Emerald OIL & GAS NL

ABN: 72 009 795 046

ANNUAL FINANCIAL REPORT

for the year ended 30 June 2009

ACN: 009 795 046

Contents

This financial report covers both Emerald Oil & Gas NL as an individual entity ("Emerald" or "the Company") and the consolidated entity consisting of Emerald Oil & Gas NL and its subsidiaries (together "the Group"). The financial report is presented in the Australian currency.

Emerald Oil & Gas NL is a company limited by shares, incorporated and domiciled in Australia. It's registered office and principal place of business is:

Emerald Oil & Gas NL
Level 2
16 Altona Street
West Perth WA 6005

A description of the nature of the consolidated entity's operations and its principal activities is included in the review of operations and activities in the Directors' report on pages 4 to 32, which does not form part of this financial report.

The Company has the power to amend and reissue the financial report.

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Corporate Information

Directors:
Jeremy Shervington
Chairman

John Hannaford
Non Executive Director

Robert Berven
Executive Director - Technical

Mike Krzus
CEO/Managing Director

Company Secretary
Morgan Barron

Auditors:
Ernst & Young
11 Mounts Bay Road
PERTH WA 6000

Solicitors:
Jeremy Shervington and Associates
52 Ord Street
WEST PERTH WA 6005

Registered & Principal Office:
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WEST PERTH WA 6005
Telephone: + 618 9482 0510
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WEST PERTH WA 6872

Home Stock Exchange:
Australian Stock Exchange Limited
Exchange Plaza
2 The Esplanade
PERTH WA 6000
ASX Codes – EMR, EMRO

Share Registry:
Security Transfer Registrars Pty Ltd
PO Box 535
APPLECROSS WA 6953
Telephone +618 9315 2333

Glossary of terms

Bcf:	billion cubic feet
Bbl:	barrel of oil
BTU:	British thermal unit
ft:	feet
km:	kilometres
Mcf:	thousand standard cubic feet of gas
Mcfd:	thousand standard cubic feet of gas per day
MMcf:	million standard cubic feet of gas
MMcfd:	million standard cubic feet of gas per day
NRI:	net revenue interest = WI x RI
RI:	revenue interest - the % interest in production revenue available after deduction of royalties and overriding royalty interests
TD:	total depth of a well
WI:	working interest

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Letter from the Chairman

Dear Shareholder,

I am pleased to present the 2009 Annual Report of Emerald Oil & Gas NL. The 2009 financial year has seen the Group make an important transition in its development from an exploration focused group to a group with an oil and gas portfolio comprising assets and opportunities ranging from exploration, through discovery appraisal and production. Other highlights included delivering the Group's first production from several gas wells in Kentucky and booking its first reserves from its Appalachian and Texas oil and gas interests.

During the year, the Group reduced its exploration activity in Australia and USA to concentrate on consolidating its position in the Appalachian Gas Project in West Virginia and Kentucky in the USA. The Group also took an opportunity to increase its interest in the NW Alice gas/condensate discovery from 10% to 14%, in anticipation of field appraisal and subsequent field development planning in the 2010 financial year. A substantial exploration acreage position was also secured in the Canning Basin, Western Australia, with the award of a number of new onshore and offshore exploration permits to Emerald.

USA Gas projects

The first wells of an initial eight well re-completion program commenced production during the year in Magoffin County, Kentucky, under arrangements with P&J Resources, our operator in the Appalachians. This is the Company's first production and is a significant step forward in our strategy to grow Emerald as a profitable exploration and production company. Emerald also concluded arrangements with P&J Resources for access to over 100 additional shut in gas wells in Magoffin county, Kentucky, for potential re-completion as gas producers to build on initial success. Similar arrangements are under discussion with P&J for over 100 wells in West Virginia, where these wells would supply gas to the Big Sandy Gas development opportunity, currently under negotiation.

These opportunities involving existing gas wells in Kentucky and West Virginia are complimentary to the Drilling Agreement signed last financial year, granting Emerald drilling rights over P&J's approximately 90,000 acres in eastern Kentucky and south western West Virginia over a 10 year period. The company successfully drilled two wells in West Virginia during this financial year under these arrangements.

Agreements were also negotiated during the year to acquire gas production infrastructure interests in a gas plant in Kentucky and gas gathering system and trunkline tap in West Virginia. As a result of all of the above, Emerald's is exceptionally well positioned in the Appalachians for a growth strategy based on generating cash flow from gas production while establishing a significant resource/reserve asset for the Group.

In Texas, Noble Energy, operator of the 95 Bcf NW Alice gas-condensate discovery, acquired additional leases within the AMI area based on the 3-D seismic interpretation completed last year. In addition, Emerald seized an opportunity during the year to increase its interest from 10% to 14% in this asset, which has the potential to add very significant value to the Group. Appraisal drilling and initial development plans are now being considered in the Joint Venture.

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Letter from the Chairman (continued)

Early in the year, Emerald farmed out its interest in the Greenbush Bakken Shale exploration project located in North Dakota, reducing its interest to a free carry of 3.75% interest after payout and full reimbursement of costs to date. A horizontal Bakken well was subsequently drilled successfully, but the completion, involving a large hydraulic fracture treatment, failed and the well is now suspended.

Australian projects

No drilling activity was undertaken in the Canning Basin during the past year. The Group is awaiting a recommendation from Buru Energy, operator of the Stokes Bay 1 well drilled in the previous financial year, on further well operations to determine whether the Stokes Bay 1 is a commercial gas discovery. Emerald significantly increased its acreage holding in the Canning Basin this year with the award of onshore and offshore State exploration permits and an offshore Commonwealth exploration permit. Together, Emerald's Canning basin acreage holdings now cover the entire western section of the highly prospective east-west trending Pinnacle fault trend. These new permit areas comprise over 14,000 square kilometres and contain several leads in an area with a working petroleum system and several oil and gas discoveries.

The Group now has access to a portfolio of assets ranging from early exploration through to production and we believe this provides the base for a strategy to deliver sustained growth. Your Directors are committed to developing Emerald into a successful exploration and production company and we look forward to the continued support of shareholders in achieving this outcome.

Yours sincerely,
Jeremy Shervington
Chairman

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Directors' Report

Your Directors have pleasure in submitting their report on the consolidated entity ("Consolidated Entity" or "Group") representing Emerald Oil and Gas NL (the "Company") and its controlled entities, for the year ended 30 June 2009.

1. DIRECTORS

The names and details of Directors in office at any time during the financial year are:

Jeremy Shervington B.Juris, LLB (53) - appointed 23 January 2006
Non Executive Chairman

EXPERIENCE AND EXPERTISE
Mr Shervington operates a legal practice in Western Australia. He specialises in the laws regulating companies and the securities industry in Australia. Mr Shervington has over 25 years experience as a lawyer, gained since his admission as a Barrister and Solicitor of the Supreme Court of Western Australia. Mr Shervington has since 1985 served as a Director of various ASX listed companies as well as a number of unlisted public and private companies.

OTHER CURRENT DIRECTORSHIPS
Non Executive Director, Altera Resources Ltd (appointed 8 August 2006)
Non Executive Director, Australian Zircon NL (appointed 16 February 1998)
Non Executive Director, Prairie Downs Metals Limited (appointed 11 October 2002)
Non Executive Director, Colonial Resources Limited (appointed 11 May 2006)
Non Executive Director, Western Uranium Limited (appointed 11 May 2006)
Non Executive Director, Industrial Minerals Corporation Limited (appointed 17 January 2004)

OTHER DIRECTORSHIPS IN THE LAST THREE YEARS
Non Executive Director, Biron Apparel Limited (appointed 17 February 2005, resigned 21 December 2006)

Mike Krzus *BSc (Petroleum Engineering) GAIDC, SPE*. (51) - appointed 13 August 2009
Chief Executive and Operating Officer/Managing Director

EXPERIENCE AND EXPERTISE
Mike Krzus is an experienced petroleum industry executive with over 25 years experience managing technical and business areas in upstream oil & gas, LNG and geothermal. He holds a Diploma in Oil and Gas Technology from the British Columbia Institute of Technology and a BSc. in Petroleum Engineering Tulsa University.

OTHER CURRENT DIRECTORSHIPS
None

OTHER DIRECTORSHIPS IN THE LAST THREE YEARS
None

Directors' Report (continued)

1. DIRECTORS (CONTINUED)

Robert Berven BEng (Geol), MSc (Geol) (68) - appointed 14 June 2006
Executive Director – Technical

EXPERIENCE AND EXPERTISE

Mr Berven is a professional geologist, with over 40 years experience in the petroleum and mining industries in North America and Australasia. Mr Berven is a member of the Australasian Institute of Mining and Metallurgy, the American Association of Petroleum Geologists, the Petroleum Exploration Society of Australia and the Australian Institute of Company Directors.

OTHER CURRENT DIRECTORSHIPS

None

OTHER DIRECTORSHIPS IN THE LAST THREE YEARS

None

John Hannaford BCom (UWA), C.A., F.Fin. (43) - appointed 14 June 2006
Non Executive Director

EXPERIENCE AND EXPERTISE

Mr Hannaford is a Chartered Accountant who has worked in various corporate roles within the resources sector in Australia, Asia and Europe. Mr Hannaford is a Fellow of the Financial Services Institute of Australasia, an Associate of the Institute of Chartered Accountants in Australia and holds a Bachelor of Commerce Degree.

OTHER CURRENT DIRECTORSHIPS

Non Executive Director, Atlantic Limited (appointed 4 July 2007)

OTHER DIRECTORSHIPS IN THE LAST THREE YEARS

Non Executive Chairman, Bathurst Resources Ltd (appointed 30 May 2007, resigned 27 February 2009)
Non Executive Director, NeuroDiscovery Limited (appointed 14 April 2005, resigned 31 July 2009)

2. COMPANY SECRETARY

Morgan Barron B.Com (UWA), C.A. S.A.Fin - (appointed 24 July 2007)

Morgan Barron is a qualified Chartered Accountant who has worked in various corporate roles both in Australia and Europe. He has been involved in a number of company secretarial functions and ASX transactions.

Directors' Report (continued)

3. DIRECTORS MEETINGS

During the financial year, ten Directors' meetings were held with the following attendances:

Directors	Meetings Attended	Meetings Eligible to Attend
J. Shervington	10	10
R. Berven	10	10
J. Hannaford	10	10

4. PRINCIPAL ACTIVITIES

The principal activities of the Group were the exploration and development of oil and gas properties in the United States of America and Australia.

5. OPERATING AND FINANCIAL REVIEW

USA Business Environment

The global financial crisis dominated the business environment in the US. During the year, gas prices in the USA fell from all time highs of approximately US$13/Mcf to below US$3/Mcf as domestic gas demand reduced sharply. Oil prices, which were also severely affected, recovered significantly, but domestic US gas prices remained low throughout the second half of the financial year due to unprecedented gas storage inventories and subdued industrial demand. This resulted in an exaggerated price differential between gas and oil in the US on an energy equivalent basis and suggests gas prices are likely to recover to some extent over the next financial year.

On balance, the positive effects of the fall in gas prices outweighed the negative for Emerald. Low gas prices reduced revenue from Kentucky gas sales, although no gas sales revenue was received during the financial year and only small amounts of gas were produced from a few wells in the last three months of the financial year. However, the severe gas price reduction significantly reduced well related costs in the US and allowed more advantageous dealings to be concluded, due to much reduced competitive pressure for gas related business.

Activity Summary

During the year Emerald focused primarily on its USA projects, in particular, the Appalachian Gas Development Project. This is consistent with Emerald's strategy to leverage its position in the low risk, resource rich Appalachians area to underpin the Company with a substantial cashflow and reserves base, while selectively participating in high value exploration opportunities.

The majority of Emerald's efforts were directed to consolidating Appalachian gas interests in Kentucky and West Virginia. Technical gas development planning studies were initiated, the first two Appalachian wells were drilled under agreements concluded at the end of the last financial year and the company recorded its first gas production from four gas wells as part of an ongoing 8 gas well re-completion program in Kentucky. Progress was however disappointingly slow last year, due to severe winter weather across the Eastern USA and unusually wet weather which extended through the spring and summer and preventing access to field locations for lengthy periods.

