

AO Energy Limited

ABN 84 010 126 708

Half Year Report

for the half year ended 30 June 2013

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Corporate Directory

ABN 84 010 126 708

Directors

Mr Simon O'Loughlin (Appointed 31 July 2013)
Mr Graham Ascough (Appointed 31 July 2013)
Mr Donald Stephens (Appointed 31 July 2013)
Mr David McAuliffe (Appointed 16 August 2013)
Mr Colin Goodall (Resigned 31 July 2013)
Mr Jeremy Jebamoney (Resigned 31 July 2013)
Mr David Bamford (Resigned 19 July 2013)
The Hon Alexander Downer AC (Resigned 19 July 2013)
Mr Neil Young (Resigned 31 July 2013)

Secretaries

Mr Donald Stephens (Appointed 31 July 2013)
Mr Jarek Kopias (Resigned 31 July 2013)
Mr Neil Young (Resigned 31 July 2013)

Registered office

Ground Floor
15 Bentham Street
Adelaide SA 5000

Principal place of business

Ground Floor
15 Bentham Street
Adelaide SA 5000

Share Register

Link Market Services Limited
Level 12, 680 George Street
Sydney NSW 2000

AO Energy Ltd shares are listed on the Australian Securities Exchange (ASX) under the symbol AOM.

Solicitors

O'Loughlins Lawyers
Level 2, 99 Frome Street
Adelaide SA 5000

Bankers

ANZ Limited
121 King William Street
Adelaide SA 5000

Auditors

Ernst & Young
121 King William St
Adelaide SA 5000

Directors' Report

Your directors submit their report for the half-year ended 30 June 2013.

Directors

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

Mr Simon O'Loughlin (Appointed 31 July 2013)
Mr Graham Ascough (Appointed 31 July 2013)
Mr Donald Stephens (Appointed 31 July 2013)
Mr David McAuliffe (Appointed 16 August 2013)
Mr Colin Goodall (Resigned 31 July 2013)
Mr Jeremy Jebamoney (Resigned 31 July 2013)
Mr David Bamford (Resigned 19 July 2013)
The Hon Alexander Downer AC (Resigned 19 July 2013)
Mr Neil Young (Resigned 31 July 2013)

Review and results of operations

The group's loss for the half year ended 30 June 2013 after providing for income tax amounted to \$729,955 (2012: \$1,509,733).

AO Energy Ltd ("AOM" or the "Company") is an ASX-listed company with minerals exploration assets in Queensland (the Connors Arch Joint Venture) and in New South Wales (Kiawarra - EL 6269).

Corporate

On 31 July 2013, the Company announced a restructure of the Company's board, whereby Mr Simon O'Loughlin, Mr Graham Ascough and Mr Donald Stephens were appointed and concurrently Mr Colin Goodall, Mr Neil Young and Mr Jeremy Jebamoney resigned as directors.

On 23 August 2013, the Company announced that it had executed a Settlement Deed between Messrs Goodall, Young, Jebamoney, Downer and Bamford in relation to various unpaid entitlements. Under the terms of the deed (and subject to shareholder approval, expected to be obtained in February 2014), the previous directors have agreed to forgo any unpaid employee/director entitlements and forfeit all Options and Performance Rights held by them in exchange for 10,380,000 fully paid ordinary shares in the Company.

Finally, on 30 August 2013, the Company announced a new capital raising by way of a non-renounceable pro rata rights issue at an issue price of \$0.01 per share for every one ordinary share held. The offer is 50% underwritten by Taylor Collison Ltd and based on the maximum subscription will result in the issue of 69,703,091 shares and up to \$697,031 in gross proceeds for the Company.

Connors Arch Joint Venture (40%)

The Connors Arch Joint Venture Project comprises three tenements at Mt Mackenzie situated in the South Connors Arch Province in Queensland. The Company holds a 40% interest in project in joint venture with SmartTrans Holdings Limited (60%) who are the Operator. The project area is considered to be prospective for porphyry-style copper-gold deposits and epithermal gold deposits.

Connors Arch is considered an advanced exploration project with a number of copper and gold occurrences of significant scale that have been the subject of previous exploration by the joint venture and by previous explorers.

Statutory reductions in the area of EPM17515 (Mount Mackenzie West) and EPM 10006 (Mount MacKenzie) were completed during the reporting period as part of the licence renewal process.

The Joint Venture is currently seeking interested parties to advance exploration activities on the Connors Arch Project through a farm-in arrangement or sale of the project.

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 have targeted high grade silver and associated lead, zinc, tin and gold mineralisation. During the reporting period the company completed a statutory reduction of EL 6269 to four blocks as part of the renewal process.

