Annual Report

For the year ended 31 December 2012

AO Energy Limited

ACN 010 126 708

Corporate Directory

Directors	Mr Colin Goodall Mr Neil Young Mr Jeremy Jebamoney Mr David Bamford The Hon Alexander Downer AC
Company Secretary	Mr Jarek Kopias Mr Neil Young
Registered Office	Ground Floor 15 Bentham Street Adelaide SA 5000
Principal Place of Business	Ground Floor 15 Bentham Street Adelaide SA 5000
Share Registrar	Link Market Services Limited Level 12, 680 George Street Sydney NSW 2000
Auditor	Ernst & Young 121 King William Street Adelaide SA 5000
Solicitors	Johnson Winter & Slattery Level 9, 211 Victoria Square Adelaide SA 5000
Bankers	ANZ 121 King William Street Adelaide SA 5000
Stock Exchange Listing	AO Energy Limited shares are listed on the Australian Securities Exchange (ASX code: AOM)
Website Address	www.aoenergy.com.au

Chairman's and Managing Director's Report

Dear Shareholders,

We joined the Board of what was then Australia Oriental Minerals NL in July 2012. Since then we have commenced a restructuring of the Company to position it as an emerging oil and gas business that is placed to punch well above its current weight.

That re-structuring has included a wholesale change to the composition of the Company's Board of Directors. We thank the retiring Directors for their efforts and welcome the new Directors to the Board.

Together, those new Directors provide a very strong array of commercial, technical and geo-political skills for an emerging Australian based but internationally focused oil and gas company.

A number of legal and other corporate changes were made in the year to better position the Company to prosecute its strategy. These included: consolidating the previously large number of shares on issue; converting from No Liability ("NL") status to a more modern Limited Company status; changing the Company's name; and, putting in place a structure of Director, largely unvested, options and performance shares that was designed to align the Board with all shareholders.

The Company terminated various Agreements entered into to effect the purchase of operated interests in two oil-fields located in Kazakhstan and the resultant need to write-off the expenditure associated with this venture. Although attractive in many ways, these assets were not without sovereign risk, especially in the eyes of our capital markets at a time of unfortunate market risk aversion late last year.

Other oil and gas ventures that we commenced investigating in 2012 are maturing well and we look forward to providing shareholders with further information on these in early course.

Finally, the Company's legacy minerals assets in Queensland and New South Wales were prudently written down in the balance sheet in the mid-year financial report. We are working to demonstrate and partially realise the intrinsic value of these assets in 2013 through current farm-out negotiations which again we look forward to providing further details on in due course.

Colin Goodall
Chairman

Neil Young
Managing Director

The Directors present their report, together with the financial statements, on the consolidated entity (referred to hereafter as the 'consolidated entity') consisting of AO Energy Limited ('Company' or 'parent entity') and the entities it controlled for the year ended 31 December 2012.

The Company changed its name from Australia Oriental Minerals NL to AO Energy Limited on 27 December 2012.

Directors

The following persons were Directors of AO Energy Limited during the whole of the financial year and up to the date of this report, unless otherwise stated:

Mr Colin Goodall (appointed 18 July 2012)
Mr Neil Young (appointed 18 July 2012)
Mr Jeremy Jebamoney (appointed 3 October 2012)
Mr David Bamford (appointed 3 October 2012)
The Hon Alexander Downer AC (appointed 11 October 2012)
Mr Simon O'Loughlin (appointed 12 April 2012 and resigned 3 October 2012)
Mr Andrew Bursill (resigned 3 October 2012)
Mr Geoffrey Andrews (resigned 18 July 2012)
Mr Patrick Elliot (resigned 25 May 2012)

Principal Activities

The principal activities of the consolidated entity during the year were the exploration and evaluation of its minerals tenements in New South Wales and Queensland. The consolidated entity has also investigated various oil and gas related opportunities.

There have been no significant changes in the nature of the principal activities during the financial year.

Dividends

There were no dividends paid or declared during the current or previous financial year.

Review of Operations

The loss for the consolidated entity after providing for income tax and non-controlling interest amounted to $3,291,616 (31 December 2011: $574,032).

The Company undertook a 1 for 67 consolidation of capital on 27 November 2012. All securities quoted at 31 December 2012 are on a post-consolidation basis.

Exploration Activities in New South Wales and Queensland

The Company continued its joint venture exploration activities in both New South Wales and Queensland.

Kiawarra EL 6269 (100%)

EL 6269 is an exploration licence in New South Wales which hosts a number of historic workings and prospects. Exploration efforts in recent years (under a farm-in arrangement which ended in the year) have targeted high grade silver and associated lead, zinc, tin and gold mineralisation.

The Company is currently evaluating the potential for a new farm-in arrangement over this tenement.

Connors Arch Joint Venture (40%)

The Connors Arch Joint Venture comprises the Company (40%) and SmartTrans Holdings Limited (60% and Operator) and covers three tenements at Mt Mackenzie situated in the South Connors Arch Province in Queensland. The licence area is considered to be prospective for porphyry-style copper-gold deposits and epithermal gold deposits.

Located at Coppermine Creek in Central Queensland, Mt Mackenzie is an advanced exploration project. Diamond drilling by SmartTrans, together with the development of a comprehensive geological and geophysical model, has demonstrated that Mt Mackenzie is one of the largest hydrothermal (high-sulphidation) systems in eastern Australia.

The joint venture is currently in advanced negotiations over bringing in new capital and expertise to the Connors Arch Joint Venture through a farm-out process.

Oil and gas opportunities

In the prior period the Company established an incorporated joint venture through a 75% owned subsidiary (Palatine Energy Pty Ltd) to investigate various unconventional oil and gas opportunities. During the year the Company's interest in this venture was sold for nominal consideration.

In the second half of 2012 the Company entered into various Agreements to acquire operated interests in 2 oil-fields in Kazakhstan. However, due to factors such as market concerns over sovereign risk, those Agreements were terminated prior to year end.

The Company continues to evaluate other oil and gas opportunities.

Ongoing Funding

Post year end the Company initiated a rights issue, which raised $695,598 and the Company has entered into an agreement to place the shortfall of $1,047,695. These funds are considered adequate to manage the Company's existing assets and continue the pursuit of new ventures.

Exploration tenements

Area	**Tenement**	**Units / sub-blocks**[1]	**Remarks**
Queensland	EPM 10006	35	Mt Mackenzie JV, AOM 40%, SmartTrans Holdings Limited (SMA) 60%
	EPM 12546	8	Mt Mackenzie JV, AOM 40%, SMA 60%
	EPM 17515	39	Mt Mackenzie JV, AOM 40%, SMA 60%
New South Wales	EL 6269	19	AOM 100%

[1] 1 Unit (NSW) = 1 sub-block (Qld) = 1' latitude x 1' longitude = approx. 3 square kilometres

Significant changes in the state of affairs

There were no significant changes in the state of affairs of the consolidated entity during the financial year.

Matters subsequent to the end of the financial year

No matter or circumstance has arisen since 31 December 2012 that has significantly affected, or may significantly affect the consolidated entity's operations, the results of those operations, or the consolidated entity's state of affairs in future financial years except as listed below.

On 11 February 2013, the Company issued options and performance rights to Directors as approved at the Company's extraordinary general meeting on 14 November 2012.

On 12 February 2013, the Company announced a two for one non-renounceable rights issue. Acceptances for the rights issue opened on 25 February 2013 and closed on 12 March 2013 raising $695,598 for the Company.

Likely developments and expected results of operations

Information on likely developments in the operations of the consolidated entity and the expected results of operations have not been included in this report because the Directors believe it would be likely to result in unreasonable prejudice to the consolidated entity.

Environmental regulation

The Company's operations are regulated by the relevant minerals exploration and development legislation in the jurisdictions in which it operates. The Company is at all times in full environmental compliance with the conditions of its licences.

Information on Directors

Name:	**Colin R Goodall**
Title	Non-executive Chairman (independent)
Experience & expertise:	Mr Goodall is a qualified chartered accountant and member of the Chartered Institute of Taxation. An upstream oil & gas industry veteran, Mr Goodall joined the BP PLC finance team in 1975, later becoming the first Chief of Staff within the BP Group. From 1995 to 1999 he served as Chief Financial Officer for BP Europe and then as BP's senior representative in Russia. His career has involved assignments in Africa, the Middle East, Europe, Russia and the Americas.
Current listed Directorships:	Non-executive Director of London Stock Exchange (LSE) listed Lamprell PLC.
Former listed Directorships (in the last 3 years):	Chairman of LSE listed Dana Petroleum PLC until its takeover by KNOC in late 2010 Chairman of AIM listed Parkmead Group PLC until October 2010.
Special responsibilities:	None
Interests in shares:	421,427 held directly and 1,161,943 held indirectly
Interests in options:	350,000 options - 22.5 cents exercise price and 11 February 2016 expiry. 3,500,000 options - 22.5 cents exercise price and 11 February 2016 expiry subject to tranche 2 performance condition. 4,200,000 options - 30.0 cents exercise price and 11 February 2017 expiry subject to tranche 3 performance condition. 625,000 performance rights subject to class A performance condition. 625,000 performance rights subject to class B performance condition.

Name:	**Neil Al Young**
Title	Managing Director
Experience & expertise:	Mr Young has an Honours degree in Economics and Politics from the University of Edinburgh and obtained a professional qualification in tax accounting whilst working for the accounting firm Ernst & Young in Aberdeen, Scotland. After moving to Australia in the early 1990s, Mr

	Young's career focused on business development, commercial and financial roles in the upstream and downstream sectors of the energy industry. Mr Young has worked in senior management roles for various energy companies including Santos Ltd, Adelaide Energy Ltd and Tarong Energy Corporation.
Current listed Directorships:	None
Former listed Directorships (in the last 3 years):	None
Special responsibilities:	None
Interests in shares:	421,427 held directly and 895,523 held indirectly
Interests in options:	400,000 options - 22.5 cents exercise price and 11 February 2016 expiry. 3,800,000 options - 22.5 cents exercise price and 11 February 2016 expiry subject to tranche 2 performance condition. 5,000,000 options - 30.0 cents exercise price and 11 February 2017 expiry subject to tranche 3 performance condition. 700,000 performance rights subject to class A performance condition. 700,000 performance rights subject to class B performance condition.

Name:	**The Hon. Alexander JG Downer AC**
Title	Non-executive Director (independent)
Experience & expertise:	The Hon. Alexander Downer is the ex-leader of the Australian Liberal Party, and his extensive experience includes being Australia's longest serving Foreign Minister, from 1996 to 2007, and the UN envoy to Cyprus. He is a founding partner of Bespoke Approach, and sits on various boards including Huawei Australia, Cappello Capital Corp and Hayluyt & Co, and is a visiting professor at the University of Adelaide.
Current listed Directorships:	Lakes Oil NL since January 2013.
Former listed Directorships (in the last 3 years):	None
Special responsibilities:	None
Interests in shares:	14,926 held directly and nil held indirectly
Interests in options:	3,000,000 options - 30.0 cents exercise price and 11 February 2017 expiry subject to tranche 3 performance condition.

