December 2008	154,792	90,039

12. SHARE BASED PAYMENTS

During the period 1,110,000 share options lapsed. $1,204,000 was credited back to the income statement for those options that had not vested. An amount of $1,198,000 was transferred to retained earnings for those options that had vested but have now lapsed.

For The Half Year Ended 31 December 2008

13. FINANCIAL INSTRUMENTS

The below notes detail any significant changes to the exposures and risks of financial instruments as disclosed in the 30 June 2008 full year report.

Changes in credit risk

At 30 June 2008, AED had a concentration of credit risk as its entire cash and cash equivalent balance resulting from sale proceeds of assets to SIPC was held with the CBA and Westpac. During this period the Company formulated an appropriate investment strategy for the funds going forward, including approval of appropriate counterparty limits and credit ratings. As a result the concentration credit risk existing at period end has been effectively managed and reduced through diversification.

Changes in exposure to foreign exchange risk

The Group's sensitivity to foreign currency risk has decreased during the current period as at 30 June 2008, AUD 290 million of cash was held in USD. At 31 December 2008, the balance was approximately AUD 64 million.

Valuation of convertible notes

On 23 February 2007, the Group issued an unsecured and unsubordinated Convertible Note raising USD 85 million. The convertible notes were issued at par and carry a coupon rate of 6.50% per annum paid semi-annually. They will mature on 23 February 2012 at par. Noteholders can convert their holdings into shares from 23 August 2008 and from 23 February 2010 they can redeem their capital. Noteholders will have the right to require the Company to redeem the Note at its principal amount together with accrued interest.

Fair value has been determined with reference to quoted exchange prices at balance date. Whilst market activity with respect to these notes has been limited during the period, the quoted price at 31 December 2008 is considered to be a reasonable estimate of the instruments fair value. In drawing this conclusion, the Company has considered bid-ask spreads, and the implied yield of the instrument with reference to comparable instruments.

14 INCOME TAX

As a result of continued refinement of the 30 June 2008 income tax position, the Group has reduced the income tax payable by $10,401,000 relating primarily to a favourable research and development allowance and continued refinement of the treatment of exploration, evaluation, development and other capital expenditure. This has contributed to the overall tax benefit recognised in respect of adjustments of prior period income tax of $7,500,000.

Furthermore, the Group has recognised an additional income tax benefit for the current half year period of $22,071,000 which represents the generation of additional tax losses in the current period tax and a reduction in deferred tax liabilities primarily due to the recognition of impairment of assets.

15 PROVISION FOR RESTORATION

There has been an increase in the provision for restoration of $18,182,000 to $41,114,000 (2008: $22,932,000). The change reflects new restoration obligations arising from the drilling of the Puffin-11 and Puffin-12 wells, changes in foreign exchange rates applicable to foreign denominated restoration obligations, unwind of the discount on long term restoration provisions and a change in the discount rate used to discount long term restoration obligations.

16. EVENTS AFTER THE BALANCE SHEET DATE

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

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

In the opinion of the Directors:

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

  (i) give a true and fair view of the financial position as at 31 December 2008 and the performance for the half year ended on that date of the consolidated entity; and

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

(b) there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

On behalf of the Board,

David Dix

Executive Chairman

Melbourne

13 March 2009

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To the members of AED Oil Limited

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of AED Oil Limited, which comprises the balance sheet as at 31 December 2008, and the income statement, statement of changes in equity and cash flow statement for the half-year ended on that date, other selected explanatory notes and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the half-year end or from time to time during the half-year.

Directors' Responsibility for the Half-Financial Report

The directors of the company are responsible for the preparation and fair presentation of the half-year financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the half-year 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.

Auditor's Responsibility

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

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

Independence

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

Conclusion

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

i) giving a true and fair view of the consolidated entity's financial position as at 31 December 2008 and of its performance for the half-year ended on that date; and

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

Uncertainty Regarding Continuation as a Going Concern

Without qualification to the conclusion expressed above, attention is drawn to the following matter. As a result of the matters described in Note 2 (e) "Going Concern" to the half year financial report, there is a material uncertainty whether the consolidated entity will continue as a going concern, and therefore whether it will realise its assets and extinguish its liabilities in the normal course of business and at the amounts stated in the half year financial report. The half year financial report has been prepared on a going concern basis and does not include any adjustments relating to the recoverability and classification of recorded asset amounts or to the amounts and classification of liabilities that might be necessary should the consolidated entity not continue as a going concern.

Ernst & Young

Ernst & Young

Michael Collins
Partner
Melbourne
13 March 2009