The Company is currently seeking a partner to advance exploration activities on the Project through a farm-in arrangement.

Oil and Gas Opportunities

AOM was investigating oil and gas exploration and production ventures in the Asia Pacific Region however these investigations have now ceased.

Auditor's independence declaration

The auditor's independence declaration is set out on page 7 and forms part of the directors' report for the half year ended 30 June 2013.

Signed in accordance with a resolution of the directors.

A handwritten signature in dark ink, appearing to read 'Donald Stephens', is written over a light grey rectangular background.

Mr Donald Stephens
Director

13 September 2013



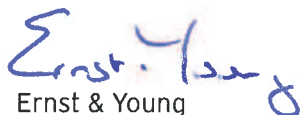
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working world

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

In relation to our review of the financial report of AO Energy Limited for the half-year ended 30 June 2013, 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
13 September 2013

Interim consolidated statement of comprehensive income

For the half year ended 30 June 2013

	Consolidated Half-year ended	
	30 June 2013	30 June 2012
	\$	\$
Other Income	1,265	1,906
Foreign exchange gain/(loss)	1,083	(274)
Employee benefits expense	(453,604)	(28,043)
Depreciation expense	(4,650)	-
Professional fees	(161,351)	(215,229)
Travel costs	(41,307)	(58,486)
Other expenses	(71,391)	(51,613)
Impairment of exploration assets	-	(1,157,994)
Loss before income tax expense	(729,955)	(1,509,733)
Income tax benefit/(expense)	-	-
Loss from continuing operations	(729,955)	(1,509,733)
Loss attributable to members of the parent entity	(729,955)	(1,509,733)
Other comprehensive income	-	-
Total comprehensive loss for the period	(729,955)	(1,509,733)
Loss for the half year is attributable to:		
Non-controlling interest	-	(66,393)
Owners of AO Energy Ltd	(729,955)	(1,443,340)
	(729,955)	(1,509,733)
Total comprehensive loss for the half-year is attributable to:		
Non-controlling interest	-	(66,393)
Owners of AO Energy Ltd	(729,955)	(1,443,340)
	(729,955)	(1,509,733)
Loss per share (*):	<i>Cents</i>	<i>Cents</i>
Basic earnings per share	(1.12)	(0.06)
Diluted earnings per share	(1.12)	(0.06)

* Potential ordinary shares are not treated as dilutive as to do so would reduce the loss per share for the 2013 and 2012 half year. The number of options over ordinary shares at the balance date was 35,082,837 (2012: 3,552,239 [post consolidation]).

The interim consolidated statement of comprehensive income is to be read in conjunction with the notes to the consolidated interim financial report.

Interim consolidated statement of financial position

As at 30 June 2013

	Note	Consolidated	
		30 June 2013 \$	31 December 2012 \$
CURRENT ASSETS			
Cash and cash equivalents		129,671	160,000
Trade and other receivables		10,521	150,289
Other current assets		-	9,167
TOTAL CURRENT ASSETS		140,192	319,456
NON-CURRENT ASSETS			
Property, plant and equipment		30,018	31,715
Other receivables		35,000	35,000
Exploration and evaluation assets	4	573,882	553,020
TOTAL NON-CURRENT ASSETS		638,900	619,735
TOTAL ASSETS		779,092	939,191
CURRENT LIABILITIES			
Trade and other payables		96,039	384,326
TOTAL CURRENT LIABILITIES		96,039	384,326
NON-CURRENT LIABILITIES			
Provisions		67,720	50,000
TOTAL NON-CURRENT LIABILITIES		67,720	50,000
TOTAL LIABILITIES		163,759	434,326
NET ASSETS		615,333	504,865
EQUITY			
Contributed equity	5	47,791,054	47,128,731
Share based payments reserve		615,835	437,735
Accumulated losses		(47,791,556)	(47,061,601)
TOTAL EQUITY		615,333	504,865

The interim consolidated statement of financial position is to be read in conjunction with the notes to the consolidated interim financial report.