Directors' Report (continued)

5. OPERATING AND FINANCIAL REVIEW (CONTINUED)

Emerald pursued exploration activities in the USA and Australia, albeit at a reduced level relative to previous years, and continues to seek high impact exploration opportunities which can add value to its asset and opportunity portfolio. Oil opportunities are particularly being sought to balance Emerald's currently gas weighted portfolio. The Company was awarded both WA State and Commonwealth offshore Canning Basin Permits in December 2008, along the Pinnacle Fault trend in the Canning Basin in Western Australia. This takes Emerald's exploration acreage in the Canning Basin to over 14,000 square kilometres. The Company looks forward to assessing the potential of this underexplored region.

Emerald's Strategy

Emerald plans to build and manage a balanced portfolio for growth. The Company currently holds interests in a number of assets across various phases of the petroleum asset life cycle:

1. Exploration opportunities:
   - Canning Basin Permits, Western Australia - EP104/R1 (12.75% WI); EP463 & TP24 (100%); WA-419-P (100%)
2. Appraisal/new development opportunities:
   - Big Sandy Gas Development Project, West Virginia
   - NW Alice discovery appraisal and field development, Texas
3. Producing assets:
   - 8 gas well re-completion program (4 wells currently producing), Kentucky

The Kentucky gas well re-completion program is expected to deliver value in the short term, with a focus on building cash flow with production from re-completed gas wells and subsequent development of a substantial gas reserve base from further development drilling.

The next stage in Emerald's growth plans will be to deliver substantial value from one or both of the Appraisal/New field development opportunities over the next one to two years. Both of these assets are characterised by the opportunity to plan the field development concept from the outset. This provides much more scope for Emerald to shape an optimised value proposition with our partners and deliver to an agreed business plan. Capital requirements for these field developments are not yet clearly defined, but will almost certainly require some additional capital raising through either project debt financing or equity funding.

Emerald intends to add value through its exploration activities by exposing the Company to upside potential from quality exploration assets. Emerald's portfolio is currently heavily weighted toward gas, which is currently trading at a heavy discount to oil in the USA on an energy equivalent basis. The Company is therefore seeking to selectively take positions in high quality, low risk, oil plays.

Directors' Report (continued)

5. OPERATING AND FINANCIAL REVIEW (CONTINUED)

Significant Dealings

Agreements were concluded with Emerald's Appalachian partner and Operator, P&J Resources Inc, to provide Emerald access to over 100 shut in gas wells on P&J's extensive lease areas in Magoffin County, Kentucky. Re-completing existing wells gives Emerald the ability to build production and cashflow more quickly and at much lower cost than by drilling new wells.

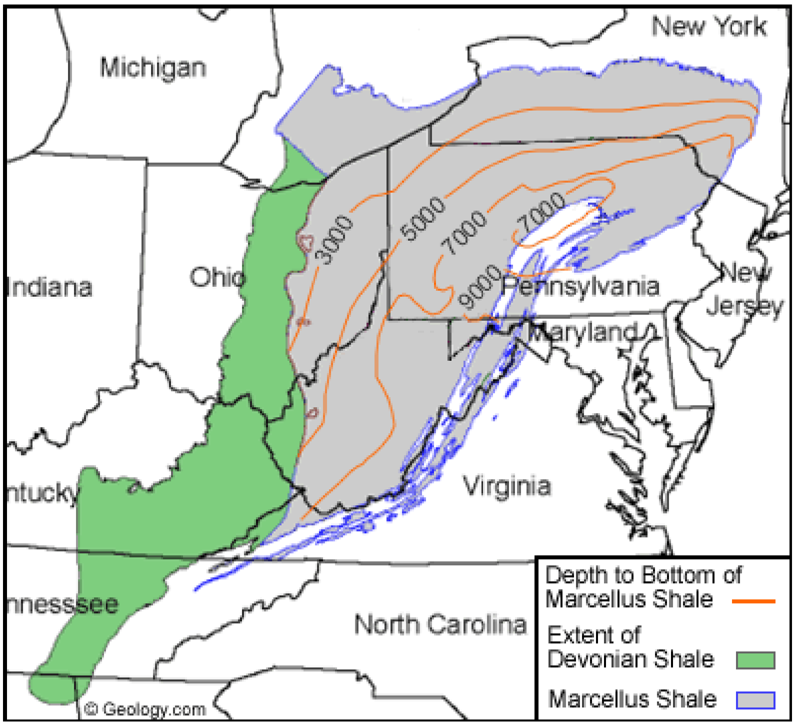
Emerald also increased its interest in the NW Alice gas/condensate discovery in Texas from 10% to 14% for a cash payment of US$125,000 (A$162,000). This increases Emerald's interest in this large undeveloped gas discovery for a modest cost and positions the Company well for a future field development.

5.1 Exploration and Production Activities

5.1.1 Appalachian Gas Development Projects

Appalachian Basin - Geology and Exploration History

The Appalachian Basin in Eastern USA has had a long history of hydrocarbon production, and contains many of the oldest oil & gas fields in the world. This Basin extends from New York State (Northeast) to Alabama (Southwest) a distance in excess of 1,000 kilometres, and contains over 1,000 named fields within the Basin.



Map of the Appalachian Basin showing the extent of Devonian Shales

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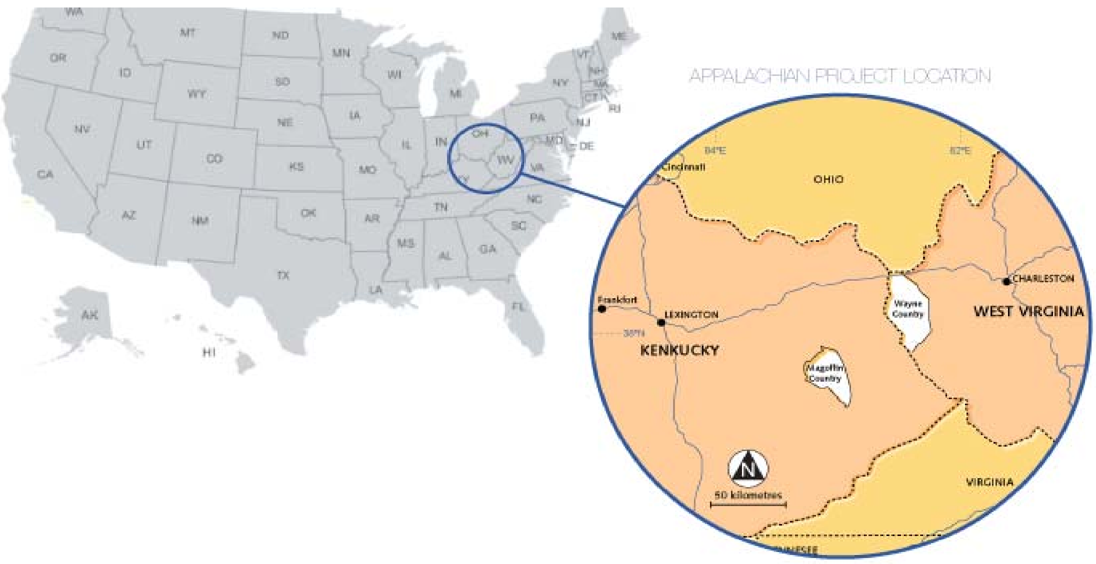
Directors' Report (continued)

5. OPERATING AND FINANCIAL REVIEW (CONTINUED)

The Appalachian Basin still remains an important part of the USA domestic petroleum industry today, with thousands of producing oil & gas wells. The main focus for many years in the Appalachian Basin has been natural gas with the majority of wells targeting shallow, low risk, blanket-type pay zones at depths above 5,000 feet. Some factors contributing to the continued interest & success in this Basin are:

- Low geological risk due to multiple, geographically extensive, gas bearing formations.
- Premium gas prices due to proximity to largest eastern USA population centres (low transportation charges) and high heating value (8-10% premium over Henry Hub prices).
- Shallow depths to reservoirs resulting in short drilling times and lower costs.



P&J Resources' acreage is located in Magoffin County, Kentucky and Wayne County, West Virginia.

Emerald's areas of interest in the Appalachian Basin are in Eastern Kentucky (Magoffin County) and Southwestern West Virginia (Wayne County). Wells in Emeralds Appalachian areas of interest typically intersect combinations of several areally extensive gas bearing zones, including the Mississippian Berea Sandstone, the Devonian Shales including the "Marcellus" Shale, Devonian/Silurian Corniferous limestones, the Silurian Big 6 sandstone, and the Ordovician Trenton/Black River. This provides a very low geological risk environment for drilling and an opportunity for multiple zone completions in individual well bores.

Individual well production rates in Emerald's areas of interest are characteristically low. Most of the productive gas formations (with the exception of the Devonian shales in some areas) are depleted to some extent and reservoirs generally exhibit moderate to low permeability, with a "good" producer typically being capable of several hundred Mcfd. Gas production is dry, with no liquid hydrocarbons or formation water produced. Well spacing typically varies between 20 acres and 40 acres, depending on reservoir characteristics.

Directors' Report (continued)

5. OPERATING AND FINANCIAL REVIEW (CONTINUED)

Oil & Gas Leases

Mineral rights in the USA are generally freehold rights, held by the land owner. In the Appalachians these are usually individual local farm owners.

Typical oil and gas lease agreements in the USA provide for the payment of royalties to the mineral owner for all natural gas and oil produced from any well(s) drilled on the leased properties. In the Appalachians this amount is typically 12.5%, resulting in a 87.5% Net Revenue Interest (NRI) available to the gas producing parties.

Because the acquiring oil and gas leases is competitive and involves certain geological and business complexities, leases are often held by operators who aggregate a number of leases into larger holdings. For companies like Emerald to gain access to these leases, farm-in agreements are entered into, where the farmee pays an additional overriding royalty interest (ORRI) to the farmor, which further reduces the NRI.

In the case of Emerald's Appalachian dealings, an additional 1/16 ORRI is reserved to the Operator (P&J Resources) or other parties, leaving an 81.25% NRI. Emerald's NRI with an 80% Working Interest (WI) would therefore be 65%.

Kentucky Gas Development Activities

Existing Well Re-work Program
During the year Emerald commenced an 8 well re-completion program and secured access to 100+ existing gas wells on P&J's 45,000 acre lease holdings in Magoffin County for future re-completion under agreements recently concluded with P&J Resources. Re-completing existing wells gives Emerald the ability to build production and cash flow more quickly and at much lower cost than by drilling new wells. The six wells purchased during the previous financial year, in 2008, are included in the 8 well program.

Key terms of these agreements are as follows:

- Emerald selects wells from over 100 shut in gas wells on P&J acreage, with multiple gas zones and open hole completions.
- Emerald pays 100% of the well re-completion cost to earn an 80% WI in a well unit consisting of 500 ft radius around the well (the WI applies to an 81.25% Revenue interest resulting in a 65% NRI).
- Emerald retains a 100% WI in the gas production until well costs are recovered, resulting in a 75% NRI to well payback.
- P&J conducts specified well operations, e.g. case, perforate and well stimulation treatments, such as hydraulic fracturing, under lump sum turnkey arrangements.
- Emerald carries no technical risk, as P&J has agreed to replace any unsuccessfully re-completed well.
- Emerald is granted free access to the BTU Pipeline Inc. gas gathering system, which connects to the Jefferson Gas LLC sales gas pipeline.
- BTU Pipeline Inc. then sells Emerald's gas under a gas sales agreement between BTU and Jefferson and pays Emerald for the gas sold, three months in arrears.

Directors' Report (continued)

5. OPERATING AND FINANCIAL REVIEW (CONTINUED)

Emerald's intention is to rapidly increase gas production and cash flow under the well re-completion agreements, by selecting and re-completing the best re-completion candidates based on detailed sub-surface studies underway in its Perth offices. Reserves per well are modest under the Well Re-Completion Program, due to the 500 foot radius unit around each well - approximately 20 acres. Initial proved reserves estimates per well for the initial 8 wells range between 120 and 165 MMscf.

However, Emerald plans to secure a substantial reserves base in Kentucky through the Drilling and Operating Agreement Emerald executed with P&J Resources Inc, just prior to the current reporting period, in early 2008 (the "Drill to Earn" agreement). The P&J acreage covered by the Re-work Program is the same 45,000 acres which applies to this agreement.

Production Infrastructure
During the year Emerald entered into an MOU with P&J Resources Inc to acquire a 50% interest in an amine plant designed to process 5 MMcfd for US$125,000 (A$145,000) cash. Final completion of the transaction is expected by late 2009. This additional gas processing capacity is expected to be required to handle increased gas dehydration requirements from the current 8 well re-completion program and from future additional Emerald wells to be re-completed and drilled under agreements with P&J.