Name:	**David Bamford**
Title	Non-executive Director (independent)
Experience & expertise:	Mr Bamford has had over 23 years exploration experience with BP PLC where he was Chief Geophysicist from 1990 to 1995, General Manager for West Africa from 1995 to 1998, and Head of Exploration, directing BP's global exploration programme, from 2000 to 2003. He is a Director or adviser to several small companies, including his own consultancy, and he writes regularly for journals such as OilVoice and GeoExpro. Mr Bamford co-founded Finding Petroleum and OilEdge as vehicles for online communication in the oil and gas industry.
Current listed Directorships:	Tullow Oil PLC since 2004.
Former listed Directorships (in the last 3 years):	None
Special responsibilities:	None
Interests in shares:	Nil held directly and 44,777 held indirectly
Interests in options:	3,000,000 options - 30.0 cents exercise price and 11 February 2017 expiry subject to tranche 3 performance condition.

Name:	**Jeremy T Jebamoney**
Title	Executive Director
Experience & expertise:	Mr Jebamoney holds a Bachelor's Degree in Chemical Engineering, with honours and was subsequently trained as a reservoir engineer at Santos Ltd. Mr Jebamoney's technical expertise lies in reservoir evaluation, exploration and field development planning. He has also worked for private equity investors in oil and gas ventures in various countries on both technical and commercial fronts. He is a member of the Society of Petroleum Engineers and the Australian Institute of Company Directors.
Current listed Directorships:	None
Former listed Directorships (in the last 3 years):	None
Special responsibilities:	None
Interests in shares:	11,195 held directly and 1,089,770 held indirectly
Interests in options:	300,000 options - 22.5 cents exercise price and 11 February 2016 expiry. 2,200,000 options - 22.5 cents exercise price and 11 February 2016 expiry subject to tranche 2 performance condition. 3,300,000 options - 30.0 cents exercise price and 11 February 2017 expiry subject to tranche 3 performance condition. 475,000 performance rights subject to class A performance condition. 475,000 performance rights subject to class B performance condition.

Name:	**Simon O'Loughlin**
Title	Non-executive Director
Experience & expertise:	Mr O'Loughlin is a solicitor and founding member of Adelaide based specialist law firm O'Loughlin Lawyers. He has extensive board experience and is a director of several ASX listed entities. Mr O'Loughlin was appointed to the Board on 12 April 2012 and resigned on 3 October 2012.
Current listed Directorships:	Kibaran Resources Limited, Chesser Resources Limited, WCP Resources Limited, Petratherm Limited, NeuroDiscovery Limited, Aura Energy Limited and Goldminex Resources Limited.
Former listed Directorships (in the last 3 years):	Wolf Petroleum Limited (previously Strzelecki Metals Limited), Avenue Resources Limited, World Titanium Resources Limited, (previously Bondi Mining Limited), Bioxyne Limited (previously Probiomics Limited) and Living Cell Technologies Limited.
Special responsibilities:	None
Interests in shares:	74,627 directly and 870,647 held indirectly
Interests in options:	None

Name:	**Patrick JD Elliot**
Title	Non-executive Chairman
Experience & expertise:	Mr Elliott holds Bachelor of Commerce and Master of Business Administration degrees. He has over 30 years of experience in investment, financial and industrial management having previously been with Consolidated Goldfields Australia Limited, Morgan Grenfell Australia and Natcorp Investments Limited. He is also a director of several other Australian public companies involved in resources development. Mr Elliott was appointed to the Board on 9 November 1998 and resigned on 25 May 2012.
Current listed Directorships:	Argonaut Resources NL, Global Geoscience Limited, Platsearch NL and Cuesta Coal Limited.
Former listed Directorships (in the last 3 years):	MIL Resources Limited, Acuvax Limited and Crossland Uranium Mines Limited.
Special responsibilities:	None
Interests in shares:	687,479 directly and 168,970 held indirectly
Interests in options:	74,627 options with an exercise price of $2.01 and expiry date of 31 December 2013.

Name:	**Geoffrey Andrews**
Title	Non-executive Director
Experience & expertise:	Mr Andrews holds a Bachelor of Engineering degree in Mining Engineering from the University of New South Wales. He has 40 years' experience in exploration and project planning, evaluation and development in Australian coal, minerals and petroleum industries as well in strategic and business planning, commercial and regulatory matters. He has held executive positions with Esso Australia Limited and Exxon Coal and Minerals Australia Limited and is presently Director and Principal of Andrews Consulting Group, a specialist consultant to the coal and minerals industry and their service suppliers. Mr Andrews was appointed to the Board on 28 January 2009 and resigned on 18 July 2012.
Current listed Directorships:	None
Former listed Directorships (in the last 3 years):	None
Special responsibilities:	None
Interests in shares:	513,060 held directly
Interests in options:	None

Name:	**Andrew Bursill**
Title	Executive Director
Experience & expertise:	Mr Bursill was appointed to the position of Non-Executive Director on 18 June 2010 and Executive Director on 22 June 2011. In addition to his appointment as Director Mr Bursill was also the Company Secretary, having been appointed in 2004. Mr Bursill is a Chartered Accountant with more than 10 years' experience as a Director and Company Secretary of numerous publicly listed entities. Mr Bursill resigned from the board on 3 October 2012.
Current listed Directorships:	Argonaut Resources NL
Former listed Directorships (in the last 3 years):	Petrel Energy Limited (formerly Orion Petroleum Limited)
Special responsibilities:	None
Interests in shares:	1 held indirectly
Interests in options:	119,403 options with an exercise price of $2.01 and expiry date of 31 December 2013.

Company Secretary

Mr Jarek Kopias was appointment as Company Secretary on 5 October 2012. Mr Kopias is a Certified Practising Accountant and Chartered Secretary. He is currently the CFO and Company Secretary of Lincoln Minerals Limited (ASX: LML), Core Exploration Limited (ASX: CXO) and Crest Minerals Limited (ASX: CTT) and has been previously been the Company Secretary of Stuart Petroleum Limited (formerly ASX: STU) prior to its merger with Senex Energy Limited (ASX: SXY).

Mr Neil Young was appointed as Company Secretary on 10 August 2012.

In addition to serving as an Executive Director, Mr Andrew Bursill was also a Company Secretary, having been appointed in 2004. Mr Bursill resigned as a Director and Company Secretary on 3 October 2012.

Meetings of Directors

The number of meetings of the Company's Board of Directors held during the year ended 31 December 2012, and the number of meetings attended by each Director was:

	Full Board	
	Attended	Held
Mr Colin Goodall	4	4
Mr Neil Young	4	4
Mr Jeremy Jebamoney	1	2
Mr David Bamford	1	2
The Hon Alexander Downer	2	2
Mr Simon O'Loughlin	3	3
Mr Patrick Elliot	0	1
Mr Geoffrey Andrews	1	1
Mr Andrew Bursill	1	3

Held represents the number of meetings held during the time the Director held office.

The Company addressed various matters during the year outside of formal meetings of Directors and agreed matters via circular resolutions.

Remuneration report (audited)

The remuneration report, which has been audited, outlines the Director and executive remuneration arrangements for the consolidated entity and the Company, in accordance with the requirements of the *Corporations Act 2001* and its Regulations.

The remuneration report is set out under the following main headings:

A Principles used to determine the nature and amount of remuneration
B Details of remuneration
C Service agreements
D Share-based compensation

A Principles used to determine the nature and amount of remuneration

The objective of the consolidated entity's and executive reward framework is to ensure reward for performance is competitive and appropriate for the results delivered. The framework aligns reward of executive Directors and senior management with the achievement of strategic objectives and the creation of value for shareholders, and conforms to market best practice for delivery of reward. The Board of Directors ('the Board') ensures that executive reward satisfies the following key criteria for good reward governance practices:

- competitiveness and reasonableness
- acceptability to shareholders
- performance linkage / alignment of executive compensation
- transparency

The remuneration structure for Non-Executive Directors is based on the following factors:

- experience of the individual concerned
- the overall performance of the market in which the Company operates
- the overall performance of the Company

During 2012 the Company has investigated oil and gas business opportunities and has recruited Key Management Personnel (KMP) that can assist the Company in meeting these aims. The remuneration for all KMP is set at a level to attract and retain suitably qualified and experienced individuals in the oil and gas industry. The Company expects that by attracting suitably qualified individuals its future performance and shareholder returns will be impacted positively.

B Details of remuneration

Amounts of remuneration

Details of the remuneration of the Directors and KMP (defined as those who have the authority and responsibility for planning, directing and controlling the major activities of the consolidated entity) of AO Energy Limited are set out in the following tables.

2012

Name	Cash Salary and fees $	Bonus $	Non-monetary $	Super-annuation $	Equity Settled $	Total $
Colin Goodall[1]	-	-	-	25,000	-	25,000
David Bamford[1]	10,000	-	-	-	-	10,000
Alexander Downer[1]	8,177	-	-	736	-	8,913
Simon O'Loughlin[3]	9,589	-	-	-	-	9,589
Patrick Elliot[2]	8,043	-	-	-	-	8,043
Geoffrey Andrews[2]	10,986	-	-	-	-	10,986
Neil Young[1]	81,250	-	-	6,250	-	87,500
Jeremy Jebamoney[1]	62,500	-	-	6,250	-	68,750
Jarek Kopias[1]	19,656	-	-	-	-	19,656
Andrew Bursill[2]	10,000	-	-	-	-	10,000
	220,201	**-**	**-**	**38,236**	**-**	**258,437**

[1] Directors and other KMP appointed during 2012.
[2] Directors and other KMP resigned during 2012.
[3] S O'Loughlin was appointed and resigned during 2012.

2011

Name	Cash Salary and fees $	Bonus $	Non-monetary $	Super-annuation $	Equity Settled $	Total $
Patrick Elliott	5,000	-	-	-	45,600	50,600
Geoffrey Andrews	5,000	-	-	-	22,650	27,650
Chan Kim Fan[4]	24,000	-	-	-	-	24,000
Andrew Bursill	5,000	-	-	-	129,750	134,750
	39,000	**-**	**-**	**-**	**198,000**	**237,000**

[4] Resigned during 2011.

C Service agreements

Formal service agreements are in place for key management personnel. A summary of the key remuneration terms is provided below.

KMP	Commencement	Remuneration per annum	Term	Notice period	Payment in lieu of notice
Neil Young	1 October 2012	$350,000	No fixed term	6 months	6 months
Jeremy Jebamoney	1 October 2012	$275,000	No fixed term	3 months	3 months
Jarek Kopias	27 September 2012	Per diem basis	12 months	14 days	Nil

D Share-based compensation

Issue of Shares
There were no shares issued to Directors and other key management personnel as part of compensation during the year ended 31 December 2012.

Options
There were no options granted during the 2012 year affecting remuneration of Directors and other key management personnel in this financial year.

This concludes the audited remuneration report.

Unissued shares

As at reporting date, there were 2,432,837 unissued ordinary shares under option. Since the end of the financial year and the date of this report 29,050,000 unlisted options and 3,600,000 unlisted performance rights were issued to Directors as approved at the extraordinary general meeting of the Company held on 14 November 2012. Except for 1,050,000 of the newly issued options, all other unlisted options and performance rights have various performance based vesting conditions.

Shares issued on the exercise of options

There were no shares of AO Energy Limited issued on the exercise of options during the year ended 31 December 2012.

Indemnity and insurance of officers

The Company has entered into a Deed of Indemnity with each Director whereby, to the extent permitted by the *Corporations Act 2001*, the Company has agreed to indemnify each Director against all losses and liability incurred as an office of the Company, including all liability in defending any relevant proceedings.

During the year the Company paid premiums in respect of Directors' and officers' liability and legal expenses insurance contracts.