Interim consolidated statement of changes in equity

For the half year ended 30 June 2013

	Consolidated				
Note	Issued capital ordinary \$	Share based payments reserve \$	Accumulated losses \$	Non- Controlling Interests \$	Total equity \$
Balance at 1 January 2012	45,597,231	376,750	(43,769,985)	(11,052)	2,192,944
<i>Comprehensive income</i>					
Loss for the period	-	-	(1,443,340)	(66,393)	(1,509,733)
Other comprehensive income/(expense)	-	-	-	-	-
Total comprehensive income for the period	-	-	(1,443,340)	(66,393)	(1,509,733)
<i>Transactions with owners, in their capacity as owners, and other transfers</i>	-	-	-	-	-
No transactions	-	-	-	-	-
Total transactions with owners and other transfers	-	-	-	-	-
Balance at 30 June 2012	45,597,231	376,750	(45,213,325)	(77,445)	683,211
Balance at 1 January 2013	47,128,731	437,735	(47,061,601)	-	504,865
<i>Comprehensive income</i>					
Loss for the period	-	-	(729,955)	-	(729,955)
Other comprehensive income/(expense)	-	-	-	-	-
Total comprehensive income for the period	-	-	(729,955)	-	(729,955)
<i>Transactions with owners, in their capacity as owners, and other transfers</i>	-	-	-	-	-
Rights issue allotted 14 March 2013	695,599	-	-	-	695,599
Transaction costs in issuing shares	(33,276)	-	-	-	(33,276)
Share based payments	-	178,100	-	-	178,100
Total transactions with owners and other transfers	662,323	178,100	-	-	840,423
Balance at 30 June 2013	47,791,054	615,835	(47,791,556)	-	615,333

The interim consolidated statement of changes in equity is to be read in conjunction with the notes to the consolidated interim financial report.

Interim consolidated statement of cash flows

For the half year ended 30 June 2013

	Consolidated	
	Half year ended 30 June 2013 \$	Half year ended 30 June 2012 \$
CASH FLOWS FROM OPERATING ACTIVITIES		
Payments to suppliers and employees	(670,102)	(337,821)
Interest received	1,265	1,906
NET CASH (USED IN) OPERATING ACTIVITIES	(668,837)	(335,915)
CASH FLOWS FROM INVESTING ACTIVITIES		
Payments for property, plant and equipment	(2,953)	-
Security deposit refunded	-	20,000
Payments for exploration expenditure capitalised	(20,862)	(28,551)
NET CASH (USED IN) INVESTING ACTIVITIES	(23,815)	(8,551)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issue of shares	695,599	-
Payment of transaction costs for issue of shares	(33,276)	-
NET CASH PROVIDED BY/(USED IN) FINANCING ACTIVITIES	662,323	-
Net (decrease) in cash and cash equivalents	(30,329)	(344,466)
Cash at the beginning of the period	160,000	508,049
CASH AT THE END OF THE PERIOD	129,671	163,583

The interim consolidated statement of cash flows is to be read in conjunction with the notes to the consolidated interim financial report.

Notes to the condensed interim consolidated financial statements

FOR THE HALF YEAR ENDED 30 JUNE 2013

1. Corporate information

The interim condensed consolidated financial statements of the Group for the six months ended 30 June 2013 were authorised for issue in accordance with a resolution of the directors on 13 September 2013.

AO Energy Limited is a limited company incorporated and domiciled in Australia whose shares are publicly traded. The principal activities of the Company and its subsidiaries (the Group) are described in the directors' report.

2. Basis of preparation and change to the Group's accounting policies

Basis of preparation

The interim condensed consolidated financial statements for the six months ended 30 June 2013 have been prepared in accordance with AASB 134 Interim Financial Reporting.

The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements as at 31 December 2012.

New standards, interpretations and amendments thereof, adopted by the Group

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2012, except for the adoption of new standards and interpretations as of 1 January 2013, noted below:

AASB 10 Consolidated Financial Statements

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.

Consequential amendments were also made to other standards via AASB 2011-7.

The adoption of AASB 10 had no effect on the financial position or performance of the Group.

AASB 11 Joint Arrangements

AASB 11 replaces AASB 131 Interests in Joint Ventures and UIG-113 Jointly- controlled Entities - Non- monetary Contributions by Venturers. 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.

Notes to the condensed interim consolidated financial statements

FOR THE HALF YEAR ENDED 30 JUNE 2013

The adoption of AASB 11 had no effect on the financial position or performance of the Group.

Consequential amendments were also made to other standards via AASB 2011-7 and amendments to AASB 128.

AASB 12 Disclosure of Interests in Other Entities

AASB 12 includes all disclosures relating to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. New disclosures have been introduced regarding 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.

The adoption of AASB 12 had no material impact on the financial statements of the Group.

AASB 13 Fair value measurement

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.

The adoption of AASB 13 had no effect on the financial position or performance of the Group.

The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

3. Segment reporting

The Board has considered the requirements of AASB 8 Operating Segments and the internal reports that are reviewed by the chief operating decision maker (the Board) in allocating resources and have concluded at this time that the Group operated in one segment, namely Mineral Exploration in Australia.