As only sweet gas is produced from currently completed zones in the initial 8 wells, gas treatment to remove sulphur is not currently required. However, multiple productive zones exist in all wells in this area and of these contain H_2S, which will needs to be removed with the amine plant, when these zones are completed.
Field Operations

Progress in the field was frustratingly slow over the year due to extremely severe winter weather conditions and unseasonably wet weather which extended through spring and summer. This severely disrupted planned field activities during what is usually the main field operating season by preventing access to well and plant locations for extended periods.

Flash Flooding in Kentucky

Directors' Report (continued)

5. OPERATING AND FINANCIAL REVIEW (CONTINUED)

The Appalachian area consists of very rugged topography and field access is highly dependent on the condition of dirt roads. Sustained heavy rain made roads impassable for extended periods due to mud and flash flooding, preventing the reliable access to well sites, which is required to plan and conduct field operations. As a result Emerald ended the year significantly behind in its planned gas field activities schedule and was unable to collect the well data necessary to monitor flow rates and optimise gas production from new producing wells.

First gas production commenced in April 2009 from 2 wells, and 4 wells were producing at the end of the reporting period at approximately 100 Mcfd gas per well. Production rates are believed to be significantly constrained by limitations of the wellhead equipment. Production from individual wells will be optimised once data is available from the field. Well operations on the 4 remaining wells will be completed and the wells placed on production as soon as weather permits access.

Gas Production
Appalachian gas production in Emerald's areas of interest has to date been characterised by low cost wells with rudimentary open hole completions and simple producing infrastructure. As far as Emerald is aware, no company to date has applied significant geological insight to field development or applied significant petroleum engineering expertise in this area.

Detailed regional sub-surface studies are underway in house to identify areas of P&J's acreage in Magoffin County with demonstrated high production potential and large remaining gas volumes. Guided by these studies, Emerald intends to work with P&J under the agreements above to identify:

1. existing wells with relatively highest production potential for re-completion (production and cash flow);
2. drilling locations with relatively high remaining gas in place and high likely production potential (secure reserves and development drilling locations); and
3. additional acreage for potential acquisition by P&J and inclusion under the agreements.

Gas Sales
At the end of the reporting period, Emerald's four re-completed gas wells had produced approximately 12 MMcf gas in total. In accordance with Emerald's accounting policy such revenue is recognised when it is probable that such amounts will flow to the group and can be reliably measured. As a result Emerald has not recorded revenue in the period as these conditions were not met until receipt of the production statement in July 2009.

The remaining 4 wells in the initial program are expected to be put on production during the second half of 2009.

Emerald's Directors believe the arrangements currently in place for Kentucky provide the Company with a substantial and scalable growth proposition, requiring only small incremental capital of approximately US$60,000 to US$140,000 per well re-completion. The pace of further investment will be governed by gas prices and the ability to reliably deliver increased gas production from the current 8 well program.

Directors' Report (continued)

5. OPERATING AND FINANCIAL REVIEW (CONTINUED)

West Virginia Gas Development Opportunity

Emerald drilled two wells in Wayne County, West Virginia during July and August 2008 - Crum #4 and Chiarenzelli #1. These wells were drilled under the Drilling and Operating Agreement with P&J Resources Inc. to total depths of 5230 feet and 5235 feet respectively, both terminating in the Trenton formation. The wells were drilled as gas producers, but were drilled considerably deeper than locally produced formations to assess gas prospectivity in deeper zones. Gas bearing completion intervals were identified in the Onondaga limestone, Devonian Shales (Marcellus, Rhinestreet and Ohio members) and Berea sandstone. No prospective gas bearing formations were identified below the Onondaga limestone in Crum #4.

Open hole logs were only acquired to the base of the Devonian Shales in Chiarenzelli #1 due swelling in the Marcellus Shale, but the well was successfully cased to target depth. Deeper prospectivity in this well remains to be evaluated with cased hole logs.

Drilling rig on location at Chiarenzelli 1 well site, Wayne County West Virginia.

As a result of the emphasis placed on delivering Kentucky gas production during the year and field access issues, well completions and fracture stimulations for the two West Virginia wells were not undertaken. These wells are planned to be completed and flow tested during the second half of 2009 and are expected to provide valuable information for the Big Sandy area development planning.

Directors' Report (continued)

5. OPERATING AND FINANCIAL REVIEW (CONTINUED)

A drilling site was also prepared late in 2008 for a third well, Ferguson #4, but further drilling activity was suspended, due to inability to access the well site. Forward drilling plans are being reviewed in the context of Emerald's wider Big Sandy area development plans.

Big Sandy Area Development Planning
The Big Sandy area gas development project in Wayne County West Virginia represents a substantial growth opportunity for Emerald. Over the past year Emerald has secured beneficial interests in assets and options to acquire additional interests in various components across the production system, from gas wells and associated reserves through the gas gathering infrastructure to the gas sales point.

The Big Sandy production system is designed for a capacity of 10 MMcfd and is intended to provide gas gathering services for the Big Sandy area. It consists of gas wells, a gas gathering system including a gas plant and a 10" pipeline, sales gas compression and a trunkline tap into the El Paso Gas Trunkline. The production system was under construction at the end of the reporting period.

P&J Resources' Amine Plant in Wayne County West Virginia.

Emerald entered into MOUs with P&J Resources during the year to acquire a 12.5% interest in a 10 mile long, 10 inch gathering pipeline in exchange for 1.5 million ordinary Emerald shares and a 25% interest in a trunkline tap into the El Paso gas trunkline for a US$100,000 (A$115,000) refundable cash deposit. Final agreement is subject to Emerald concluding its due diligence.

Directors' Report (continued)

5. OPERATING AND FINANCIAL REVIEW (CONTINUED)

Discussions are underway to scope initial gas production volumes required to reliably start up the production system in West Virginia. This will guide Emerald's well activities, which will be required to provide early gas production to commission the system. The Crum #4 and Chiarenzelli #1 wells lie within the Big Sandy gathering area and are expected to be connected to the system. However, 5 to 7 gas wells in total may be required to meet sales gas compressor turndown requirements and reliably operate the production system on startup.

Potential Well Deepening Program
P&J has offered up to 100+ existing, shut-in gas wells, previously drilled and cased to the Berea formation (~1800 feet), for Emerald to deepen through the Devonian Shale (~2600 feet) and complete as gas producers. Negotiations are underway to secure this opportunity on similar terms to the Kentucky Well Re-work Program. Any such agreement would be entered into in the context of an overall Big Sandy gas development value proposition.

Sub-surface studies similar to those in Kentucky are underway to inventorise the resource potential of the area and target future well activity. Gas production from the largely untapped Devonian Shale in the immediate area of the new gathering system would be expected to provide initial production, with deeper, sour gas potential to follow.

Big Sandy Investment Decision
All Emerald's assets and potential opportunities in the Big Sandy area represent a single, complex, integrated business opportunity to develop and sell gas reserves in the area. Additional capital will be required for well activities to provide sufficient gas supply to commission the production system, but these are not yet clearly defined.

The commercial operating environment in the Appalachians is complex, particularly in regard to the freehold acreage tenure and well unit assignments practices, due to the large number of individual land holdings, the number of parties involved in each holding and complex relationships between various stakeholders. Emerald's experience to date suggests commercial due diligence and time required to put agreement structures in place takes significantly longer than in other operating environments.

Technical and commercial due diligence is planned to be completed in time for a decision to commit to the next phase of the Big Sandy Area Gas Development around the end of 2009 or early 2010. Assuming project approval, well operations and production system activities could be expected to commence 2nd quarter 2010 (weather permitting) possibly leading to earliest stable initial production by approximately 3rd quarter 2010.

West Virginia Drilling Plans
As with Kentucky, the Company's intention in West Virginia is to concentrate efforts on maximizing production in the short term through a well deepening project with P&J Resources to demonstrate production potential, understand production characteristics of the Devonian shale and establish a reliable revenue stream as quickly as practical. Further drilling will be guided by this outcome, with the ongoing sub-surface studies providing the technical insight required to optimally locate new wells to secure substantial reserves under the Drilling Agreement.

Directors' Report (continued)

5. OPERATING AND FINANCIAL REVIEW (CONTINUED)

Reserves Drilling

In May, 2008, Emerald signed a Drilling and Operating Agreement with P&J Resources Inc to allow drilling access to two lease areas of approximately 45,000 acres each in Wayne County, West Virginia and Magoffin County, Kentucky.

Under the agreement, Emerald has the right to earn an 80% WI in each well drilled for paying 100% of the costs to drill and complete the wells. Emerald earns its interest in each well plus a 4,000 foot radius area around the well. This is equivalent to approximately 1150 acres or approximately 30 well locations on 40 acre spacing. This provides Emerald the potential for over a 1000 well program in both Kentucky and West Virginia over the 10 year term of the agreement.

Under the agreement, P&J drills and completes wells on a turnkey basis and agrees to re-drill any non-commercial wells, solely at their cost. This effectively ensures a commercial gas well for every well drilled and eliminates any technical well risk for Emerald.

Initial reserves estimates from the first two Emerald wells drilled in West Virginia under these agreements during the past year indicate proved plus probable reserves of 2.3 BCF per well, based on the well drilled and four contiguous offset well locations. Possible reserves between 400 and 500 MMcf per well are estimated to be recoverable from the additional 24 well locations earned under the agreement with each well drilled. Each well drilled under the agreement therefore provides the opportunity to secure gas reserves ranging between approximately 12 Bcf to 14 Bcf.

5.1.2 North West Alice, Texas

The NW Alice discovery is an undeveloped gas field in Jim Wells County, Texas, consisting of a large anticlinal structure containing 95 Bcf P3 gas reserves and 2.4 MMbbl P3 condensate reserves. It was discovered by the RJ Hunter #1 well (Emerald 10% WI) drilled in March 2007 to a total depth of 8500 feet. The well intersected 50 feet of net pay containing gas/condensate in two main gas bearing zones and smaller intervals in the Upper and Lower Yegua sands. Unfortunately, the wellbore casing collapsed on perforating the Lower Yegua, so no flow test was possible and the flow test from the upper Yegua was not definitive. After drilling, the well was suspended, pending a 3D seismic survey to better define the structure for follow-up appraisal wells.

During 2008, Noble Energy, the Operator, acquired, processed and interpreted a large 3D seismic survey, which included the NW Alice Joint Venture's Area of Mutual Interest (AMI), consisting of more than 2500 acres. Three potential appraisal locations were identified in the AMI area on the basis of the 3D seismic interpretation. At the end of the reporting period, Noble had acquired a number of additional leases within the AMI area and was in discussions with land owners for land access for the preferred appraisal well location. The Joint Venture parties are currently considering the appraisal strategy for the field.

Directors' Report (continued)

5. OPERATING AND FINANCIAL REVIEW (CONTINUED)

Notional forward plans are to appraise the NW Alice field with up to three wells, which would be drilled as potential gas producer wells, and then to commence an initial 10 well development based on the information acquired from the wells. Separately, plans are also being considered to re-enter, sidetrack and complete the RJ Hunter #1 Discovery well as a gas/condensate producer. Analog wells from offsetting fields have average characteristics as follows:

- 2 MMcfd average initial production rate
- 2.5 Bcf gas & 60,000 Bbl condensate recovered per well
- Approximately 15 year production life

Emerald acquired an additional 4% working interest in the NW Alice JV during the year, increasing its working interest from 10% to 14% for a cash payment of US$125,000. With a ground floor discovery position in gas/condensate reserves of this magnitude, Emerald considers NW Alice to be an outstanding opportunity to significantly increase Company value.

5.1.3 Greenbush Project, Ward & Renville Counties, North Dakota

During the year the Operator of the Greenbush Project farmed-out the project to Encore Operating LP on the following terms:

- Encore to fund the drilling of a horizontal well from the Brekhus#2 well location to test the Bakken and Three Forks formations;
- Encore to earn 75% by drilling the Bakken/Three Forks well through to the tanks, with Greenbush partners being free carried for a 25% working interest after payout (APO);
- Encore to reimburse Greenbush project partners for previous sunk costs in the project.

Emerald retained a free carried 3.75% working interest after payout in the project and received full reimbursement of A$1.3 million cash for its costs incurred in drilling, 3-D seismic and leasing on the project.

Encore subsequently drilled a horizontal Bakken well in 2008, but the fracture treatment was unsuccessful and the well was suspended.

5.1.4 USA Exploration

Emerald continues to review and assess new oil and gas exploration project opportunities in the USA, particularly targeting high quality, low risk oil opportunities.