Indemnity and insurance of auditor

The Company has not, during or since the financial year, indemnified or agreed to indemnify the auditor of the Company or any related entity against a liability incurred by the auditor.

Proceedings on behalf of the Company

No person has applied to the Court under section 237 of the *Corporations Act 2001* for leave to bring proceedings on behalf of the Company, or to intervene in any proceedings to which the Company is a party for the purpose of taking responsibility on behalf of the Company for all or part of those proceedings.

Non-audit services

Details of the amounts paid or payable to the auditor for non-audit services provided during the financial year by the auditor are outlined in note 23 to the financial statements.

The Directors are satisfied that the provision of non-audit services during the financial year, by the auditor (or by another person or firm on the auditor's behalf), is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*.

The Directors are of the opinion that the services as disclosed in note 23 to the financial statements do not compromise the external auditor's independence for the following reasons:

- all non-audit services have been reviewed and approved to ensure that they do not impact the integrity, and

- none of the services undermine the general principles relating to auditor independence as set out in APES 110 Code of Ethics for Professional Accountants issued by the Accounting Professional and Ethical Standards Board, including reviewing or auditing the auditor's own work, acting in a management or decision making capacity for the Company, acting as advocate for the Company or jointly sharing economic risks and rewards.

Officers of the Company who are former audit partners of Ernst & Young

There are no officers of the Company who are former audit partners of Ernst & Young.

Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on the following page.

Auditor

Ernst & Young continues in office in accordance with section 327 of the *Corporations Act 2001*.

This report is made in accordance with a resolution of Directors, pursuant to section 298(2) (a) of the *Corporations Act 2001*.

On behalf of the Directors

Colin Goodall
Chairman

27 March 2013
Adelaide

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Auditor's Independence Declaration to the Directors of AO Energy Limited

In relation to our audit of the financial report of AO Energy Limited for the financial year ended 31 December 2012, 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

Mark Phelps
Partner
Adelaide
27 March 2013

Corporate Governance

The Board of Directors of AO Energy Limited is responsible for the corporate governance of the consolidated entity. The Board monitors the business affairs of the consolidated entity on behalf of the shareholders by whom they are elected and to whom they are accountable.

The Board of Directors acknowledges the Principles of Good Corporate Governance and Best Practice Recommendations set by the Australian Securities Exchange ("ASX") Corporate Governance Council. However in view of the Company's current size and extent of nature of operations, full adoption of the recommendations is currently not practical. The Board will continue to work towards full adoption of the recommendations in line with growth and development of the Company in the years ahead. Where the Company's framework is different to the Principles of Good Corporate Governance and Best Practice Recommendations set by the ASX Corporate Governance Council, it has been noted.

A summary of the current corporate governance practices as adopted by the Board are as follows:

Principle 1: Lay solid foundations for management and oversight

Recommendation 1.1 – Companies should establish the functions reserved to the Board and those delegated to senior executives and disclose those functions.

The primary responsibilities of the Board include:

- The approval of the annual and half-yearly financial report;
- The establishment of the long term goals of the entity and strategic plans to achieve those goals;
- The review and adoption of annual budgets for the financial performance of the Company and monitoring the results on a quarterly basis;
- Ensuring that the entity has implemented adequate internal controls together with appropriate monitoring of compliance activities; and
- Ensuring that the entity is able to pay its debts as and when they fall due.

The Company discloses the curriculum vitae of each Director in its Annual Report.

The Company's executive management comprises the Managing Director, the Technical Director and the Chief Financial Officer/Company Secretary to whom the Board delegates responsibilities as outlined contractually and as expected for these executive positions.

Recommendation 1.2 – Companies should disclose the process for evaluating the performance of senior executives.

The objective of the Company's executive reward framework is to ensure reward for performance is competitive and appropriate for the results delivered. The Board ensures that executive reward satisfies the following criteria for good executive reward governance practices:

- competitiveness and reasonableness
- acceptability to shareholders
- transparency
- capital management

The remuneration structure for Directors, secretaries and senior managers is based on the following factors:

- experience of the individual concerned
- the overall performance of the market in which the consolidated entity operates
- the overall performance of the consolidated entity

Given the limited number of senior executives, their performance is reviewed by the Board as part of the ordinary course of meetings of the Directors.

Recommendation 1.3 – Companies should provide the information indicated in the Guide to reporting on principle 1.

There have been no departures from Principle 1 during the year ending 31 December 2012.

Principle 2: Structure the Board to add value

Recommendation 2.1 – A majority of the Board should be independent Directors.
Recommendation 2.2 – The chair should be an independent Director.
Recommendation 2.3 – The roles of chair and chief executive officer should not be exercised by the same individual.
Recommendation 2.4 – The Board should establish a nomination committee.
Recommendation 2.5 – Companies should disclose the process for evaluating the performance of the Board, its committees and individual Directors.
Recommendation 2.6 – Companies should provide the information indicated in the Guide to reporting on Principle 2.

- The skills, experience and expertise relevant to the position of Director and period of office held by each Director is disclosed within the Directors' report of the Company's Annual Report.
- Presently the Board consists of three non-executive Directors and two executive Directors.
- With the prior approval of Chairman, each Director has the right to seek independent legal and other professional advice at the entity's expense concerning any aspect of the entity's operations or undertaking in order to fulfil their duties and responsibilities as Directors.
- The Company does not presently have a nomination committee. Due to the size and nature of the activities of the Company, the nomination of new Directors is conducted by the Board by way of ongoing review and discussion in relation to experience deficiencies that may exist within the existing Board structure.
- The performance of the Board is reviewed as part of the ordinary course of meetings of the Directors and is considered by shareholders through the approval of Director appointments at the Annual General Meeting.

There have been the following departures from Principle 2 during the year ending 31 December 2012:

Recommendation 2.4 – Due to the size of the consolidated entity's operations, nomination of new Directors is considered by the full Board and therefore the Company does not have a separate nomination committee.

Principle 3: Promote ethical and responsible decision-making

Recommendation 3.1 – Companies should establish a code of conduct and disclose the code.

The Board endeavours to ensure that the Directors, officers and employees of the consolidated entity act with integrity and observe the highest standards of behaviour and business ethics in relation to their corporate activities.

Specifically, that Directors, officers and employees must:

- Comply with the law
- Act in the best interests of the consolidated entity
- Be responsible and accountable for their actions, and
- Observe the ethical principles of fairness, honesty and truthfulness, including disclosure of potential conflicts.

Recommendation 3.2 – Companies should establish a policy concerning diversity and disclose the policy or a summary of that policy. The policy should include establish measurable objectives for achieving gender diversity for the Board to assess annually both the objectives and progress in achieving them.

Recommendation 3.3 – Companies should disclose in each annual report the measurable objectives for achieving gender diversity set by the Board in accordance with the diversity policy and progress towards achieving them.

Recommendation 3.4 – Companies should disclose in each annual report the proportion of women employees in the whole organisation, women in senior executives positions and women on the Board.

Recommendation 3.5 – Companies should provide the information indicated in the Guide to reporting on Principle 3.

There have been the following departures from Principle 3 during the year ended 31 December 2012:

Recommendations 3.2 and 3.3 – Due to the Company's size and nature of operations, there are no women in senior executive positions and on the Board and the Company's diversity policy does not include measurable objectives in relation to gender diversity. The Company employs one woman and six men (including non-executive Directors) in total. The Board remains conscious of the requirement to establish reasonable objectives for achieving gender diversity.

Principle 4: Safeguard integrity in financial reporting

Recommendation 4.1 – The Board should establish an audit committee

Recommendation 4.2 – The audit committee should be structured so that it: (i) consists only of non-executive Directors, (ii) consists of a majority of independent Directors; (iii) is chaired by an independent chair, who is not the chair of the Board; and (iv) has at least three members.

Recommendation 4.3 – The audit committee should have a formal charter.

Recommendation 4.4 – Companies should provide the information indicated in the Guide to reporting on Principle 4.

There have been the following departures from Principle 4 during the year ended 31 December 2012:

Recommendations 4.1, 4.2, 4.3 – Due to the Company's size and nature of operations, limited to joint venture operations where the Company is not an active partner, the Board is actively involved in ongoing operational and financial review. As a result the functions ordinarily undertaken by an audit committee are undertaken by the Board of Directors of the Company.

Principle 5: Make timely and balance disclosure

Recommendation 5.1 – Companies should establish written policies to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at a senior executive level for that compliance and disclose those policies or a summary of those policies.

The Board and Company Secretary have been appointed as the persons responsible for communications with the Australian Securities Exchange (ASX). These persons are also responsible for ensuring the compliance with the continuous disclosure requirements in the ASX listing rules and overseeing and co-ordinating information disclosure to the ASX.

Recommendation 5.2 – Companies should provide the information indicated in the Guide to reporting on Principle 5.

There have been no departures from Principle 5 during the year ending 31 December 2012.

Principle 6: Respect the rights of shareholders

Recommendation 6.1 – Companies should design a communications policy for promoting effective communication with shareholders and encouraging their participation at general meetings and disclose their policy or a summary of that policy.

The Board and the Company Secretary are responsible for the communications strategy to promote effective communications with shareholders and encourage effective participation at general meeting. Due to the size of the Company, all communications are prepared and administered in-house.

The Company provides an update on its activities on a quarterly basis as required under the ASX Listing Rules.

Recommendation 6.2 – Companies should provide the information indicated in the Guide to reporting on Principle 6.

There have been no departures from Principle 6 during the year ending 31 December 2012.

Principle 7: Recognise and manage risk

Recommendation 7.1 – Companies should establish policies for the oversight and management of material business risks and disclose a summary of those policies.

The Board is responsible for the consolidated entity's system of internal controls. The Board constantly monitors the operation and financial aspects of the entity's activities and considers the recommendations and advice of external auditors and other external advisers on the operations and financial risks that face the consolidated entity.

The Board ensures that recommendations made by the external auditors and other external advisers are investigated and, where considered necessary, appropriate action is taken to ensure that the entity has an appropriate internal control environment in place to manage the key risks identified.

In addition, the Board investigates ways of enhancing existing risk management strategies, including appropriate segregation of duties and the employment and training of suitably qualified and experienced personnel.

The Company obtains statements from its chief executive officer and chief financial officer that:

- the consolidated entity's financial reports present a true and fair view in all material respects, of the consolidated entity's financial condition and operational results are in accordance with the relevant accounting standards. Furthermore, the Board of Directors does, in its role, state to shareholders in the consolidated entity's accounts that they are true and fair, in all material respects;
- the integrity of the financial statements is founded on a sound system of risk management and internal compliance and control which implements policies adopted by the Board; and
- the consolidated entity's risk management and internal compliance and control system is operating efficiently and effectively in all material respects.

The Board believes the consolidated entity's risk management and internal compliance and control procedures are operating efficiently and effectively in all material aspects appropriate for a company of AO Energy Limited's size and nature.

Recommendation 7.2 – The Board should require management to design and implement a risk management and internal control system to manage the Company's material business risks.

Recommendation 7.3 – Companies should disclose whether it has received assurance from the chief executive officer and chief financial officer that the declaration provided in accordance with section 295A of the Corporations Act is founded on a sound system of risk management and that the system is operating effectively in all material respects in relation to financial reporting risks.

Recommendation 7.4 – Companies should provide the information indicated in the Guide to reporting on Principle 7.

There have been no departures from Principle 7 during the year ending 31 December 2012.

The Company has received an update from management as to the effectiveness of the Company's management of its material business risks.

The Board has received assurance from the chief executive officer and chief financial officer under Recommendation 7.3.