Notes to the condensed interim consolidated financial statements

FOR THE HALF YEAR ENDED 30 JUNE 2013

4. Exploration and evaluation assets

	Consolidated	
	30 June 2013	30 June 2012
	\$	\$

Exploration and evaluation costs carried forward in respect of mining areas of interest

Exploration and evaluation phases	573,882	534,500
	573,882	534,500

-

Consolidated

6 months to 30 June 2013 6 months to 30 June 2012

Capitalised tenement expenditure movement reconciliation

	\$	
Balance at beginning of period	553,020	1,661,193
Additions through expenditure capitalised	20,862	31,301
Impairment of tenements	-	(1,157,994)
Balance at end of period	573,882	534,500

5. Contributed equity

	Consolidated Group	
	30 June 13	31 December 12
	\$	\$
Fully paid ordinary shares	47,791,054	47,128,731
	47,791,054	47,128,731

Ordinary shares

	Number	\$
Balance at beginning of financial period	58,109,778	47,128,731
Shares issued pursuant to rights issue	11,593,313	695,599
Transaction costs on shares issued	-	(33,276)
Balance at end of the financial period	69,703,091	47,791,054

6. Subsequent events

On 23 August 2013, the Company announced that it had executed a Settlement Deed between Messrs Goodall, Young, Jebamoney, Downer and Bamford ('previous directors') in relation to various unpaid entitlements. Under the terms of the deed (and subject to shareholder approval, expected to be obtained in February 2014), the previous directors agree to forgo any unpaid employee/director entitlements and forfeit all Options and Performance Rights held by them in exchange for 10,380,000 fully paid ordinary shares in the Company.

Notes to the condensed interim consolidated financial statements

FOR THE HALF YEAR ENDED 30 JUNE 2013

On 30 August 2013, the Company announced a capital raising by way of a non-renounceable rights issue. The rights issue is being conducted on a one for one, pro-rata basis with new shares to be issued at a price of \$0.01. The rights issue will be 50% underwritten by brokers Taylor Collison Ltd to the extent of \$348,515.45. The maximum subscription under the offer is 69,703,091 ordinary fully paid shares, which would result in gross proceeds of \$697,030.91.

7. Lease commitment

It is noted that the Company as at 30 June 2013 has a lease commitment of \$55,000 per annum (subject to annual reviews with the lease cost to increase in line with the consumer price index of Adelaide) in relation to its principal place of business, which commenced on 1 March 2013 for a period of 3 years. The Company has entered into negotiations with a third party to sublet the building at a cost of 10% of the lease cost.

8. Going concern

The financial report has been prepared on the basis of a going concern.

The consolidated entity incurred a net loss before tax of \$729,955 during the period ended 30 June 2013, and had a net cash outflow of \$668,837 from operating activities. The consolidated entity continues to be reliant upon completion of capital raising for continued operations and the provision of working capital. The directors note that as mentioned in note 6, the Company has undertaken a non-renounceable rights issue subsequent to the reporting date which at a minimum will raise \$348,515.45 in gross proceeds for the Company (up to a maximum of \$697,030.91).

If additional capital is not obtained, there is material uncertainty whether the Group will continue as a going concern and whether it will realise its assets and extinguish its liabilities in the ordinary course of business and at amounts stated in the financial report. No adjustments for such circumstances have been made to the amount and classification of the assets and liabilities in the financial report.

Directors' Declaration

In accordance with a resolution of the directors of AO Energy Limited, I state that:

In the opinion of the directors:

- (a) The financial statements and notes of AO Energy Limited for the half-year ended 30 June 2013 are in accordance with the *Corporations Act 2001*, including:
 - (i) give a true and fair view of its financial position as at 30 June 2013 and of its performance for the half-year ended on that date; and
 - (ii) complying with Accounting Standard AASB 134: Interim Financial Reporting and the *Corporations Regulations 2001*.
- (b) Subject to the matters mentioned in note 8, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

On behalf of the Board

A handwritten signature in dark ink, appearing to read 'Donald Stephens', is written over a light grey rectangular background.

Mr Donald Stephens
Director

13 September 2013



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To the members of AO Energy Limited

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of AO Energy Limited, which comprises the statement of financial position as at 30 June 2013, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at half-year end or from time during the half-year.

Directors' Responsibility for Half-Year Financial Report

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

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 30 June 2013 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of AO Energy Limited and the entities it controlled during the half-year, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

Independence

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



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Conclusion

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

- a) giving a true and fair view of the consolidated entity's financial position as at 30 June 2013 and of its performance for the half-year ended on that date; and
- b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

Material Uncertainty Regarding Continuation as a Going Concern

Without qualifying our conclusion, we draw attention to Note 8 Going Concern which outlines the consolidated entity's reliance on additional funding to continue operating and which raises 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.



Ernst & Young



Mark Phelps
Partner
Adelaide
13 September 2013