5.1.5 Australian Exploration – Canning Basin

During the past year Emerald significantly increased its exploration acreage in the Canning Basin in Western Australia, securing an extensive contiguous acreage position in excess of 14,000 square kilometres, covering the highly prospective Pinnacle Fault trend (approximately 225 km in length). Emerald's acreage now includes the entire western section of the fault onshore and its offshore extension.

Emerald
OIL & GAS NL
ACN: 009 795 046

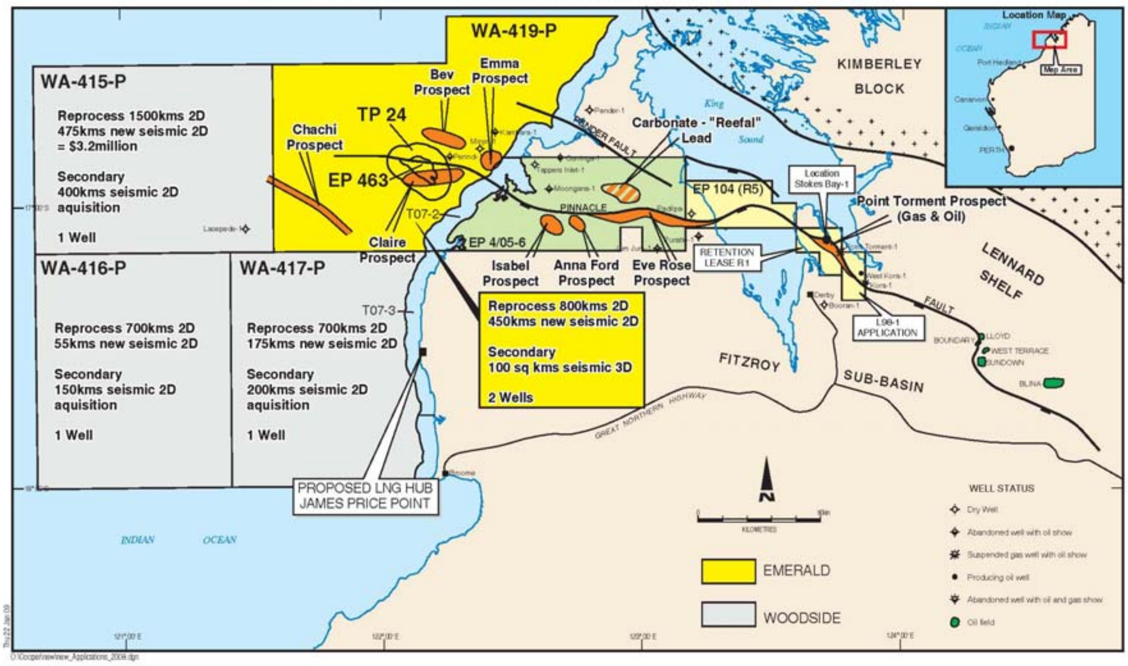
Directors' Report (continued)

5. OPERATING AND FINANCIAL REVIEW (CONTINUED)

The Pinnacle Fault is a key structural element between the Fitzroy Sub-Basin and the Lennard Shelf. It is believed to be the conduit for oil and gas migration from the Fitzroy Sub-Basin into structural and stratigraphical traps on the adjacent Lennard Shelf to the north.

In view of the successful discovery of porous Devonian "reefal" reservoir rocks in the Stokes Bay 1 well at EP104/R1, Emerald believes there is significant potential to discover several similar prospects along the western extension of the Pinnacle Fault (see map below).

CANNING BASIN
GRANT OF OFFSHORE RELEASE AREAS, STATE AND FEDERAL



Canning Basin showing Emerald's EP104 / R1 (pale yellow, Emerald 12.75%) and EPA 4/05-6 (green, Emerald 100%) interests, and mapped prospects and leads. The new EP 463/TP24 (Lacapede Islands) and WA-419-P blocks (Emerald 100%) are shown in yellow. The main feature on all leases is the Pinnacle Fault, the conduit for much of the previous hydrocarbon production on the Lennard Shelf portion of the Canning Basin.

<u>EP104/R1 (12.5% WI) – Onshore Western Australia</u>

The Stokes Bay well was drilled in October, 2007 in the EP 104/R1 Permits located in the Canning Basin, near the town of Derby, Western Australia. The well was suspended after large volumes of drilling mud were lost in what is believed to be a cavernous reef system in the Nullara Formation. Since then, two attempts were made by the Operator, Buru Energy Limited, to induce flow in the well and to obtain a gas sample. Both attempts failed. However, wellhead pressures of 1200 psi and gas accumulation in the well bore re-occurred after each attempt.

Directors' Report (continued)

5. OPERATING AND FINANCIAL REVIEW (CONTINUED)

Emerald is currently awaiting advice from Buru Energy regarding further well activities to determine if the Stokes Bay well is a potentially commercial gas discovery. Emerald intends to work with Buru and other joint venture participants to clarify a way forward.

EPA 4/05-6 (100% WI and Operator) – Onshore Western Australia

Emerald's application EPA 4/05-6 lies immediately to the west of the EP104 permits and, is currently proceeding through the Native Title process. The permit covers a significant extension of the Pinnacle Fault to the west of the EP104/R1 permit and includes several structures similar to that intersected at Stokes Bay mapped from existing seismic data.

EP463 & TP24 (Lacepede Islands) - Offshore WA State
WA-419-P - Offshore Commonwealth

In December, 2008, Emerald was awarded 8600 square kilometres of contiguous in state and Commonwealth areas. Since then, Emerald progressed in-house work to characterise leads and prospects in its strategic holdings along the structurally significant Pinnacle Fault zone.

Woodside Petroleum Limited was awarded the three adjacent Commonwealth blocks to the south and West of Emerald's acreage and unsuccessfully bid for the block awarded Emerald as WA-419-P. Woodside is the major participant and Operator of the Browse LNG Project likely to be developed at James Price Point, located approximately 80 kilometres south of Emerald's permits. If the LNG development proceeds as planned, this would significantly increase the potential commerciality of any significant gas discovery in the area.

Emerald is also evaluating potential of its acreage for CO2 geosequestration. Major gas discoveries for all of the potential LNG developments in the Browse Basin contain significant quantities of CO2 which will need to be removed in the LNG process and sequestered to avoid greenhouse gas emissions. Legislation is in place to enable geosequestration in offshore Commonwealth areas and existing petroleum tenement holders are accorded certain preferential rights in respect of geosequestration potential in their areas of tenure.

Emeralds current tenement holdings in the Canning Basin are:

Exploration Permit/Retention Licence/Applications	Emerald Net Working Interest	Permit Size (approx sq km)
EP 104 (R5)	12.75%	700
Retention Lease R1	12.75%	290
Application L98-1 (option)	12.75%	200
Application EP 4/05-6	100%	4,600
EP463	100%	200
TP24	100%	400
WA-419-P	100%	8,000
Total		14,390

Directors' Report (continued)

5. OPERATING AND FINANCIAL REVIEW (CONTINUED)

5.2 Corporate

5.2.1 Exploration Manager

During the year, Emerald retained Mr Andy Padman as Exploration and Subsurface Studies Manager. Mr Padman is a highly experienced exploration geophysicist with over 35 years gas and oil exploration experience in US, UK, Indonesia and Australia, including 16 years with Exxon. Mr Padman has extensive experience in the Canning Basin, gained from his tenure at Arc Energy. Emerald is pleased to have secured the services of Mr Padman and welcomes him to the team.

5.2.2 Chief Executive Officer

In February, 2009, Mike Krzus was appointed as Chief Executive Officer and Chief Operating Officer for Emerald Oil and Gas NL.

Mr Krzus is a petroleum engineer highly experienced in all aspects of oil and gas developments. He holds a Diploma in Oil and Gas Technology from the British Columbia Institute of Technology and a BSc in Petroleum Engineering Tulsa University. Mr Krzus has over 25 years experience, gained in Canada, the Netherlands and Australia, including over 21 years with Woodside and Shell. Following an initial integration period with Emerald, Mr Krzus was appointed Managing Director in August 2009. In conjunction with Mr Krzus' appointment Mr John Hannaford stepped down from his role as Executive Director – Finance and remains as a Non Executive Director of the Company.

5.2.3 USA Corporate Consolidation

On 3 July 2008, the Group incorporated two subsidiaries Emerald Gas Holdings USA Inc and Emerald Gas Development USA LLC ("EGD"). Emerald Gas USA Holdings Inc represents the head entity in the USA for the Group's Appalachian projects and EGD holds the Group's interests in the Kentucky 8 well development programme.

EGD was incorporated under a contractual arrangement whereby the Group was to hold a 90% interest in EGD, with 10% offered as consideration for the introduction of projects by Mr Charles Colburn. No shares were ever exchanged and no projects were introduced by Mr Colburn. This culminated in the signing of a deed of release by Mr Colburn in March 2009 which resulted in the Group retaining 100% ownership of EGD.

5.3 Financial Results

The net loss of the Group for the financial year 30 June 2009 after income tax amounted to $2,154,636 (2008: $3,163,621).

At 30 June 2009 the Group maintains a strong balance sheet with no debt and has $2.4m in cash. Since reporting date, first revenues from the Kentucky 8 well development programme have been received.

Directors' Report (continued)

6. RESERVES AND VALUATION

Emerald is pleased to report reserves and valuation results from the first independent reserves estimate for Emerald's oil and gas assets in the Appalachians (Kentucky and West Virginia) and Texas. Reserves and Net Present Value (NPV) estimates for Emerald's assets were prepared by Ralph E. Davis Associates, Inc., an independent oil and gas consultancy based in Houston Texas. Individual consultants who prepared the report are competent persons for the purposes of reserves reporting and have given their permission for the results of their report to be published as shown below:

Emerald Oil and Gas NL Net Reserves and Valuation

Reserves	Proved P1	Probable P2	Possible P3	P1 + P2 + P3
Gas (Bcf)	2.3	1.6	10.0	13.9
Oil (Bbl)	6,100	12,300	249,500	267,900
Valuation				
NPV*	$10,000,000	$7,000,000	$49,000,000	$66,000,000
Cents per Share**	9	6	43	58

* assuming a discount rate of 10% and USD/AUD = 0.80
** based on 115.5 million shares on issue at 30 June 2009 (undiluted basis)

Reserves are based on Emerald's interests in 10 existing gas wells and 44 future development wells. Hydrocarbon reserves for two Appalachian gas wells are still subject to well assignment documentation being finalised and filed with the relevant authorities.

Valuation cash flows used published futures prices for Henry Hub natural gas (ranging between $US4.59 and 7.17) and West Texas intermediate oil (ranging between $US72 and $US87).

Emerald expects to significantly increase reserves in all categories through activities planned in the current financial year.

7. DIVIDENDS PAID OR RECOMMENDED

No dividend was paid or declared during the financial year and the Directors do not recommend the payment of a dividend.

8. SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

8.1 New Agreements

During the financial year the Company signed a suite of agreements with P&J Resources Inc ("P&J") to allow access to over 100 existing gas wells for potential re-completion. Under the agreement, Emerald, through a US subsidiary will have the right to earn an 80% interest in wells by paying 100% of the completion costs of each well.

Directors' Report (continued)

8. SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS (CONTINUED)

The Company also signed an MOU with P&J to acquire a 25% interest in 50 gas wells located in the Magoffin County, Kentucky USA.

Emerald entered into an MOU to acquire a 25% interest in a pipeline "tap" and associated equipment connected to the El Paso gas trunk line and a 12.5% interest in P&J's 10 mile 10 inch gathering line, both located in Wayne County, West Virginia. This ensures Emerald has access to the El Paso line for future gas production from its wells in the Big Sandy area. Emerald's interests also entitle the Company to receive a transmission fee for other, third party gas passing through the gathering system and trunk line tap.

During September 2008, Emerald farmed out its share of the Greenbush Project to Encore Operating LP. Emerald retained a free carried 3.75% working interest in the project and received full reimbursement of over $A1.3 million for its costs incurred in drilling, seismic and leasing on the project.

Apart from the events detailed above the company is not aware of any matters or circumstances that have arisen since the end of the financial year which significantly affected or may significantly affect the operations of the Company or Consolidated Entity, the results of those operations or the state of affairs of the Company and Consolidated Entity in subsequent financial years.