Principle 8: Remunerate fairly and responsibly

Recommendation 8.1 – The Board should establish a remuneration committee.

Recommendation 8.2 – The remuneration committee should be structured so that it: i) consists of a majority of independent Directors; ii) is chaired by an independent chair; and iii) has at least three members.

Recommendation 8.3 – Companies should clearly distinguish the structure of non-executive Directors' remuneration from that of executive Directors and senior executives.

Recommendation 8.4 – Companies should provide the information indicated in the Guide to reporting on Principle 8.

The Company does not have any scheme for retirement benefits, other than superannuation, for any Directors.

There have been the following departures from Principle 8 during the year ending 31 December 2012:

Recommendations 8.1 and 8.2 – Due to the Company's size and nature of operations, the Board is actively involved in ongoing remuneration policy. As a result the functions ordinarily undertaken by a remuneration committee are undertaken by the Board of Directors of the Company.

FINANCIAL REPORT
FOR THE YEAR ENDED 31 DECEMBER 2012

CONTENTS

General information

The financial report covers AO Energy Limited as a consolidated entity consisting of AO Energy Limited ("AO Energy" or "Company") and the entities it controlled. The financial report is presented in Australian dollars, which is AO Energy's functional and presentation currency.

The financial report consists of the financial statements, notes to the financial statements and the Directors' declaration.

AO Energy Limited is a listed public company limited by shares, incorporated and domiciled in Australia. Its registered office and principal place of business is:

Ground Floor
15 Bentham Street
Adelaide SA 5000

A description of the nature of the consolidated entity's operations and its principal activities are included in the Directors' report, which is not part of the financial report.

The financial report was authorised for issue, in accordance with a resolution of Directors, on 27 March 2013. The Directors have the power to amend and reissue the financial report.

STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2012

	Note	Consolidated 2012 $	2011 $
Revenue	4	7,677	1,380
Other Income	5	-	45,920
Total income		**7,677**	**47,300**
Expenses			
Depreciation and amortisation expense	6	(1,481)	(99)
Impairment of assets	14	(1,156,934)	(22,021)
Loss on disposal of subsidiary	20	(24,129)	-
Exploration expense		-	(7,353)
Directors' fees		(82,531)	(84,000)
Professional fees		(327,777)	(187,354)
Employee benefits expense		(136,436)	(6,568)
Corporate expenses		(94,217)	(36,002)
Share based payments		(60,985)	(198,900)
Due diligence and transaction costs	7	(1,315,467)	-
Other expenses		(99,336)	(90,137)
Loss before income tax expense		**(3,291,616)**	**(585,134)**
Income tax expense	8	-	-
Loss after income tax expense		**(3,291,616)**	**(585,134)**
Other comprehensive income for the year, net of tax		-	-
Total comprehensive income for the year		**(3,291,616)**	**(585,134)**
Loss for the year is attributable to:			
Non-controlling interest	20	-	(11,102)
Owners of AO Energy Limited		(3,291,616)	(574,032)
		(3,291,616)	**(585,134)**
Total comprehensive income (loss) for the year is attributed to:			
Non-controlling interest	20	-	(11,102)
Owners of AO Energy Limited		(3,291,616)	(574,032)
		(3,291,616)	**(585,134)**
		Cents	**Cents**
Basic earnings / (loss) per share	30	(8.14)	(1.76)
Diluted earnings / (loss) per share	30	(8.14)	(1.76)

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

STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2012

	Note	Consolidated 2012 $	Consolidated 2011 $
ASSETS			
Current assets			
Cash and cash equivalents	9	160,000	508,049
Trade and other receivables	10	150,289	13,704
Other	11	9,167	9,981
Total current assets		**319,456**	**531,734**
Non-current assets			
Property, plant and equipment	13	31,715	15,500
Exploration and evaluation	14	553,020	1,661,193
Other	15	35,000	115,000
Total non-current assets		**619,735**	**1,791,693**
TOTAL ASSETS		**939,191**	**2,323,427**
LIABILITIES			
Current liabilities			
Trade and other payables	16	384,326	80,483
Total current liabilities		**384,326**	**80,483**
Non-current liabilities			
Provisions	17	50,000	50,000
Total non-current liabilities		**50,000**	**50,000**
TOTAL LIABILTIES		**434,326**	**130,483**
NET ASSETS		**504,865**	**2,192,944**
EQUITY			
Contributed equity	18	47,128,731	45,597,231
Share based payments reserve	19	437,735	376,750
Accumulated losses		(47,061,601)	(43,769,985)
Equity attributable to the owners of AO Energy Limited		504,865	2,203,996
Non-controlling interest	20	-	(11,052)
TOTAL EQUITY		**504,865**	**2,192,944**

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

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2012

Consolidated	Ordinary shares $	Share based payments reserve $	Accumulated losses $	Non-controlling interest $	Total Equity $
Balance at 1 January 2011	45,445,398	177,850	(43,195,953)	-	2,427,295
Other comprehensive income for the year, net of tax	-	-	-	-	-
Loss after income tax expense for the year	-	-	(574,032)	(11,102)	(585,134)
Total comprehensive income for the year	-	-	(574,032)	(11,102)	(585,134)
Transactions with owners in their capacity as owners:					
Contributions of equity, net of transaction costs	151,833	-	-	50	151,883
Share-based payments	-	198,900	-	-	198,900
Balance at 31 December 2011	**45,597,231**	**376,750**	**(43,769,985)**	**(11,052)**	**2,192,944**
Balance at 1 January 2012	**45,597,231**	**376,750**	**(43,769,985)**	**(11,052)**	**2,192,944**
Disposal of subsidiary	-	-		11,052	11,052
Other comprehensive income for the year, net of tax	-	-	-	-	-
Loss after income tax expense for the year	-	-	(3,291,616)	-	(3,291,616)
Total comprehensive income for the year	-	-	(3,291,616)	-	(3,291,616)
Transactions with owners in their capacity as owners:					
Contributions of equity, net of transaction costs	1,531,500	-	-	-	1,531,500
Share-based payments	-	60,985	-	-	60,985
Balance at 31 December 2012	**47,128,731**	**437,735**	**(47,061,601)**	**-**	**504,865**

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

STATEMENT OF CASHFLOWS
FOR THE YEAR ENDED 31 DECEMBER 2012

	Note	Consolidated 2012 $	2011 $
Cash flows from operating activities			
Payments to suppliers and employees (inclusive of GST)		(1,888,507)	(287,002)
Interest received		7,677	1,380
Net cash used in operating activities	29	(1,880,830)	(285,622)
Cash flows from investing activities			
Payments for exploration expenditure capitalised		(61,024)	(116,241)
Payments for property, plant and equipment		(17,696)	-
Proceeds from sale of prospects		-	138,468
Refund of tenement bonds		80,000	-
Proceeds from sale of investments		1	651,485
Net cash from/(used in) investing activities		1,281	673,712
Cash flows from financing activities			
Proceeds from issue of shares in Palatine Energy Pty Limited		-	50
Proceeds from issue of shares		1,677,317	-
Share issue transaction costs		(145,817)	-
Net cash from/(used in) financing activities		1,531,500	50
Net increase/(decrease) in cash and cash equivalents		(348,049)	388,140
Cash and cash equivalents at the beginning of the financial year		508,049	119,909
Cash and cash equivalents at the end of the financial year	9	**160,000**	**508,049**

The statement of cashflows should be read in conjunction with the accompanying notes.

NOTES TO THE FINANCIAL STATEMENTS

1. Significant accounting policies

The principal accounting policies adopted in the preparation of the financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

New, revised or amending Accounting Standards and Interpretations adopted
The consolidated entity has adopted all of the new, revised or amending Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') that are mandatory for the current reporting period.

Any new, revised or amending Accounting Standards or Interpretations that are not yet mandatory have not been early adopted.

The adoption of these Accounting Standards and Interpretations did not have any significant impact on the financial performance or position of the consolidated entity.

There are no new Accounting Standards and Interpretations that are relevant to the consolidated entity.

Basis of preparation
These general purpose financial statements have been prepared in accordance with Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') and the *Corporations Act 2001*. These financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board ('IASB').

Historical cost convention
The financial statements have been prepared under the historical cost convention, except for, where applicable, the revaluation of available-for-sale financial assets.

Critical accounting estimates
The preparation of the financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the consolidated entity's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 2.

Going Concern
The Company and consolidated entity's financial statements have been prepared and presented on a basis assuming it continues as a going concern. The consolidated entity generated a net loss after income tax of $3,291,616 for the year ended 31 December 2012 (2011: net loss after tax of $585,134), a net cash outflow of $348,049 (2011: net cash inflow of $388,140), and has net assets of $504,865 (2011: net assets of $2,192,944). As at 31 December 2012, the Company had cash and cash equivalents of $160,000 (2011: $508,049).

The ability of the Company and consolidated entity to continue exploration and evaluation activities is dependent on the Company raising additional funding, refer to note 28 for capital raising activities subsequent to year end. In addition, AO Energy is also considering the potential for other corporate transactions as part of a broader strategic review.

On this basis, it is the opinion of the Board of Directors that the consolidated entity will be able to continue as a going concern, and therefore, the basis for preparation is appropriate.

As a result of these matters, there is significant uncertainty whether the consolidated entity will continue as a going concern, and therefore whether they will realise their assets and extinguish their liabilities in the normal course of business and at the amounts stated in the financial report. The financial report 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.

Parent entity information

In accordance with the *Corporations Act 2001*, these financial statements present the results of the consolidated entity only. Supplementary information about the parent entity is disclosed in note 27.

Principles of consolidation

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of AO Energy Limited as at 31 December 2012 and the results of all subsidiaries and special purpose entities for the year then ended. AO Energy Limited, its subsidiaries and special purpose entities together are referred to in these financial statements as the 'consolidated entity'.

Subsidiaries are all those entities over which the consolidated entity has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one-half of the voting rights. The effects of potential exercisable voting rights are considered when assessing whether control exists. Subsidiaries are fully consolidated from the date on which control is transferred to the consolidated entity. They are de-consolidated from the date that control ceases.

The acquisition of subsidiaries is accounted for using the acquisition method of accounting. A change in ownership interest, without the loss of control, is accounted for as an equity transaction, where the difference between the consideration transferred and the book value of the share of the non-controlling interest acquired is recognised directly in equity attributable to the parent.

Non-controlling interest in the results and equity of subsidiaries are shown separately in the statement of comprehensive income and statement of financial position of the consolidated entity. Losses incurred by the consolidated entity are attributed to the non-controlling interest in full, even if that results in a deficit balance.

Where the consolidated entity loses control over a subsidiary, it derecognises the assets including goodwill, liabilities and non-controlling interest in the subsidiary together with any cumulative translation differences recognised in equity. The consolidated entity recognises the fair value of the consideration received and the fair value of any investment retained together with any gain or loss in profit or loss.

Intercompany transactions, balances and unrealised gains on transactions between entities in the consolidated entity are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries and special purpose entities have been changed where necessary to ensure consistency with the policies adopted by the consolidated entity.

Foreign currency translation

Foreign currency translation

The financial report is presented in Australian dollars, which is AO Energy's functional and presentation currency.

Foreign currency transactions

Foreign currency transactions are translated into Australian dollars using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at financial year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

Foreign operations

The assets and liabilities of foreign operations are translated into Australian dollars using the exchange rates at the reporting date. The revenues and expenses of foreign operations are translated into Australian dollars using the average exchange rates, which approximate the rate at the date of the transaction, for the period. All resulting foreign exchange differences are recognised in the foreign currency reserve in equity.

The foreign currency reserve is recognised in profit or loss upon disposal of the foreign operation or net investment.

Revenue recognition
Revenue is recognised when it is probable that the economic benefit will flow to the consolidated entity and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable.

Interest
Interest 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.

Other revenue
Other revenue is recognised when it is received or when the right to receive payment is established.

Income tax
The income tax expense or benefit for the period is the tax payable on that period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and unused tax losses and the adjustment recognised for prior periods, where applicable.

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to apply when the assets are recovered or liabilities are settled, based on those tax rates that are enacted or substantively enacted, except for:

- When the deferred income tax asset or liability arises from the initial recognition of goodwill or 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 nor taxable profits; or

- When the taxable temporary difference is associated with investments in subsidiaries, associates or interests in joint ventures, and the timing of the reversal can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

The carrying amount of recognised and unrecognised deferred tax assets are reviewed each reporting date. Deferred tax assets recognised are reduced to the extent that it is no longer probable that future taxable profits will be available for the carrying amount to be recovered. Previously unrecognised deferred tax assets are recognised to the extent that it is probable that there are future taxable profits available to recover the asset.

Deferred tax assets and liabilities are offset only where there is a legally enforceable right to offset current tax assets against current tax liabilities and deferred tax assets against deferred tax liabilities and they relate to the same taxable authority on either the same taxable entity or different taxable entity's which intend to settle simultaneously.

Cash and cash equivalents
Cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities 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.

Trade and other receivables
Other receivables are recognised at amortised cost, less any provision for impairment.

Non-current assets or disposal groups classified as held for sale
Non-current assets and assets of disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. They are measured at the lower of their carrying amount and fair value less costs to sell. For non-current assets or assets of disposal groups to be classified as held for sale, they must be available for immediate sale in their present condition and their sale must be highly probable.

An impairment loss is recognised for any initial or subsequent write down of the non-current assets and assets of disposal groups to fair value less costs to sell. A gain is recognised for any subsequent increases in fair value less costs to sell of a non-current assets and assets of disposal groups, but not in excess of any cumulative impairment loss previously recognised.

Non-current assets are not depreciated or amortised while they are classified as held for sale. Interest and other expenses attributable to the liabilities of assets held for sale continue to be recognised.

Non-current assets classified as held for sale and the assets of disposal groups classified as held for sale are presented separately on the face of the statement of financial position, in current assets. The liabilities of disposal groups classified as held for sale are presented separately on the face of the statement of financial position, in current liabilities.

Property, plant and equipment
Land is shown at cost less any accumulated impairment.

Plant and equipment is stated at historical cost less accumulated depreciation and impairment. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Depreciation is calculated on a straight-line basis to write off the net cost of each item of property, plant and equipment (excluding land) over their expected useful lives as follows:

Plant and equipment	3 to 8 years

The residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each reporting date.

Leasehold improvements and plant and equipment under lease are depreciated over the unexpired period of the lease or the estimated useful life of the assets, whichever is shorter.

An item of property, plant and equipment is derecognised upon disposal or when there is no future economic benefit to the consolidated entity. Gains and losses between the carrying amount and the disposal proceeds are taken to profit or loss. Any revaluation surplus reserve relating to the item disposed of is transferred directly to retained profits.

Exploration and evaluation assets
Exploration and evaluation expenditure in relation to separate areas of interest for which rights of tenure are current is carried forward as an asset in the statement of financial position where it is expected that the expenditure will be recovered through the successful development and exploitation of an area of interest, or by its sale, or exploration activities are continuing in an area and activities have not reached a stage which permits a reasonable estimate of the existence or otherwise of economically recoverable reserves. Where a project or an area of interest has been abandoned, the expenditure incurred thereon is written off in the year in which the decision is made.

Impairment of non-financial assets
Goodwill and other intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment or more frequently if events or changes in circumstances indicate that they might be impaired. Other non-financial assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be

recoverable. 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 value-in-use. The value-in-use is the present value of the estimated future cash flows relating to the asset using a pre-tax discount rate specific to the asset or cash-generating unit to which the asset belongs. Assets that do not have independent cash flows are grouped together to form a cash-generating unit.

Trade and other payables
These amounts represent liabilities for goods and services provided to the consolidated entity prior to the end of the financial year and which are unpaid. Due to their short-term nature they are measured at amortised cost and are not discounted. The amounts are unsecured and are usually paid within 30 days of recognition.

Provisions
Provisions are recognised when the consolidated entity has a present (legal or constructive) obligation as a result of a past event, it is probable the consolidated entity will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the reporting date, taking into account the risks and uncertainties surrounding the obligation. If the time value of money is material, provisions are discounted using a current pre-tax rate specific to the liability. The increase in the provision resulting from the passage of time is recognised as a finance cost.

Employee benefits
Share-based payments
Equity-settled share-based compensation benefits are provided to employees.

Equity-settled transactions are awards of shares, options over shares or performance rights that are provided to employees in exchange for the rendering of services.

The cost of equity-settled transactions are measured at fair value on grant date. Fair value is independently determined using either the Binomial or Black-Scholes option pricing model that takes into account the exercise price, the term of the option, the impact of dilution, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the option, together with non-vesting conditions that do not determine whether the consolidated entity receives the services that entitle the employees to receive payment. No account is taken of any other vesting conditions.

The cost of equity-settled transactions are recognised as an expense with a corresponding increase in equity over the vesting period. The cumulative charge to profit or loss is calculated based on the grant date fair value of the award, the best estimate of the number of awards that are likely to vest and the expired portion of the vesting period. The amount recognised in profit or loss for the period is the cumulative amount calculated at each reporting date less amounts already recognised in previous periods.

Market conditions are taken into consideration in determining fair value. Therefore any awards subject to market conditions are considered to vest irrespective of whether or not that market condition has been met provided all other conditions are satisfied.

If equity-settled awards are modified, as a minimum an expense is recognised as if the modification has not been made. An additional expense is recognised, over the remaining vesting period, for any modification that increases the total fair value of the share-based compensation benefit as at the date of modification.

If the non-vesting condition is within the control of the consolidated entity or employee, the failure to satisfy the condition is treated as a cancellation. If the condition is not within the control of the consolidated entity or employee and is not satisfied during the vesting period, any remaining expense for the award is recognised over the remaining vesting period, unless the award is forfeited.

If equity-settled awards are cancelled, it is treated as if it has vested on the date of cancellation, and any remaining expense is recognised immediately. If a new replacement award is substituted for the cancelled award, the cancelled and new award is treated as if they were a modification.

Contributed equity
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.

Earnings per share

Basic earnings per share
Basic earnings per share is calculated by dividing the profit attributable to the owners of AO Energy, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the financial year.

Diluted earnings per share
Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

Goods and Services Tax ('GST') and other similar taxes
Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the tax authority. In this case it is recognised as part of the cost of the acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the tax authority is included in other receivables or other payables in the statement of financial position.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to the tax authority, are presented as operating cash flows.

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

New Accounting Standards and Interpretations not yet mandatory or early adopted
Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet mandatory, have not been early adopted by the consolidated entity for the annual reporting period ended 31 December 2012. The consolidated entity's assessment of the impact of these new or amended Accounting Standards and Interpretations, most relevant to the consolidated entity, are set out below. The impact on the financial statements of the Company due to adoption of the new accounting standards is considered immaterial except as stated below.

AASB 2011-9 Amendments to Australian Accounting Standards - Presentation of Other Comprehensive Income [AASB 1, 5, 7, 101, 112, 120, 121, 132, 133, 134, 1039 & 1049].
This standard is applicable to annual reporting periods beginning on or after 1 January 2013. This standard requires entities to group items presented in other comprehensive income on the basis of whether they might be reclassified subsequently to profit or loss and those that will not.

AASB10 Consolidated Financial Statements.
This standard is applicable to annual reporting periods beginning on or after 1 January 2013. AASB 10 establishes a new control model that applies to all entities. It replaces parts of AASB 127 Consolidated and Separate Financial Statements dealing with the accounting for consolidated financial statements and UIG-112 Consolidation - Special Purpose Entities. The new control model broadens the situations when an entity is considered to be controlled by another entity and includes new guidance for applying the model to specific situations, including when acting as a manager may give control, the impact of potential voting rights and when holding less than a majority voting rights may give control. Consequential amendments were also made to other standards via AASB 2011-7.

AASB 11 Joint Arrangements.
This standard is applicable to annual reporting periods beginning on or after 1 January 2013. AASB 11 replaces AASB 131 Interests in Joint Ventures and UIG-113 Jointly- controlled Entities - Non-monetary Contributions by Ventures. AASB 11 uses the principle of control in AASB 10 to define joint control, and therefore the determination of whether joint control exists may change. In addition it removes the option to account for jointly controlled entities (JCEs) using proportionate consolidation. Instead, accounting for a joint arrangement is dependent on the nature of the rights and obligations arising from the arrangement. Joint operations that give the venturers a right to the underlying assets and obligations themselves is accounted for by recognising the share of those assets and obligations. Joint ventures that give the venturers a right to the net assets is accounted for using the equity method. Consequential amendments were also made to other standards via AASB 2011-7 and amendments to AASB 128.

The Company has entered into a number of joint venture arrangements which may impact on the accounting treatment of these joint ventures through the recognition of the relevant share of assets and obligations of those joint ventures. The Company believes the impact of these changes will not be significant

AASB12 Disclosure of Interests in Other Entities.
This standard is applicable to annual reporting periods beginning on or after 1 January 2013. AASB 12 includes all disclosures relating to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. New disclosures have been introduced about the judgments made by management to determine whether control exists, and to require summarised information about joint arrangements, associates and structured entities and subsidiaries with non-controlling interests.

AASB13 Fair Value Measurement.
This standard is applicable to annual reporting periods beginning on or after 1 January 2013. AASB 13 establishes a single source of guidance for determining the fair value of assets and liabilities. AASB 13 does not change when an entity is required to use fair value, but rather, provides guidance on how to determine fair value when fair value is required or permitted. Application of this definition may result in different fair values being determined for the relevant assets. AASB 13 also expands the disclosure requirements for all assets or liabilities carried at fair value. This includes information about the assumptions made and the qualitative impact of those assumptions on the fair value determined. Consequential amendments were also made to other standards via AASB 2011-8.

AASB 2012-2 Amendments to Australian Accounting Standards -Disclosures - Offsetting Financial Assets and Financial Liabilities.
This standard is applicable to annual reporting periods beginning on or after 1 January 2013. AASB 2012-2 principally amends AASB 7 Financial Instruments: Disclosures to require disclosure of information that will enable users of an entity's financial statements to evaluate the effect or potential effect of netting arrangements, including rights of set-off associated with the entity's recognised financial assets and recognised financial liabilities, on the entity's financial position.

AASB 2012-5 Amendments to Australian Accounting Standards arising from Annual Improvements 2009-2011 Cycle.
This standard is applicable to annual reporting periods beginning on or after 1 January 2013. AASB 2012-5 makes amendments resulting from the 2009-2011 Annual Improvements Cycle. The standard addresses a range of improvements, including the following:

- Repeat application of AASB 1 is permitted (AASB 1)

- Clarification of the comparative information requirements when an entity provides a third balance sheet (AASB 101 Presentation of Financial Statements).