9. SIGNIFICANT EVENTS AFTER THE BALANCE DATE

9.1 Managing Director

Upon successful completion of a probationary period, Mr Mike Krzus was invited on to the Emerald Oil and Gas NL Board of Directors as Managing Director in addition to his role as CEO. Mr Krzus was appointed on 13 August 2009.

10. LIKELY DEVELOPMENTS

Apart from the foregoing there are no likely developments in the operations of the company that were not finalised at the date of this report. Further information as to likely developments in the operations of the Group and company and likely results of those operations would in the opinion of the Directors, be likely to result in unreasonable prejudice to the Group.

Directors' Report (continued)

11. DIRECTORS INTERESTS IN THE SHARES AND OPTIONS OF THE COMPANY

As at the date of this report, the interests of the Directors in ordinary shares, listed and unlisted options of the company were:

	Shares		Listed Options		Unlisted Options	
Director	*Held Directly*	*Held Indirectly*	*Held Directly*	*Held Indirectly*	*Held Directly*	*Held Indirectly*
J. Shervington	-	3,250,977	-	-	-	967,577
R. Berven	20,000	3,169,054	-	-	-	500,000
J. Hannaford	1,188,042	2,002,886	-	-	2,250,000	-
M. Krzus	-	-	-	-	5,000,000	-
Total	**1,208,042**	**8,422,917**	**-**	**-**	**7,250,000**	**1,467,577**

12. REMUNERATION REPORT (AUDITED)

This report outlines the remuneration arrangements in place for Directors, Executives and key management personnel of the company in accordance with the requirements of the Corporations Act 2001 and its regulations. For the purposes of this report Key Management Personal (KMP) of the Group are defined as those persons having authority and responsibility for planning, directing and controlling the major activities of the Company and the Group, directly or indirectly, including any Director (whether Executive or otherwise) of the parent company, and includes the five Executives in the parent and the Group receiving the highest remuneration.

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

A. Names and positions of Directors and Key Management Personnel
B. Principles used to determine the nature and amount of remuneration
C. Details of remuneration
D. Service agreements
E. Share-based compensation
F. Additional information

A. Names and positions of Directors and Key Management Personnel in office at any time during the financial year are:

Name	**Position**	**Appointment / Resignation date**
J. Shervington	Non Executive Chairman	Appointed 23 January 2006
R. Berven	Executive Director - Technical	Appointed 14 June 2006
J. Hannaford	Executive Director - Finance Joint Company Secretary	Appointed 14 June 2006 Appointed 14 June 2006
M. Barron	Joint Company Secretary / CFO	Appointed 24 July 2007
M. Krzus	Chief Executive Officer Managing Director	Appointed 12 February 2009 Appointed 13 August 2009

* Mr Hannaford became a Non Executive Director on 1 August 2009.

Other than the appointment of Mr Krzus, there were no other changes in KMP after reporting date and before the date the financial report was authorised for issue.

Directors' Report (continued)

12. REMUNERATION REPORT (AUDITED) (CONTINUED)

B. Principles used to determine the nature and amount of remuneration

Remuneration philosophy
The remuneration policy of the company has been designed to align Director and Executive objectives with shareholder and business objectives by providing a fixed remuneration component and offering specific long-term incentives based on key performance areas affecting the consolidated entity's financial results. The Board believes the remuneration policy to be appropriate and effective in its ability to attract and retain the best key management personnel and Directors to run and manage the consolidated entity. The Key Management Personnel of the company are the Executive and Non Executive Directors.

For the purposes of this report, the term 'Executive' encompasses the Executive Directors of the Consolidated Entity.

The Board's policy for determining the nature and amount of remuneration for Board members and Key Management Personnel of the Consolidated Entity is as follows:

Remuneration structure
In accordance with best practice corporate governance, the structure of Non Executive Director and Executive remuneration is separate and distinct.

Fixed Remuneration
The remuneration policy, setting the terms and conditions for the Executive Directors and Key Management Personnel, was developed by the Board. All key management personnel are remunerated on a consultancy basis based on services provided by each person. The Board reviews Key Management Personnel packages annually by reference to the Consolidated Entity's performance, executive performance and comparable information from industry sectors and other listed companies in similar industries.

The Board policy is to remunerate Non Executive Directors at market rates for comparable companies for time, commitment and responsibilities. The Board determines payments to the Non Executive Directors and reviews their remuneration annually, based on market practice, duties and accountability. Independent external advice is sought when required. The maximum aggregate amount of fees that can be paid to Non Executive Directors is subject to approval by shareholders at the annual general meeting (currently $200,000). Fees for Non Executive Directors are not linked to the performance of the consolidated entity. However, to align Directors' interests with shareholder interests, the Directors are encouraged to hold shares in the Company and are able to participate in employee option plans that may exist from time to time.

Variable remuneration – short term incentive (STI)
There is currently no variable short term incentives provided to management in the form of a STI or bonus program. The Board is of the opinion that the variable long term remuneration provided to Directors and Executives is sufficient to align the interest of management with shareholders.

Directors' Report (continued)

12. REMUNERATION REPORT (AUDITED) (CONTINUED)

Variable remuneration – long term incentive (LTI)
Currently, this is facilitated through the issue of options to Key Management Personnel to encourage the alignment of personal and shareholder interests. The Board as a whole agrees upon an appropriate level of remuneration incentive for each Director, relative to their involvement in the management of the consolidated entity. The main performance criteria of the LTI remuneration is increasing shareholder value through aligning the Company with high quality exploration assets, which in turn increase share price. Options issued to Directors may be subject to market based price hurdles and vesting conditions, and the exercise price of options is set at a level that encourages the Directors to focus on share price appreciation. The Company believes this policy will be effective in increasing shareholder wealth.

On the resignation of Directors the options issued as remuneration are retained by the relevant party. For details of Directors and key management personnel interests in options at year end, refer Note 7(c) of the financial report.

The Board may exercise discretion in relation to approving incentives such as options. The policy is designed to attract the highest calibre of Key Management Personnel and reward them for performance that results in long-term growth in shareholder wealth.

Key Management Personnel are also entitled to participate in the employee share and option arrangements. Consultants, Executive Directors and other Key Management Personnel do not receive any retirement benefits other than superannuation.

C. Details of Remuneration

Details of the remuneration of the Directors and the Key Management Personnel of Emerald Oil & Gas NL are set out in the following table. All individuals were in office for the full year, unless otherwise stated.

Key Management Personnel of Emerald Oil & Gas NL (Company and Consolidated Entity)

2009	**Short term benefits**		**Post employment benefits**	**Share based payments (LTI)**	**Total**	**Performance based remuneration and % consisting of options**
	Salary and Fees $	**Non Monetary $**	**Super-annuation $**	**Options $**	**$**	**%**
Directors – Non Executive						
Jeremy Shervington *(Chairman)*	60,000	-	-	-	60,000	0%
Directors - Executive						
Robert Berven(1)	124,000	-	-	-	124,000	0%
John Hannaford(2)	202,000	-	-	-	202,000	0%

Directors' Report (continued)

12. REMUNERATION REPORT (AUDITED) (CONTINUED)

2009 (continued)

	Short term benefits		Post employment benefits	Share based payments (LTI)	Total	Performance based remuneration and % consisting of options
	Salary and Fees $	Non Monetary $	Super-annuation $	Options $	$	%
Specified Executives						
Company Secretary/CFO						
Morgan Barron(2)	86,000	-	-	-	86,000	0%
CEO/COO						
Mike Krzus(3)	114,679	-	10,321	34,980	159,980	21.9%
Total	**586,679**	**-**	**10,321**	**34,980**	**631,980**	5.5%

2008

	Short term benefits		Share based payments (LTI)	Total	Performance based remuneration
	Salary and Fees $	Non Monetary $	Options $	$	%
Directors –Non Executive					
Jeremy Shervington *(Chairman)*	52,000	-	-	52,000	0%
Directors - Executive					
Robert Berven(1)	72,000	-	-	72,000	0%
John Hannaford(2)	132,000	-	-	132,000	0%
Specified Executives					
Company Secretary/CFO					
Morgan Barron(2)	72,000	-	-	72,000	0%
Total	**328,000**	**-**	**-**	**328,000**	0%

(1) Payments were made to Berven Consultants Pty Ltd, a company associated with Mr Berven by the Consolidated Entity totalling $124,000, (2008: $72,000), for the provision of technical consulting and Director's fees. 2009 payments include 2 months back payment for an increased rate effective from May 2008.

(2) Payments for consulting services as financial Director were made to Ventnor Capital Pty Ltd, a company associated with Mr Hannaford, by the Consolidated Entity totalling $190,000, (2008: $120,000). Company Secretarial and CFO fees of $86,000 (2008: $72,000) were also payed to Ventnor Capital in the year ended 30 June 2009. Director fees of $12,000 (2008: $12,000) were paid to Riverview Corporation Pty Ltd, a company in which Mr Hannaford has a beneficial interest. 2009 payments include 2 months back payment for an increased rate effective from May 2008.

(3) Appointed CEO on 2 February 2009

Directors' Report (continued)

12. REMUNERATION REPORT (AUDITED) (CONTINUED)

D. Service Agreements

J Shervington, Non Executive Chairman
- Monthly contract, agreed and reviewed annually
- Director fees of $60,000 p.a. (2008: $48,000 p.a.) paid to Drumgaghan Pty Ltd
- There are no termination benefits or provisions in the contract
- No explicitly stated notice period

J Hannaford, Executive Director, Finance (now Non Executive Director)
- Monthly contract, agreed and reviewed annually
- Director fees of $12,000 p.a. (2008: $12,000 p.a.) paid to Riverview Corporation Pty Ltd
- Executive fees of $15,000 per month (2008: $10,000 per month) paid to Ventnor Capital Pty Ltd (2009 expense includes $10,000 relating to prior year fee increases approved in the current year)
- There are no termination benefits or provisions in the contract
- No explicitly stated notice period

R Berven, Executive Director, Technical
- Monthly contract, agreed and reviewed annually
- Director fees of $24,000 p.a. (2008: $12,000 p.a.) paid to Berven Consultants Pty Ltd (increase effective 1 September 2008)
- Executive fees of $96,000 p.a. (2008: $60,000 p.a.) paid to Berven Consultants Pty Ltd (2009 expense includes $6,000 relating to prior year fee increases approved in the current year)
- There are no termination benefits or provisions in the contract
- No explicitly stated notice period

Mike Krzus, Managing Director and Chief Executive Officer
- Annual contract, agreed and reviewed annually
- Salary of $300,000 per annum inclusive of superannuation
- There are no termination benefits or provisions in the contract
- 3 months written notice required for termination
- 5,000,000 10c options exercisable on or before 31 March 2014. Options vest in 4 tranches and are only exercisable upon Emerald realising a volume weighted average share price of greater than 20 cents for 5 consecutive days

E. Share Based Compensation

Details of the share based remuneration of the Directors and the Key Management Personnel (as defined in AASB 124 *Related Party Disclosures)* of the company are set out in the following table. The options were issued to Directors in prior periods as part of their remuneration and as incentive options to increase goal convergence between Directors and shareholders. The options are granted for no consideration, and are subject to vesting conditions which relate to the continuation of employment. Options issued in 2009 are subject to performance conditions requiring the share price of the company to be above 20 cents on a 5 day volume weighted average basis.

Directors' Report (continued)

12. REMUNERATION REPORT (AUDITED) (CONTINUED)

Where the Director ceases employment prior to the vesting of their options, the options are forfeited unless the termination was as a result of redundancy, death or in other circumstances where the Board believes are fair and reasonable. Vested options will lapse 3 months after termination of an Executive's employment unless exercised. Options granted carry no dividend or voting rights.

The Group currently has no provisions to prohibit Executives from entering into arrangements to protect the value of unvested options. This includes entering into contracts to hedge their exposure to options or shares granted as part of their remuneration package.

Key Management Personnel of Emerald Oil & Gas NL (Company and Consolidated Entity)

Options Granted and vested during the year

2009										
Granted		**Terms & Conditions for each Grant**							**Vested**	
Directors	No Granted	Grant Date	Fair Value at Grant Date	Exercise Price per Option	Expiry Date	First Exercise Date	Last Exercise Date		No	%
J. Shervington	-	-	-	-	-	-	-		-	-
R. Berven	-	-	-	-	-	-	-		-	-
J. Hannaford	-	-	-	-	-	-	-		-	-
Executives										
M. Barron	-	-	-	-	-	-	-		-	-
M. Krzus*	1,250,000	11/05/09	$0.0283	$0.10	31/03/14	1/8/09**	31/03/14		-	-
M. Krzus*	1,250,000	11/05/09	$0.0283	$0.10	31/03/14	1/2/10**	31/03/14		-	-
M. Krzus*	1,250,000	11/05/09	$0.0283	$0.10	31/03/14	1/8/10**	31/03/14		-	-
M. Krzus*	1,250,000	11/05/09	$0.0283	$0.10	31/03/14	1/2/11**	31/03/14		-	-

* Mr Krzus was appointed as a Director on 13 August 2009.
** Subject to satisfying vesting conditions and achieving a 5 day volume weighted share price above 20 cents.

The total value of options granted to KMP during the year was $141,500 (2008:$Nil) of which $34,980 was recognised in the profit and loss for the year (2008: $Nil).

2008									
Granted		**Terms & Conditions for each Grant**						**Vested**	
Directors	No Granted	Grant Date	Fair Value at Grant Date	Exercise Price per Option	Expiry Date	First Exercise Date	Last Exercise Date	No	%
J. Shervington	-	-	-	-	-	-	-	-	-
R. Berven	-	-	-	-	-	-	-	-	-
J. Hannaford	-	-	-	-	-	-	-	-	-
Executives									
M. Barron	-	-	-	-	-	-	-	-	-

2,000,000 management options with a value of $115,800 exercisable at $0.25 each expired on 31 December 2008.

Directors' Report (continued)

12. REMUNERATION REPORT (AUDITED) (CONTINUED)

No options issued to KMP's were exercised during the year. In 2008, no options issued to KMP's were exercised or expired.

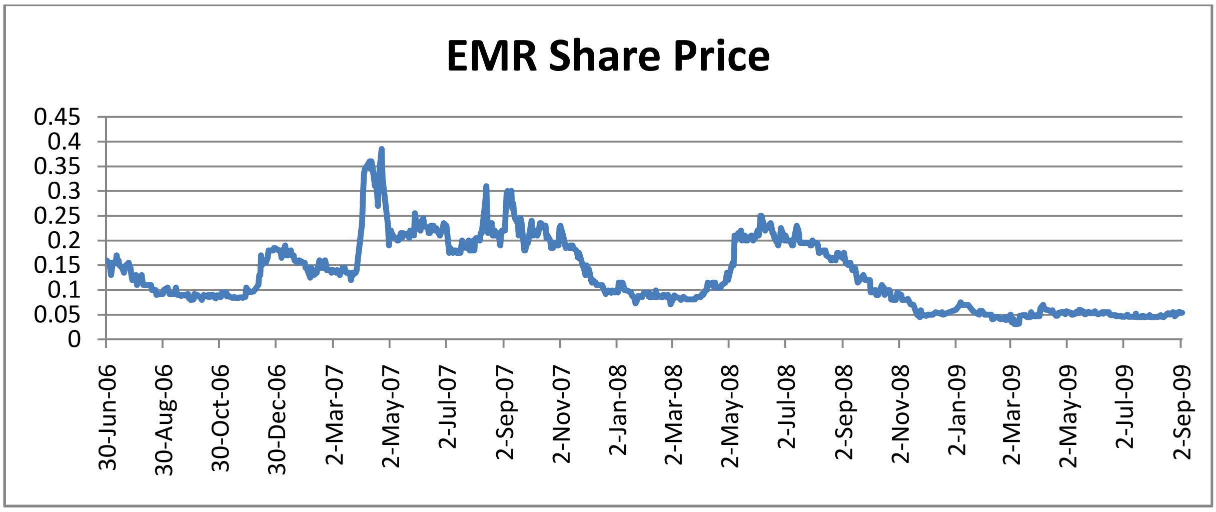
F. Additional Information

Principles used to determine the nature and amount of remuneration: relationship between remuneration and company performance.

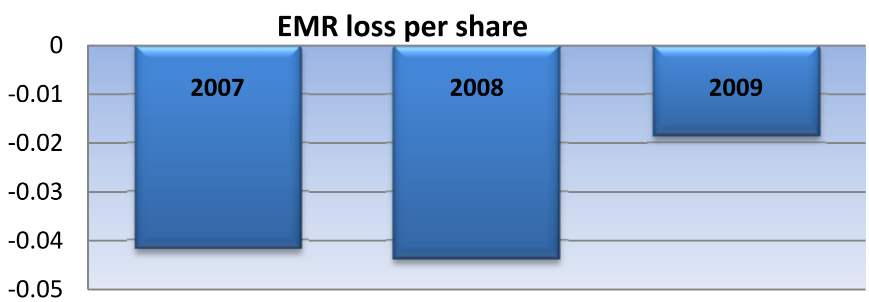
The overall level of executive reward takes into account the performance of the Group over a number of years, with greater emphasis given to the current and prior year.

The Company issues options to Directors and Executives in order to provide incentives to deliver shareholder returns.

The graph below shows the share price of Emerald since relisting on the ASX on 30 June 2006.



In addition to share price performance, Group performance is also reflected in the movement of the Group's earnings or loss per share over time. The graph below shows the loss per share for the past 3 years (being each full financial year since reinstatement to quotation to the ASX on 30 June 2006).



Directors' Report (continued)

12. REMUNERATION REPORT (AUDITED) (CONTINUED)

Related party payments

	Consolidated		Parent	
	2009 $	2008 $	2009 $	2008 $
Other related parties				
1) Legal	-	10,000	-	10,000
2) Serviced office charges	96,000	93,000	96,000	93,000
3) Bookkeeping, financial accounting, company secretary and admin	116,415	107,873	116,415	107,873
4) & 5) Consulting fees	292,000	180,000	292,000	180,000
6) Directors fees	94,000	76,000	94,000	76,000

1) Payments made or payable to Drumgaghan Pty Ltd trading as Jeremy Shervington Legal Practice, for legal services provided by Jeremy Shervington and employees of Jeremy Shervington Legal Practice in relation to the preparation of legal documentation, agreements, prospectus, notice of meeting and other services in relation to secondary capital raisings.

2) Payments made or payable to Ventnor Capital Pty Ltd a company associated with John Hannaford for serviced offices totalling $96,000 (2008: $93,000) (excl GST).

3) Payments made or payable to Ventnor Capital Pty Ltd (a company associated with John Hannaford) for office bookkeeping, financial accounting, company secretarial and administration services provided by John Hannaford and employees of Ventnor Capital totalling $116,415 (2008: $107,873) (excl GST).

4) Payments were made by the consolidated entity to Berven Consultants Pty Ltd, a company associated with Mr Berven totalling $102,000, (2008: $60,000), for the provision of technical consulting services.

5) Payments were made by the consolidated entity to Ventnor Capital Pty Ltd, a company associated with Mr Hannaford, for consulting services as financial Director $190,000, (2008: $120,000).

6) Payments were made by the consolidated entity to the following related party entities in relation to Directors fees:

- (a) Berven Consultants Pty Ltd, a company associated with Mr Berven totalling $22,000 (2008: $12,000).
- (b) Riverview Corporation Pty Ltd, a company associated with Mr Hannaford totalling $12,000 (2008: $12,000); and
- (c) Drumgaghan Pty Ltd trading as Jeremy Shervington Legal Practice, a company associated with Mr Shervington totalling $60,000 (2008: $52,000).

All related party services were provided on normal commercial terms and conditions.

**********End of Remuneration Report**********

Directors' Report (continued)

13. PROCEEDINGS ON BEHALF OF THE COMPANY

No person has applied to the Court to bring proceedings on behalf of the Company or 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 any part of those proceedings.

The Company was not a party to any such proceedings during the year.

14. SHARE OPTIONS

SHARES UNDER OPTION

At the date of this report there are 11,486,638 unissued shares under option outstanding.

Date Granted	Expiry Date	Exercise Price	Number shares under option
23/01/06	23/01/11	$0.1768	661,638
26/06/06	31/12/09	$0.25	2,000,000
26/06/06	28/02/10	$0.25	1,500,000
11/10/06	31/12/09	$0.25	325,000
28/11/2008	31/05/11	$0.25	2,000,000
11/05/2009	31/03/14	$0.10	5,000,000
			11,486,638

These options do not entitle the holders to participate in any share issue of the Company or any other body corporate. No shares were issued as a result of the exercise of an option (2008: 15,862,273 shares valued at $3,172,455). No options have been exercised since balance date.

15. INDEMNIFICATION AND INSURANCE OF DIRECTORS AND OFFICERS

During the financial year, the Company has paid a premium of $21,221 (2008: $14,350) to insure the Directors and secretary of the Company.

The liabilities insured are legal costs that may be incurred in defending civil or criminal proceedings that may be brought against the officers in their capacity as officers of the Company, and any other payments arising from liabilities incurred by the officers in connection with such proceedings. This does not include such liabilities that arise from conduct involving a wilful breach of duty by the officers or the improper use by the officers of their position or of information to gain advantage for themselves or someone else or to cause detriment to the company.

Directors' Report (continued)

16. NON-AUDIT SERVICES

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

Ernst & Young received or are due to receive the following amounts for the provision of non-audit services:

	Consolidated $
Tax consulting services	26,851

During the year the following fees were paid or payable for services provided by the auditors.

	Consolidated		Parent	
	2009 $	2008 $	2009 $	2008 $
Audit Fees	36,035	33,578	36,035	33,578

17. AUDITORS INDEPENDENCE DECLARATION

The auditors' independence declaration as required under section 307C of the Corporations Act 2001 for the financial year ended 30 June 2009 has been received and can be found on page 33.

18. AUDITOR

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

Signed in accordance with a resolution of the Directors.

M Krzus

M. Krzus
Managing Director

Perth
24 September 2009

Auditors Independence Declaration

ERNST & YOUNG

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Auditor's Independence Declaration to the Directors of Emerald Oil & Gas NL

In relation to our audit of the financial report of Emerald Oil & Gas NL for the year ended 30 June 2009, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the Corporations Act 2001 or any applicable code of professional conduct.

Ernst & Young

Ernst & Young

J C Palmer
Partner
Perth
24 September 2009

JP:HG:EMERALD:008

Corporate Governance Statement

The Board of Directors is responsible for the corporate governance of the Company. The Board guides and monitors the business activities and affairs of the Company on behalf of the shareholders by whom they are elected and to whom they are accountable. The Company has adopted systems of control and accountability as the basis for the administration of corporate governance. The Board is committed to administering the policies and procedures with openness and integrity, pursuing the true spirit of corporate governance commensurate with the Company's needs. The Corporate Governance Statement has been structured with reference to the Australian Stock Exchange Corporate Governance Council's ("Council") "Corporate Governance Principles and Recommendations" to the extent that they are applicable to the Company.

Information about the Company's corporate governance practices available via the Company website are set out below:

THE BOARD OF DIRECTORS

The Company's Constitution provides that the number of Directors shall not be less than three. There is no requirement for any shareholding qualification.

If the Company's activities increase in size, nature and scope, the size of the Board will be reviewed periodically and the optimum number of Directors required to adequately supervise the company's activities will be determined within the limitations imposed by the Constitution and as circumstances demand.

The membership of the Board, its activities and composition is subject to periodic review. The criteria for determining the identification and application of a suitable candidate for the Board shall include quality of the individual, background of experience and achievement, compatibility with other Board members, credibility within the company's scope of activities, intellectual ability to contribute to Board duties and physical ability to undertake Board duties and responsibilities.

Directors are initially appointed by the full Board, subject to election by shareholders at the next annual general meeting. Under the Company's Constitution the tenure of a Director (other than Managing Director, and only one Managing Director where the position is jointly held) is subject to reappointment by shareholders not later than the third anniversary following his or her last appointment. Subject to the requirements of the Corporations Act, the Board does not subscribe to the principle of retirement age and there is no maximum period of service as a Director. A Managing Director may be appointed for the period and on any terms the Directors think fit and, subject to the terms of any agreement entered into, the appointment may be revoked on notice.

The Company is not currently of a size, nor are its affairs of such complexity, to justify the formation of other separate or special committees at this time. The Board as a whole is able to address the governance aspects of the full scope of the Company's activities and to ensure that it adheres to appropriate ethical standards.

Corporate Governance Statement (continued)

INDEPENDENT PROFESSIONAL ADVICE

The Board has determined that individual Directors have the right in connection with their duties and responsibilities as Directors, to seek independent professional advice at the company's expense. With the exception of expenses for legal advice in relation to Director's rights and duties, the engagement of an outside adviser is subject to prior approval of the Chairman and this will not be withheld unreasonably.