AASB 2012-10 Amendments to Australian Accounting Standards – Transition Guidance and Other Amendments.
This standard is applicable to annual reporting periods beginning on or after 1 January 2013. AASB 2012-10 amends the following standards:

- AASB 10 Consolidation and related Standards - clarifies the transition guidance, in particular that the assessment of control is to be made at the beginning of the period AASB 10 is adopted rather that prior periods.
- AASB 10 and related Standards to defer the mandatory application by not-for-profit entities to annual reporting periods beginning on or after 1 January 2014.
- Various editorial amendments to a range of Australian Accounting Standards and to Interpretation 12 Service Concession Arrangements, to reflect changes made to the text of IFRSs by the IASB.

AASB 2012-3 Amendments to Australian Accounting Standards -Offsetting Financial Assets and Financial Liabilities.
This standard is applicable to annual reporting periods beginning on or after 1 January 2014. AASB 2012-3 adds application guidance to AASB 132 Financial Instruments: Presentation to address inconsistencies identified in applying some of the offsetting criteria of AASB 132, including clarifying the meaning of "currently has a legally enforceable right of set-off" and that some gross settlement systems may be considered equivalent to net settlement.

AASB 9 Financial Instruments.
This standard is applicable to annual reporting periods beginning on or after 1 January 2015. AASB 9 includes requirements for the classification and measurement of financial assets. It was further amended by AASB 2010-7 to reflect amendments to the accounting for financial liabilities. These requirements improve and simplify the approach for classification and measurement of financial assets compared with the requirements of AASB 139. The main changes are described below.

a) Financial assets that are debt instruments will be 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.
b) 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.
c) 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.
d) Where the fair value option is used for financial liabilities the change in fair value is to be accounted for as follows:
    - The change attributable to changes in credit risk are presented in other comprehensive income (OCI).
    - The remaining change is presented in profit or loss.

If this approach creates or enlarges an accounting mismatch in the profit or loss, the effect of the changes in credit risk are also presented in profit or loss. Further amendments were made by AASB 2012-6 which amends the mandatory effective date to annual reporting periods beginning on or after 1 January 2015. AASB 2012-6 also modifies the relief from restating prior periods by amending AASB 7 to require additional disclosures on transition to AASB 9 in some circumstances. Consequential amendments were also made to other standards as a result of AASB 9, introduced by AASB 2009-11 and superseded by AASB 2010-7 and 2010-10.

2. Critical accounting judgements, 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 bases its judgements, estimates and assumptions on historical experience and on other various factors, including expectations of future events management believes to be reasonable under the circumstances. The resulting accounting judgements and estimates will seldom equal the related actual results. The judgements, estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Share-based payment transactions
The consolidated entity 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 by using either the Binomial or Black-Scholes model taking into account the price of the Company's shares the terms and conditions upon which the instruments were granted. The accounting estimates and assumptions relating to equity-settled share based payments would have no impact on the carrying amounts of assets and liabilities within the next annual reporting period but may impact profit or loss and equity.

Estimation of useful lives of assets
The consolidated entity determines the estimated useful lives and related depreciation and amortisation charges for its property, plant and equipment and finite life intangible assets. The useful lives could change significantly as a result of technical innovations or some other event. The depreciation and amortisation charge will increase where the useful lives are less than previously estimated lives, or technically obsolete or non-strategic assets that have been abandoned or sold will be written off or written down.

Impairment of non-financial assets other than goodwill and other indefinite life intangible assets
The consolidated entity assesses impairment of non-financial assets other than goodwill and other indefinite life intangible assets at each reporting date by evaluating conditions specific to the consolidated entity and to the particular asset that may lead to impairment. If an impairment trigger exists, the recoverable amount of the asset is determined. This involves fair value less costs to sell or value-in-use calculations, which incorporate a number of key estimates and assumptions.

The application of the consolidated entity's accounting policy for exploration and evaluation expenditure requires judgment in determining whether it is likely that future economic benefits are likely either from future exploitation or sale or where activities have not reached a stage which permits a reasonable assessment of the existence of reserves. The determination of a Joint Ore Reserves Committee (JORC) resource is itself an estimation process that requires varying degrees of uncertainty depending on sub-classification and these estimates directly impact the point of deferral of exploration and evaluation expenditure. The deferral policy requires management to make certain estimates and assumptions about future events or circumstances, in particular whether an economically viable extraction operation can be established. Estimates and assumptions made may change if new information becomes available. If, after expenditure is capitalised, information becomes available suggesting that the recovery of expenditure is unlikely, the amount capitalised is written off in profit or loss in the period when the new information becomes available.

Income tax
The consolidated entity is subject to income taxes in the jurisdictions in which it operates. Significant judgement is required in determining the provision for income tax. There are many transactions and calculations undertaken during the ordinary course of business for which the ultimate tax determination is uncertain. The consolidated entity recognises liabilities for anticipated tax audit issues based on the consolidated entity’s current understanding of the tax law. Where the final tax outcome of these matters is different from the carrying amounts, such differences will impact the current and deferred tax provisions in the period in which such determination is made.

Restoration provision
A provision has been made for the present value of anticipated costs for future restoration of the tenements. The provision includes future cost estimates associated with closure of the premises. The calculation of this provision requires assumptions such as application of closure dates and cost estimates. The provision recognised is periodically reviewed and updated based on the facts and circumstances available at the time. Changes to the estimated future costs for sites are recognised in the statement of financial position by adjusting the asset and the provision. Reductions in the provision that exceed the carrying amount of the asset will be recognised in profit or loss.

3. Operating segments

Identification of reportable operating segments
The consolidated entity is organised into one operating segment, being mining and exploration operations. This operating segment is based on the internal reports that are reviewed and used by the Board of Directors (who are identified as the Chief Operating Decision Makers ('CODM')) in assessing performance and in determining the allocation of resources.

The CODM reviews both adjusted earnings before interest, tax, depreciation and amortisation (segment result) and profit before income tax. The accounting policies adopted for internal reporting to the CODM are consistent with those adopted in the financial statements. The information reported to the CODM is on at least a monthly basis.

Types of products and services
The principal products and services of this operating segment are the mining and exploration operations predominately in Australia. The operating segments are identified based on the size of the exploration tenements.

The Company is managed primarily on its tenements. An operating segment is engaged in providing products or services within a particular economic environment and is subject to risks and returns that are different from those of segments operating in other economic environment.

Reportable segments disclosed are based on aggregating operating segments where the segments are considered to have similar economic characteristics and are also similar with respect to the type of product and service. The Company has determined that the reportable operating segments post aggregation are based on geographical locations as this is the source of the Company's major assets.

Segment assets
Where an asset is used across multiple segments, the asset is allocated to the segment that receives the majority of economic value from the asset. In the majority of instances, segment assets are clearly identifiable on the basis of their nature and physical location.

Segment liabilities
Liabilities are allocated to segments where there is direct nexus between the incurrence of the liability and the operations of the segment. Tax liabilities are generally considered to relate to the Company as a whole and are not allocated. Segment liabilities include trade and other payables.

For the 2011 and 2012 years, the Company operated in one segment, namely mineral exploration is Australia, and hence has not prepared Operating segment financial information.

4. Revenue

	Consolidated	
	2012	**2011**
	$	**$**
Other revenue		
Interest income – banking institution	7,677	1,380
Total revenue	**7,677**	**1,380**

5. Other income

	Consolidated 2012 $	Consolidated 2012 $
Net gain on disposal of tenements	-	45,920

The gain arose on the disposal of the interests in the Waitara project during the 2011 year.

6. Expenses

Loss before income tax includes the following specific expenses:		
Depreciation		
Plant and equipment	1,481	99
Other expenses include:		
Net loss on disposal of equity investment – shares in YTC	-	7,453
Foreign exchange difference-sale of ACPL	-	40,564
	-	**48,017**

7. Due diligence and transaction costs

Costs associated with the Kazakhstan due diligence and associated restructuring activities:		
Kazakhstan due diligence	896,999	-
Associated professional fees and corporate restructuring expenses	418,468	-
	1,315,467	**-**

In the second half of 2012 the Company entered into various Agreements to acquire operated interests in 2 oil-fields in Kazakhstan. However, due to factors such as market concerns over sovereign risk, those Agreements were terminated prior to year end. The associated due diligence costs and restructuring costs related to that transaction have been expensed in the statement of comprehensive income.

8. Income tax expense

Numerical reconciliation of income tax expense and tax at the statutory rate		
Loss before income tax expense	(3,291,616)	(585,134)
Tax at the statutory tax rate of 30%	(987,485)	(175,540)
Tax effect amounts which are not deductible/(taxable) in calculating taxable income	18,613	66,276
Tax effect of deferred tax asset not brought to account	968,872	109,264
Income tax expense	**-**	**-**

9. Current assets - cash and cash equivalents

Cash at bank	160,000	508,049

10. Current assets - trade and other receivables

	Consolidated 2012 $	Consolidated 2012 $
Refundable cash deposit	96,302	-
Other receivables	53,987	13,704
	150,289	13,704

Other receivables are not impaired and not past due. Due to their short term nature, their carrying value is assumed to approximate their fair value.

11. Current assets – other

Prepayments	9,167	9,981

12. Current assets - non-current assets classified as held for sale

Investment in associates	-	1,084,565
Foreign exchange loss	-	(40,564)
Sale proceeds	-	(1,044,001)
	-	**-**

The 30% associate interest in ACPL was disposed of during 2011. Gross proceeds were $1,044,001 after a foreign exchange loss of $40,564. Net amount of $651,485 was received in cash net of amounts withheld for payments owing to MSC and Directors.

13. Non-current assets - property, plant and equipment

Land – at cost	15,500	15,500
	15,500	**15,500**
Plant and equipment – at cost	17,696	2,991
Less: Accumulated depreciation	(1,481)	(2,991)
	16,215	**-**
	31,715	**15,500**
Plant and equipment – opening balance, net of depreciation and impairment	-	99
Additions	17,696	-
Less: depreciation	(1,481)	(99)
Plant and equipment – closing balance, net of depreciation and impairment	**16,215**	**-**

14. Non-current assets - exploration and evaluation

Reconciliations of the written down values at the beginning and end of the current and previous financial year are set out below:

	Consolidated	
	2012	2011
	$	$
Balance at 1 January	1,661,193	1,656,973
Additions	48,761	126,241
Disposals	-	(100,000)
Impairment of exploration and evaluation	(1,156,934)	(22,021)
Balance at 31 December	**553,020**	**1,661,193**

The disposal relates to the interest in YTC joint venture disposed of during 2011.

Impairment of exploration and evaluation
During the year, an impairment expense of $1,156,934 was recognised against the exploration and evaluation assets. The impairment expense was in relation to three projects undertaken by the Company – namely Mt Mackenzie, Kiawarra and Palatine.

Of this amount $981,627 was related to the Mt Mackenzie tenements, $72,841 to the Kiawarra tenements and the remainder related to costs incurred in relation to Palatine Energy Pty Ltd, which has subsequently been sold.

The recoverable amounts were determined based on fair value of the assets, less cost to sell. In the absence of a binding sale agreement and active market, management determined the fair value based on prospectivity of the assets to reflect an estimated amount that the entity could realise from disposal of the assets in an arm's length transaction.

15. Non-current assets – other

Security deposits	35,000	115,000

16. Current liabilities - trade and other payables

Trade payables	307,924	35,281
Other	76,402	45,202
	384,326	**80,483**

Refer to note 21 for detailed information on financial instruments.

17. Non-current liabilities – provisions

Mining restoration	50,000	50,000

18. Equity – contributed

	Consolidated 2012 Shares	Consolidated 2011 Shares	Consolidated 2012 $	Consolidated 2011 $
Ordinary shares – fully paid	58,109,778	2,275,974,526	47,128,731	45,597,231

Movements in ordinary share capital

	Date	No of shares	Issue price	$
Opening Balance		2,275,974,526		45,597,231
Rights Issue	20 September 2012	1,517,316,912	$0.001	1,517,317
Placement	26 November 2012	100,000,000	$0.0016	160,000
Share issue expenses				(145,817)
Balance pre consolidation	26 December 2012	3,893,291,438		47,128,731
Consolidation – 1 for 67	27 November 2012	58,109,778		-
Balance post consolidation	**31 December 2012**	**58,109,778**		**47,128,731**

Ordinary shares
Ordinary shares entitle the holder to participate in dividends and the proceeds on the winding up of the Company in proportion to the number of and amounts paid on the shares held. The fully paid ordinary shares have no par value.

On a show of hands every member present at a meeting in person or by proxy shall have one vote and upon a poll each share shall have one vote.

Capital risk management
The consolidated entity's objectives when managing capital are to safeguard its ability to continue as a going concern, so that it can provide returns for shareholders and benefits for other stakeholders and to maintain an optimum capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the consolidated entity may adjust issue new shares or sell assets to reduce debt.

The consolidated entity would look to raise capital when an opportunity to invest in a business or company was seen as value adding relative to the current parent entity's share price at the time of the investment. The consolidated entity is actively pursuing additional investments in the short term as it continues to pursue new explorations.

The capital risk management policy remains unchanged from the 31 December 2011 Annual Report.

19. Equity – reserves

	Consolidated 2012 $	Consolidated 2011 $
Share-based payments reserve	437,735	376,750

Share-based payments reserve
The reserve is used to recognise the value of equity benefits provided to Directors as part of their remuneration, and other parties as part of their compensation for services.

20. Equity - non-controlling interest

	Consolidated 2012 $	Consolidated 2012 $
Contributed equity	-	50
Loss after income tax expense for the year	-	(11,102)
Accumulated losses at the end of the financial year	**-**	**(11,052)**

The non-controlling interest was a 0% (2011: 25%) equity holding in Palatine Energy Pty Limited. The investment in Palatine Energy was sold during 2012. The sale resulted in a loss of $24,129 as follows:

	$
Net assets of Palatine Energy	101,625
Non-controlling interest	(77,495)
Net investment	24,130
Consideration on disposal	(1)
Loss on disposal	**(24,129)**

21. Financial instruments

Financial risk management objectives

The consolidated entity's activities expose it to a variety of financial risks: market risk (including foreign currency risk, price risk and interest rate risk), credit risk and liquidity risk. The consolidated entity's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the consolidated entity. The consolidated entity uses different methods to measure different types of risk to which it is exposed. These methods include sensitivity analysis in the case of interest rate, foreign exchange and other price risks.

Risk management is carried out by senior finance executives ('finance') under policies approved by the Board of Directors ('Board'). These policies include identification and analysis of the risk exposure of the consolidated entity and appropriate procedures, controls and risk limits. Due to the size and nature of the entity's operations, the consolidated entity does not consider interest rate risk, price risk and foreign currency risk to be a main risk.

Market risk

Foreign currency risk
The consolidated entity undertakes certain transactions denominated in foreign currency. However, these transactions are minimal at this stage and do not expose the consolidated entity to foreign currency risk through foreign exchange rate fluctuations.

Price risk
The consolidated entity is not exposed to any significant price risk.

Interest rate risk
The consolidated entity is not exposed to interest rate risk as it does not have long-term borrowings.

Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the consolidated entity. The maximum exposure to credit risk at the reporting date to recognised financial assets is the carrying amount, net of any provisions for impairment of those assets, as disclosed in the statement of financial position and notes to the financial statements. The consolidated entity does not hold any collateral.

Liquidity risk

Vigilant liquidity risk management requires the consolidated entity to maintain sufficient liquid assets (mainly cash and cash equivalents) and available borrowing facilities to be able to pay debts as and when they become due and payable.

The consolidated entity manages liquidity risk by maintaining adequate cash reserves by continuously monitoring actual and forecast cash flows and matching the maturity profiles of financial assets and liabilities.

Remaining contractual maturities
The following tables detail the consolidated entity's remaining contractual maturity for its financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the financial liabilities are required to be paid. The tables include both interest and principal cash flows disclosed as remaining contractual maturities and therefore these totals may differ from their carrying amount in the statement of financial position.

Consolidated – 2012	Weighted average interest rate %	1 year or less $	Between 1 and 2 years $	Between 2 and 5 years $	Over 5 years $	Remaining contractual maturities $
Financial liabilities						
Non-interest bearing						
Trade payables	-	307,924	-	-	-	307,924
Other payables	-	76,402	-	-	-	76,402
Total financial liabilities	**-**	**384,326**	**-**	**-**	**-**	**384,326**

Consolidated – 2011	Weighted average interest rate %	1 year or less $	Between 1 and 2 years $	Between 2 and 5 years $	Over 5 years $	Remaining contractual maturities $
Financial liabilities						
Non-interest bearing						
Trade payables	-	35,281	-	-	-	35,281
Other payables	-	45,202	-	-	-	45,202
Total financial liabilities	**-**	**80,483**	**-**	**-**	**-**	**80,483**

The cash flows in the maturity analysis above are not expected to occur significantly earlier than contractually disclosed above.

22. Key management personnel disclosures

Directors

The following persons were Directors of AO Energy Limited during the financial year:

Mr Colin Goodall (appointed 18 July 2012)	Non-Executive Independent Chairman
Mr Neil Young (appointed 18 July 2012)	Managing Director
Mr Jeremy Jebamoney (appointed 3 October 2012)	Executive Director
Mr David Bamford (appointed 3 October 2012)	Non-Executive Director
The Hon Alexander Downer AC (appointed 11 October 2012)	Non-Executive Director
Mr Simon O'Loughlin (appointed 12 April 2012 and resigned 3 October 2012)	Non-Executive Director
Mr Patrick Elliot (resigned 25 May 2012)	Non-Executive Independent Chairman
Mr Geoffrey Andrews (resigned 18 July 2012)	Non-Executive Director
Mr Andrew Bursill (resigned 3 October 2012)	Executive Director and Company Secretary

Compensation

The aggregate compensation made to Directors and other members of key management personnel of the consolidated entity is set out below:

	Consolidated	
	2012	**2011**
	$	**$**
Short-term employee benefits	220,201	39,000
Post-employment benefits	38,236	-
Share-based payments	-	198,000
	258,437	**237,000**

Shareholding

The number of shares in the parent entity held during the financial year by each Director and other members of key management personnel of the consolidated entity, including their personally related parties, is set out below:

2012	Balance at start of the year	Received as part of remuneration	Additions	Disposals / other	Balance pre consolidation[2]	Balance at end of the year
Ordinary shares						
Colin Goodall	-	-	70,723,701	-	70,723,701	1,055,579
Neil Young	-	-	58,823,701	-	58,823,701	877,966
Jeremy Jebamoney	-	-	49,176,300	-	49,176,300	733,976
David Bamford	-	-	3,000,000	-	3,000,000	44,777
Alexander Downer	-	-	1,000,000	-	1,000,000	14,926
Patrick J D Elliott[1]	57,430,242	-	-	57,430,242	-	-
Geoffrey Andrews[1]	34,375,000	-	-	34,375,000	-	-
Andrew Bursill[1]	21,145,625	-	-	21,145,625	-	-
	112,950,867	**-**	**182,723,702**	**112,950,867**	**182,723,702**	**2,727,224**

[1] Disposals / other movement represents the Director resigning from the Board.
[2] Represents balance prior to one for 67 consolidation of capital on 27 November 2012.

2011	Balance at start of the year	Received as part of remuneration	Additions	Disposals / other	Balance at the end of the year
Ordinary shares					
Patrick J D Elliott	13,055,242	44,375,000	-	-	57,430,242
Geoffrey Andrews	-	34,375,000	-	-	34,375,000
Andrew Bursill	5,000,000	16,145,625	-	-	21,145,625
	18,055,242	**94,895,625**	**-**	**-**	**112,950,867**

Option holding

The number of options over ordinary shares in the parent entity held during the financial year by each Director and other members of key management personnel of the consolidated entity, including their personally related parties, is set out below:

2012	Balance at start of the year	Granted	Exercised	Expired/ forfeited/ other[1]	Balance at the end of the year
Options over ordinary shares					
Patrick J D Elliott	35,000,000	-	-	35,000,000	-
Geoffrey Andrews	7,500,000	-	-	7,500,000	-
Andrew Bursill	120,500,000	-	-	120,500,000	-
	163,000,000	**-**	**-**	**163,000,000**	**-**

[1] Represents the Director resigning from the Board.

2011	Balance at start of the year	Granted	Exercised	Expired/ forfeited/ other	Balance at the end of the year
Options over ordinary shares					
Patrick J D Elliott	5,000,000	30,000,000	-	-	35,000,000
Geoffrey Andrews	-	7,500,000	-	-	7,500,000
Andrew Bursill	8,000,000	112,500,000	-	-	120,500,000
	13,000,000	**150,000,000**	**-**	**-**	**163,000,000**

Related party transactions

Related party transactions are set out in note 26.

23. Remuneration of auditors

During the financial year the following fees were paid or payable for services provided by Ernst & Young, the auditor of the Company, and unrelated practices:

	Consolidated	
	2012	**2011**
	$	**$**
Audit or review of the financial statements	28,555	33,000
Other services – project due diligence	17,584	-
	46,139	**33,000**

24. Contingent liabilities

The consolidated entity has no contingent liabilities.

25. Commitments

Exploration commitments
In order to maintain the exploration, prospecting and mining tenements the companies are committed to meeting conditions under which permits were granted and also meeting commitments under the option agreements entered into by the consolidated entity. Commitments include permits renewal estimates.

Region	Total potential commitment $
Queensland	682,000
New South Wales	39,000

Rental accommodation
The Group has entered into a commercial property lease for office accommodation. At year end the lease had a remaining term of 2 years and 10 months. Future rental payments under this lease as at 31 December are as follows:

	Consolidated	
	2012	**2011**
	$	**$**
Within one year	45,833	-
After one year but not more than five years	100,833	-
More than five years	-	-
	146,666	**-**

26. Related party transactions

Parent entity
AO Energy Limited is the parent entity. The consolidated financial statements of the entity include:

	Country of Registration	**% equity interest**	
		2012	**2011**
Palatine Energy Pty Ltd	Australia	0.0	75.0
AO Energy (Singapore) Pte Ltd	Singapore	100.0	-

Key management personnel (KMP)
Disclosures relating to KMP are set out in note 22 and the remuneration report in the Directors' report.

Transactions with related parties
Payment of $19,656 excluding GST (2011: $Nil) was made to Kopias Consulting. JK Kopias is a Director of Kopias Consulting which provides Company Secretarial and accounting services to AO Energy. The contract between AO Energy and Kopias Consulting is on normal commercial terms.

Payment of $83,527 excluding GST (2011:$131,848) was made to Franks & Associates Pty Ltd. AW Bursill is also a principal of Franks & Associates Pty Ltd which provides accounting and Company Secretarial services to AOM. The contract between AOM and Franks & Associates is on normal commercial terms.