APPOINTMENTS TO OTHER BOARDS

Directors are required to take into consideration any potential conflicts of interest when accepting appointments to other Boards.

RISK MANAGEMENT SYSTEMS

The identification and management of risk, including calculated risk-taking activity is viewed by management as an essential component in creating shareholder value.

Management, through the Chief Executive Officer (CEO) is responsible for developing, maintaining and improving the Company's risk management and internal control system. Management provides the Board with periodic reports identifying areas of potential risks and the safeguards in place to efficiently manage material business risks. These risk management and internal control systems are in place to protect the financial statements of the entity from potential misstatement, and the Board is responsible for satisfying itself annually, or more frequently as required, that management has developed a sound system of risk management and internal control.

Strategic and operational risks are reviewed at least annually as part of the forecasting and budgeting process. The Company has identified and actively monitors a number of risks inherent in the industry in which the Company operates. These include:

- Fluctuations in oil and gas prices
- Rights of tenure
- Depletion of reserves
- Fluctuations in demand for oil and gas
- Loss of significant suppliers and customers
- Increasing cost of operations
- Changes in the regulatory environment

These risk areas are provided to assist shareholders and potential investors to better understand the risks faced by our Company and the industry in which we operate, and are not an exhaustive list of the business risks faced by the Company.

Corporate Governance Statement (continued)

RISK MANAGEMENT SYSTEMS (CONTINUED)

The Board also receives a written assurance from the CEO and Chief Financial Officer (CFO) that to the best of their knowledge and belief, the declaration provided to the Board in accordance with section 295A of the Corporations Act is founded on a sound system of risk management and internal control, and that the system is operating effectively in relation to financial reporting risks. The Board notes that due to its nature, internal control assurance from the CEO and CFO can only be reasonable rather than absolute. This is due to such factors as the need for judgement, the use of testing on a sample basis, the inherent limitations in internal control and because much of the evidence is persuasive rather than conclusive and therefore is not and cannot be designed to detect all weaknesses in internal control procedures.

CONTINUOUS REVIEW OF CORPORATE GOVERNANCE

Directors consider, on an ongoing basis, how management information is presented to them and whether such information is sufficient to enable them to discharge their duties as Directors of the company. Such information must be sufficient to enable the Directors to determine appropriate operating and financial strategies from time to time in light of changing circumstances and economic conditions. The Directors recognise that oil and gas exploration is a business with inherent risks and that operational strategies adopted should, notwithstanding, be directed towards improving or maintaining the net worth of the company.

ASX PRINCIPLES OF GOOD CORPORATE GOVERNANCE

The Board has reviewed its current practices in light of the ASX principles of good corporate governance and best practice guidelines 2007 2nd edition with a view to making amendments where applicable after considering the company's size and the resources it has available.

As the Company's activities develop in size, nature and scope, the size of the Board and the implementation of any additional formal corporate governance committees will be given further consideration.

The following table sets out the ASX Corporate Governance Guidelines with which the Company does not comply:

ASX Principle		Reference/comment
Principle 2: Structure the Board to add value		
2.4	The Board should establish a nomination committee	The Board has no formal nomination committee. Acting in its ordinary capacity from time to time as required, the Board carries out the process of determining the need for, screening and appointing new Directors. In view of the size and resources available to the Company, it is not considered that a separate nomination committee would add any substance to this process.
Principle 4: Safeguard integrity in financial reporting		
4.1 – 4.4	The Board should establish an audit committee	The Company does not have an audit committee. The Board believes that, given the small number of Directors on the Board, the Board itself is the appropriate forum to deal with this function.

Corporate Governance Statement (continued)

CONTINUOUS REVIEW OF CORPORATE GOVERNANCE (CONTINUED)

ASX Principle		Reference/comment
Principle 8: Remunerate fairly and responsibly		
8.1	The Board should establish a remuneration committee	Given the current size of the Board, the Company does not have a remuneration committee. The Board as a whole reviews remuneration levels on an individual basis, the size of the company making individual assessment more appropriate than formal remuneration policies. In doing so, the Board seeks to retain professional services as it requires, at reasonable market rates, and seeks external advice and market comparisons where necessary.
8.2	Companies should clearly distinguish the structure of Non Executive Director's remuneration from that of Executive Directors and senior executives.	The Board acknowledges the grant of options to Non Executive Directors' is contrary to Recommendation 8.2 of the ASX Corporate Governance Principles and Recommendations. However, the Board considers the granting of Director Options to be reasonable in the circumstances, given the necessity to attract and retain the highest calibre of professionals to the Company, whilst maintaining the Company's cash reserves.

Emerald OIL & GAS NL

ACN: 009 795 046

Income Statement

For the year ended 30 June 2009

	Notes	Consolidated 2009 $	Consolidated 2008 $	Parent 2009 $	Parent 2008 $
Revenues	3	238,932	153,435	1,031,053	932,066
Other income	3	511,584	-	-	-
Financial administration, insurance and compliance costs		(333,012)	(216,031)	(239,086)	(199,211)
Consulting and contracting expenses		(947,154)	(260,865)	(386,055)	(258,000)
Impairment of exploration expenditure	13	(1,338,783)	(2,686,295)	-	-
Allowance for impairment of loans receivable	10	-	-	(2,633,268)	(3,460,808)
Depreciation expense	12	(157)	-	(157)	-
Share based payments	23	(34,980)	-	(34,980)	-
General administration expenses		(251,066)	(153,865)	(198,928)	(152,859)
Provision for impairment of investment in subsidiaries		-	-	(400,000)	(350,000)
Loss before income tax expense	4	(2,154,636)	(3,163,621)	(2,861,421)	(3,488,812)
Income tax expense	6	-	-	-	-
Loss for the year	4	(2,154,636)	(3,163,621)	(2,861,421)	(3,488,812)
Net loss attributable to members of the parent entity		(2,154,636)	(3,163,621)	(2,861,421)	(3,488,812)
Basic earnings (loss) per share - cents per share	5	(1.866)	(4.388)		
Diluted earnings (loss) per share - cents per share	5	(1.866)	(4.388)		

The above Income Statements should be read in conjunction with the accompanying notes.

ACN: 009 795 046

Balance Sheet

As at 30 June 2009

	Notes	Consolidated 2009 $	Consolidated 2008 $	Parent 2009 $	Parent 2008 $
ASSETS					
Current assets					
Cash and cash equivalents	8	2,439,140	5,407,348	2,429,361	5,407,348
Trade and other receivables	9	139,313	109,121	24,301	109,118
Total current assets		2,578,453	5,516,469	2,453,662	5,516,466
Non-current assets					
Trade and other receivables	10	-	-	4,168,685	3,525,016
Investments in subsidiaries	11	-	-	86,000	486,000
Plant and equipment	12	165,700	-	8,436	-
Exploration and evaluation costs	13	5,053,839	4,394,937	-	-
Total non-current assets		5,219,539	4,394,937	4,263,121	4,011,016
TOTAL ASSETS		7,797,992	9,911,406	6,716,783	9,527,482
LIABILITIES					
Current liabilities					
Trade and Other Payables	14	195,136	188,894	191,636	175,894
Total current liabilities		195,136	188,894	191,636	175,894
TOTAL LIABILITIES		195,136	188,894	191,636	175,894
NET ASSETS		7,602,856	9,722,512	6,525,147	9,351,588
EQUITY					
Contributed Equity	15	14,991,022	15,001,822	95,364,479	95,364,479
Reserves	16	420,424	374,644	358,624	428,644
Accumulated losses		(7,808,590)	(5,653,954)	(89,197,956)	(86,441,535)
TOTAL EQUITY		7,602,856	9,722,512	6,525,147	9,351,588

The above Balance Sheets should be read in conjunction with the accompanying notes.

Statement of Changes in Equity

For the year ended 30 June 2009

CONSOLIDATED 2009	Note	Contributed Equity $	Options Reserve $	Accumulated losses $	Total $
Total equity at 1 July 2008		15,001,822	374,644	(5,653,954)	9,722,512
Loss for the period		-	-	(2,154,636)	(2,154,636)
Total income / (expense) for the period		-	-	(2,154,636)	(2,154,636)
Share-based payments:					
Options issued during the period	23	(10,800)	45,780	-	34,980
Options expired during the period		-	-	-	-
Total equity at 30 June 2009		14,991,022	420,424	(7,808,590)	7,602,856

CONSOLIDATED 2008	Note	Contributed Equity $	Options Reserve $	Accumulated losses $	Total $
Total equity at 1 July 2007		5,002,891	374,644	(2,490,333)	2,887,202
Loss for the period		-	-	(3,163,621)	(3,163,621)
Total income / (expense) for the period		-	-	(3,163,621)	(3,163,621)
Share-based payments:					
Options issued during the period		-	-	-	-
Options exercised	15	3,172,455	-	-	3,172,455
Shares issued during the period (net of issue costs)	15	6,866,476	-	-	6,866,476
Cancellation of shares	15	(40,000)	-	-	(40,000)
Total equity at 30 June 2008		15,001,822	374,644	(5,653,954)	9,722,512

The above Statements of Changes in Equity should be read in conjunction with the accompanying notes.

Statement of Changes in Equity (continued)

For the year ended 30 June 2009

PARENT 2009	Note	Contributed Equity $	Options Reserve $	Accumulated losses $	Total $
Total equity at 1 July 2008		95,364,479	428,644	(86,441,535)	9,351,588
Loss for the period		-	-	(2,861,421)	(2,861,421)
Total income / (expense) for the period		-	-	(2,861,421)	(2,861,421)
Share based payments:					
Options issued during the period	23	(10,800)	45,780	-	34,980
Options exercised during the period		-	-	-	-
Options expired during the period		-	-	-	-
Total equity at 30 June 2009		95,353,679	474,424	(89,302,956)	6,525,147

PARENT 2008	Note	Contributed Equity $	Options Reserve $	Accumulated losses $	Total $
Total equity at 1 July 2007		85,365,548	428,644	(82,952,723)	2,841,469
Loss for the period		-	-	(3,488,812)	(3,488,812)
Total income / (expense) for the period		-	-	(3,488,812)	(3,488,812)
Share based payments:					
Options exercised during the period	15	3,172,455	-	-	3,172,455
Shares issued during the period (net of issue costs)	15	6,866,476	-	-	6,866,476
Cancellation of shares during the perioc	15	(40,000)	-	-	(40,000)
Total equity at 30 June 2008		95,364,479	428,644	(86,441,535)	9,351,588

The above Statements of Changes in Equity should be read in conjunction with the accompanying notes.

Cash Flow Statement

For the year ended 30 June 2009

	Notes	Consolidated 2009 $	Consolidated 2008 $	Parent 2009 $	Parent 2008 $
Cash flows from operating activities					
Receipts from customers		177,174	18,687	185,459	9,779
Interest received		230,647	143,480	230,647	143,480
Payments to suppliers and employees		(1,723,922)	(741,023)	(953,670)	(735,644)
Net cash used in operating activities	18	**(1,316,101)**	**(578,856)**	**(537,564)**	**(582,385)**
Cash flows from investing activities					
Proceeds from sale of assets	13	1,298,113	-	-	-
Purchase of property, plant and equipment		(165,857)	-	(8,593)	-
Exploration and development expenditure		(2,784,213)	(5,735,137)	-	-
Net cash used in investing activities		**(1,651,957)**	**(5,735,137)**	**(8,593)**	**-**
Cash flows from financing activities					
Proceeds from issues of shares		-	5,025,000	-	5,025,000
Proceeds from exercise of options		-	3,172,455	-	3,172,455
Loans paid to Group entities	21	-	-	(3,729,943)	(5,731,608)
Loans repayments from Group entities	21	-	-	1,298,113	-
Capital raising costs		-	(506,681)	-	(506,681)
Net cash flows provided by financing activities		**-**	**7,690,774**	**(2,431,830)**	**1,959,166**
Net increase in cash and cash equivalents		(2,968,058)	1,376,781	(2,977,987)	1,376,781
Cash and cash equivalents at the beginning of the financial year		5,407,348	4,030,567	5,407,348	4,030,567
Effect of exchange rates on cash holdings in foreign currencies		(150)	-	-	-
Cash and cash equivalents at the end of the financial year	8	**2,439,140**	**5,407,348**	**2,429,361**	**5,407,348**

The above Cash Flow Statements should be read in conjunction with the accompanying notes.

Notes to the Financial Statements

For the year ended 30 June 2009

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This financial report of Emerald Oil & Gas NL for the year ended 30 June 2009 was authorised for issue in accordance with a resolution of Directors on 24 September 2009.