Receivable from and payable to related parties
An amount of $8,237.50 was payable to Kopias Consulting at 31 December 2012 (2011: $nil). There were no trade receivables due from related parties at the reporting date.

Loans to/from related parties
There were no loans to or from related parties at the reporting date.

Terms and conditions
All transactions were made on normal commercial terms and conditions and at market rates.

27. Parent entity information

Set out below is the supplementary information about the parent entity.

	Parent	
	2012	**2011**
Statement of comprehensive income	**$**	**$**
Loss after income tax	(3,324,922)	(540,726)
Total comprehensive income	(3,324,922)	(540,726)
Statement of financial position		
Total current assets	319,456	436,626
Total non-current assets	619,735	1,895,878
Total assets	939,191	2,332,504
Total current liabilities	384,326	45,202
Total non-current liabilities	50,000	50,000
Total liabilities	434,326	95,202
Net assets	504,865	2,237,302
Equity		
Contributed equity	47,128,731	45,597,231
Reserves	437,735	376,750
Accumulated losses	(47,061,601)	(43,736,679)
Total equity	504,865	2,237,302

Contingent liabilities
The parent entity had no contingent liabilities as at 31 December 2012 and 31 December 2011.

Capital commitments - Property, plant and equipment
The parent entity had no capital commitments for property, plant and equipment at as 31 December 2012 and 31 December 2011.

Significant accounting policies
The accounting policies of the parent entity are consistent with those of the consolidated entity, as disclosed in note 1, except for the following:

- Investments in subsidiaries are accounted for at cost, less any impairment, in the parent entity.
- Investments in associates are accounted for at cost, less any impairment, in the parent entity.

28. Events after the reporting period

No matter or circumstance has arisen since 31 December 2012 that has significantly affected, or may significantly affect the consolidated entity's operations, the results of those operations, or the consolidated entity's state of affairs in future financial years except as listed below.

On 11 February 2013, the Company issued options and performance rights to Directors as approved at the Company's extraordinary general meeting on 14 November 2012.

On 12 February 2013, the Company announced a two for one non-renounceable rights issue. Acceptances for the rights issue opened on 25 February 2013 and closed on 12 March 2013 raising $695,598 for the Company.

29. Reconciliation of loss after income tax to net cash used in operating activities

	Consolidated	
	2012	**2011**
	$	**$**
Loss after income tax expense for the year	(3,291,616)	(585,134)
Adjustments for:		
Depreciation and amortisation	1,481	99
Impairment of non-current assets	1,156,934	22,021
Share-based payments	60,985	198,900
Foreign exchange differences	-	40,564
Net gain on disposal of equity investment	-	(45,920)
Net loss on disposal of equity investment	24,129	-
Net loss on disposal of tenements	-	7,453
Change in operating assets and liabilities:		
Increase in trade and other receivables	(136,582)	(25,488)
Increase in trade and other payables	303,842	101,883
Net cash used in operating activities	**(1,880,830)**	**(285,622)**

30. Earnings per share

	Consolidated 2012 $	Consolidated 2011 $
Loss after income tax	(3,291,616)	(585,134)
Non-controlling interest	-	11,102
Loss after income tax attributable to the owners of AO Energy Limited	(3,291,616)	(574,032)
	Number	**Number**
Weighted average number of ordinary shares used in calculating basic earnings per share	2,709,580,896	2,187,058,625
Weighted average number of ordinary shares used in calculating diluted earnings per share	2,709,580,896	2,187,058,625
Weighted average number of ordinary shares used in calculating basic earnings per share – post 1 for 67 consolidation of capital	40,441,506	32,642,666
Weighted average number of ordinary shares used in calculating diluted earnings per share – post 1 for 67 consolidation of capital	40,441,506	32,642,666
	Cents	**Cents**
Basic earnings per share	(0.121)	(0.026)
Diluted earnings per share	(0.121)	(0.026)
Basic earnings per share – post 1 for 67 consolidation of capital	(8.14)	(1.76)
Diluted earnings per share – post 1 for 67 consolidation of capital	(8.14)	(1.76)

The Company undertook a 1 for 67 consolidation of capital on 27 November 2012. Comparative figures have been recalculated on this basis.

31. Share-based payments

On 1 September 2012 the Company issued 120,000,000 (1,791,045 post consolidation) unlisted options in the Company to the Company's brokers for nil consideration, each with an exercise price of $0.003 ($0.201 post consolidation) and expiry date of 21 September 2016.

Set out below are summaries of options granted under the plan:

2012

Grant date	Expiry date	Exercise price	Balance at the start of the year	Granted	Exercised	Expired/ fortified/ other	Balance pre consolidation[3]	Balance at the end of the year
28 Nov 2008	31 Dec 2013	$0.030[1]	43,000,000	-	-	-	43,000,000	641,792
8 Dec 2011	8 Dec 2013	$0.003	187,500,000	187,500,000	-	187,500,000	-	-
19 Dec 2011	8 Dec 2013	$0.003	7,500,000	7,500,000	-	7,500,000	-	-
21 Sep 2012	21 Sep 2016	$0.003[2]	-	120,000,000	-	-	120,000,000	1,791,045
			238,000,000	**315,000,000**	**-**	**195,000,000**	**163,000,000**	**2,432,837**

[1] Exercise price post consolidation is 201 cents.
[2] 1 Exercise price post consolidation is 20.1 cents.
[3] Represents the balance prior to one for 67 consolidation of capital on 27 November 2012.

2011

Grant date	Expiry date	Exercise price	Balance at the start of the year	Granted	Exercised	Expired/ fortified/ other	Balance at the end of the year
28 Nov 2008	31 Dec 2013	$0.030	43,000,000	-	-	-	43,000,000
8 Dec 2011	8 Dec 2013	$0.003		187,500,000	-	-	187,500,000
19 Dec 2011	8 Dec 2013	$0.003		7,500,000	-	-	7,500,000
			43,000,000	**195,000,000**	**-**	**-**	**238,000,000**

The weighted average remaining contractual life of options outstanding at the end of the financial year was 3.0 years (2011: 2.0 years).

For the options granted during the year, the valuation model inputs used to determine the fair value at the grant date are: expected volatility of 95%, risk- free interest rate of 2.74%. The fair value of options granted during the year was $0.034 per option.

DIRECTORS' DECLARATION

In the Directors' opinion:

- the attached financial statements and notes thereto comply with the *Corporations Act 2001*, the Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements;
- the attached financial statements and notes thereto comply with International Financial Reporting Standards as issued by the International Accounting Standards Board as described in note 1 to the financial statements;
- the attached financial statements and notes thereto give a true and fair view of the consolidated entity's financial position as at 31 December 2012 and of its performance for the financial year ended on that date; and
- there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

The Directors have been given the declarations required by section 295A of the *Corporations Act 2001*.

Signed in accordance with a resolution of Directors made pursuant to section 295(5) of the *Corporations Act 2001*.

On behalf of the Directors

Neil Young
Managing Director

27 March 2013

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Independent auditor's report to the members of AO Energy Limited

Report on the financial report

We have audited the accompanying financial report of AO Energy Limited, which comprises the consolidated statement of financial position as at 31 December 2012, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the 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 of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal controls as the directors determine are necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with *International Financial Reporting Standards*.

Auditor's responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's 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, the auditor considers 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 complied with the independence requirements of the *Corporations Act 2001*. We have given to the directors of the company a written Auditor's Independence Declaration, a copy of which is included in the directors' report.

Opinion

In our opinion:

a. the financial report of AO Energy Limited is in accordance with the *Corporations Act 2001*, including:

   i giving a true and fair view of the consolidated entity's financial position as at 31 December 2012 and of its performance for the year ended on that date; and

   ii complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and

b. the financial report also complies with *International Financial Reporting Standards* as disclosed in Note 1.

Material Uncertainty Regarding Continuation as a Going Concern

Without qualifying our opinion, we draw attention to Note 1 Going Concern paragraph which outlines the consolidated entity's reliance on additional funding required to continue operating and which raise doubt about the entity's ability to continue as a going concern. As a result of these matters, there is significant uncertainty whether the consolidated entity will continue as a going concern, and therefore whether they will realise their assets and extinguish their liabilities in the normal course of business and at the amounts stated in the financial report. The financial report does not include any adjustments relating to the recoverability and classification of recorded asset amounts or to the amounts and classification of liabilities that might be necessary should the consolidated entity not continue as a going concern.

Report on the remuneration report

We have audited the Remuneration Report included in pages 11 to 13 of the directors' report for the year ended 31 December 2012. 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.

Opinion

In our opinion, the Remuneration Report of AO Energy Limited for the year ended 31 December 2012, complies with section 300A of the *Corporations Act 2001*.

Ernst & Young

Ernst & Young

Mark Phelps

Mark Phelps
Partner
Adelaide
27 March 2013

ASX ADDITIONAL INFORMATION

Additional information required by the ASX Limited Listing Rules and not disclosed elsewhere in this report is set out below. This information is effective as at 28 February 2013.

Substantial shareholders

There are no substantial shareholders in the Company.

Distribution of equity by security holders

Holding	Ordinary shares		
	Shares	Options (unquoted)	Performance Rights (unquoted)
1 – 1,000	1,439	-	-
1,001 – 5,000	241	-	-
5,001 – 10,000	86	-	-
10,001 – 100,000	249	5	-
100,001 and over	116	14	6
Number of Holders	**2,131**	**19**	**6**

Unmarketable parcels

There were 1,751 holders of less than a marketable parcel of ordinary shares.

Unquoted securities

There are 31,482,837 options issued but unquoted and 3,600,000 performance rights issued but not quoted at the date of this report as listed below.

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Twenty largest shareholders

		No. of Shares Held	% Held
1	Calama Holdings Pty Ltd <Mambat Super Fund A/C>	2,022,537	3.48%
2	Hillboi Nominees Pty Ltd	1,946,889	3.35%
3	National Nominees Ltd	1,547,332	2.66%
4	AWJ Family Pty Ltd <Angus W Johnson Family A/C>	1,492,538	2.57%
5	Arredo Pty Ltd	1,492,538	2.57%
6	Wholesalers (Morley) Pty Ltd	1,243,782	2.14%
7	Perth Investment Corporation Ltd	1,236,319	2.13%
8	HSBC Custody Nominees (Australia) Limited	1,200,277	2.07%
9	AWJ Family Pty Ltd <A W Johnson Family A/C>	1,078,444	1.86%
10	Mr Ioan Gheorghe Gageanu	1,005,075	1.73%
11	Catholic Church Insurance Limited	1,000,000	1.72%
12	Yoix Pty Ltd	870,647	1.50%
13	Rigi Investments Pty Ltd	850,000	1.46%
14	Fenice Investments Ltd	746,269	1.28%
15	Souttar Superannuation Pty Ltd <Greenslade Super Fund A/C>	746,269	1.28%
16	Super Lookout Pty Ltd <Wave Superannuation Fund A/C>	746,269	1.28%
17	Mr Alnis Ernst Vedig & Mrs Rasma Vedig <Vedig Super Fund A/C>	746,269	1.28%
18	Mr Creagh O'Connor & Mrs Patricia O'Connor <Superannuation A/C>	746,269	1.28%
19	Mr Patrick James Dymock Elliott	662,314	1.14%
20	Mrs Tracy Fraser	621,891	1.07%
	Total in top 20	**22,001,928**	**37.85%**
	Total on issue	**58,109,778**	

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