Emerald Oil & Gas NL was incorporated on 15 September 1969 and is a company limited by shares incorporated in Australia. The financial report is presented in Australian currency.

On 26 June 2006, Emerald Oil & Gas NL acquired all of the outstanding shares in Emerald Gas Pty Ltd via an equity exchange. Emerald Gas Pty Ltd was deemed to be the accounting acquirer in this business combination. The transaction was accounted for as a reverse acquisition under AASB 3. Accordingly, the consolidated financial statements of Emerald Oil & Gas NL have been prepared as a continuation of the consolidated financial statements of Emerald Gas Pty Ltd.

The principal activity of Emerald Oil & Gas NL and its controlled entities (the Group) is the exploration of petroleum and gas properties in the United States of America and Australia.

The significant policies which have been adopted in the preparation of this financial report are:

A. Basis of Preparation

The financial report is a general-purpose financial report, which has been prepared in accordance with the requirements of the Corporations Act 2001, Australian Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards Board. The financial report has also been prepared on a historical cost basis. The financial report is presented in Australian dollars ($).

B. Statement of Compliance

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

C. Principles of Consolidation

<u>Subsidiaries</u>

The consolidated accounts comprise the assets and liabilities of Emerald Oil & Gas NL and its subsidiaries at 30 June 2009 and the results of all subsidiaries for the year then ended. A subsidiary is any entity controlled by Emerald Oil & Gas NL.

Subsidiaries are all those entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one-half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Notes to the Financial Statements (continued)

For the year ended 30 June 2009

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Principles of Consolidation (continued)

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group.

The financial statements of subsidiaries are prepared from the same reporting period as the parent company, using consistent accounting policies.

Adjustments are made to bring into line any dissimilar accounting policies that may exist.

All inter-company balances and transactions, including unrealised profits arising from intra-group transactions, have been eliminated in full. Unrealised losses are eliminated unless costs cannot be recovered. Investments in subsidiaries are accounted for at cost less any impairment in the individual financial statements of Emerald Oil & Gas NL.

Subsidiaries are consolidated from the date on which control is transferred to the Group and cease to be consolidated from the date on which control is transferred out of the Group. Where there is a loss of control of a subsidiary, the consolidated financial statements include the results for the part of the reporting period which Emerald Oil & Gas NL has control.

Investments in Subsidiaries

Investments in subsidiaries are held at the lower of cost and recoverable amount.

Joint Ventures

Jointly controlled assets
A jointly controlled asset involves joint control and offers joint ownership by the Group and other venturers of assets contributed to or acquired for the purposes of the joint venture, without the formation of a corporation, partnership or entity.

The proportionate interests in the assets, liabilities and expenses of a joint venture activity have been incorporated in the financial statements under the appropriate headings. Details of the joint ventures are set out in Note 26.

D. Income Tax

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

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

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Income Tax (continued)

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

- when the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and that, at the time of the transaction, affects neither the accounting profit nor the taxable profit or loss; or

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

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

- when the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor the taxable profit or loss; or

- when the deductible temporary difference is associated with investments in subsidiaries, associates or interests in joint ventures, in which case a deferred tax asset is only recognised to the extent that it is probable that the temporary difference will reverse in the foreseeable future and taxable profit will be available against which the temporary difference can be utilised.

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

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

Deferred tax assets and deferred tax liabilities are measured at the tax rates that are expected to apply when the asset is realised or the liability is settled, based on those tax rates (and tax laws) which have been enacted or substantively enacted for each jurisdiction at the balance sheet date.

Notes to the Financial Statements (continued)

For the year ended 30 June 2009

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Income Tax (continued)

Income taxes relating to items recognised directly in equity are recognised in equity and not in profit or loss.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Tax consolidation legislation

The company and its wholly-owned Australian resident subsidiary have not formed a tax-consolidated group as at balance sheet date.

E. Goods and Services Tax

Revenues, expenses and assets are recognised net of the amount of goods and services tax ("GST"), except where the GST incurred on a purchase of goods and services is not recoverable from the taxation authorities, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense item as applicable and receivables and payables in the balance sheet are shown inclusive of GST.

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

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

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

F. Trade and Other Receivables

Trade receivables, which generally have 30-90 day terms, are recognised and carried at fair value and subsequently at amortised cost less an allowance for any uncollectible amounts.

Notes to the Financial Statements (continued)

For the year ended 30 June 2009

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

F. Trade and Other Receivables (continued)

Collectability of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off. An impairment allowance is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms or receivables. Debtors outstanding for greater than 120 days are considered objective evidence of impairment. The amount of impairment loss is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. Cash flows relating to short-term receivables are not discounted if the effect of discounting is immaterial. The amount of the impairment is recognised in the income statement.

G. Investments and Other Financial Assets

Financial assets in the scope of AASB 139 *Financial Instruments: Recognition and Measurement* are classified as either financial assets at fair value through profit & loss, loans and receivables, held-to-maturity investments, or available-for-sale financial assets. When financials assets are recognised initially, they are measured at fair value, plus, in the case of investments not a fair value through profit or loss, directly attributable transaction costs. The Group determines the classification of its financial assets after initial recognition and, when allowed and appropriate, re-evaluates this designation at each financial year-end.

All regular way purchases and sale of financial assets are recognised on the trade date i.e. the date that the Group commits to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets under contracts that require delivery of the assets within the period established generally by regulation or convention in the market place.

Loans and receivables

Loans and receivables including loan notes and loans to key management personnel are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortised cost using the effective interest method. Gains and losses are recognised in profit & loss when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

H. Exploration and Evaluation Expenditure

Exploration and evaluation expenditure in relation to each area of interest is either written off as incurred or accumulated in respect of each identifiable area of interest. Costs are only carried forward to the extent that they are expected to be recouped through the successful development of the area (or, alternatively by its sale) or where activities in the area have not yet reached a stage which permits reasonable assessment of the existence of economically recoverable reserves and operations in relation to the area are continuing.

Notes to the Financial Statements (continued)

For the year ended 30 June 2009

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

H. Exploration and Evaluation Expenditure (continued)

Accumulated costs in relation to an abandoned area are written off in full against the income statement in the period in which the decision to abandon the area is made.

A regular review is undertaken of each area of interest to determine the appropriateness of continuing to carry forward costs in relation to that area of interest.

I. Plant and equipment

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

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

Plant and equipment (office equipment) - over 3 years

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

Derecognition

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

J. Foreign Currency Translation

Functional and presentation currency

The functional currency of each of the Group's entities is measured using the currency of the primary economic environment in which that entity operates. The consolidated financial statements are presented in Australian dollars which is the parent entity's functional and presentation currency.

Transaction and balances

Foreign currency transactions are translated into functional currency using the exchange rates prevailing at the date of the transaction. Foreign currency monetary assets and liabilities denominated in foreign currencies are translated at the year-end exchange rate.

Notes to the Financial Statements (continued)

For the year ended 30 June 2009

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

J. Foreign Currency Translation (continued)

Group companies

The functional currency of the overseas subsidiaries is currently Australian dollars, as funding is currently provided by the parent entity, and therefore US operations remain seen as an extension of Emerald Oil & Gas NL's business activities. The Board of Directors assess the appropriate functional currency of this entity on an ongoing basis. The functional currency of the Group's US subsidiaries may convert to US dollars upon successful establishment of oil or gas reserves in the USA.

K. Business Combinations

The purchase method of accounting is used to account for all business combinations, regardless of whether equity instruments or other assets are acquired. Cost is measured as the fair value of the assets given, securities issued or liabilities incurred or assumed at the date of exchange plus costs directly attributable to the acquisition. Where equity instruments are issued in an acquisition, the fair value of the instruments is their published market price as at the date of exchange unless, in rare circumstances, it can be demonstrated that the published price at the date of exchange is an unreliable indicator of fair value and that other evidence and valuation methods provide a more reliable measure of fair value. Transaction costs arising on the issue of equity instruments are recognised directly in equity.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the Group's share of the fair value of the identifiable net assets of the subsidiary acquired, the difference is recognised directly in the income statement, but only after a reassessment of the identification and measurement of the net assets acquired.

L. Impairment of Assets

Where an indicator of impairment exists, the Group makes a formal estimate of recoverable amount. Where the carrying amount of an asset exceeds its recoverable amount the asset is considered impaired and is written down to its recoverable amount.

Recoverable amount is the greater of fair value less costs to sell and value in use. It is determined for an individual asset, unless the asset's value in use cannot be estimated to be close to its fair value less costs to sell and it does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

Notes to the Financial Statements (continued)

For the year ended 30 June 2009

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

L. Impairment of Assets (continued)

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Non-financial assets other than goodwill that suffered an impairment are tested for possible reversal of the impairment whenever events or changes in circumstances indicate that the impairment may have reversed.

M. Share Based Payments

The Group provides benefits to employees (including Directors and KMP) in the form of share-based compensation, whereby employees render services in exchange for shares or rights over shares ('equity-settled transactions').

There is currently an Employee Share Option Plan (ESOP) in place to provide these benefits to Directors and senior executives.

The cost of these equity-settled transactions with employees is measured by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined using the Black & Scholes method.

The Black-Scholes option pricing model 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.

The fair value of the options granted is adjusted to reflect market vesting conditions, but excludes the impact of any non market vesting conditions. Non market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. At each balance sheet date, the entity revises its estimates of the number of options that are expected to become exercisable. The employee benefit expense recognised each period takes into account the most recent estimate.

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

The cumulative expense recognised for equity-settled transactions at each reporting date until vesting date reflects (i) the extent to which the vesting period has expired and (ii) the number of awards that, in the opinion of the Directors of the Group, will ultimately vest. This opinion is formed based on the best available information at balance date. No adjustment is made for the likelihood of market performance conditions being met as the effect of these conditions is included in the determination of fair value at grant date.

Notes to the Financial Statements (continued)

For the year ended 30 June 2009

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

M. Share Based Payments (continued)

Until an award has vested, any amounts recorded are contingent and will be adjusted if more or fewer awards vest than were originally anticipated to do so. Any award subject to a market condition is considered to vest irrespective of whether or not that market condition is fulfilled, provided that all other conditions are satisfied.

If the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified. In addition, an expense is recognised for any increase in the value of the transaction as a result of the modification, as measured at the date of modification.

If an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award and designated as a replacement award on the date that it is granted, the cancelled and new award is treated as if it were a modification of the original award, as described in the previous paragraph.

The dilutive effect, if any, of outstanding options is reflected as additional share dilution in the computation of diluted earnings per share.

N. Cash and Cash Equivalents

Cash and short-term deposits in the balance sheet comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less.

For the purposes of the Cash Flow Statement cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

O. Revenue

Revenue is recognised and measured at the fair value of the consideration receivable to the extent it is probable that the economic benefits will flow to the Group and the revenue can be measured reliably.

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.

All revenue is stated net of the amount of goods and services tax (GST).

Notes to the Financial Statements (continued)

For the year ended 30 June 2009

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

P. Contributed Equity

Ordinary Shares are classified as equity. Issued and paid up capital is recognised at the fair value of the consideration received by the company. Any transaction costs arising on the issue of ordinary shares are recognised directly in equity as a reduction of the share proceeds received.

Q. Segment Reporting

A business segment is a distinguishable component of the entity that is engaged in providing products or services that are subject to risks and returns that are different to those of other business segments. A geographical segment is distinguishable component of the entity that 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 environments.

R. Earnings per Share

Basic earnings per share

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the company, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding 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.

S. Trade and other Payables

Trade payables and other payables are carried at amortised cost. These amounts represent liabilities for goods and services provided to the Group prior to the end of the financial year that are unpaid and arise when the Group becomes obliged to make future payments in respect of the purchase of these goods and services. The amounts are unsecured and are usually paid within 30 days of recognition.

Notes to the Financial Statements (continued)

For the year ended 30 June 2009

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

T. Critical Accounting Estimates and Judgements

The preparation of financial statements in conformity with Australian Equivalents to International Financial Reporting Standards ("AIFRS") requires the use of certain critical accounting estimates and judgements. It also requires management to exercise its judgement in the process of applying the Group'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 below:

Exploration and evaluation expenditure

Exploration and evaluation expenditure has been carried forward in accordance with policy 1 (H) on the basis that exploration and evaluation activities have not yet reached a stage which permits reasonable assessment of the existence or otherwise of economically recoverable reserves and active and significant operations in relation to the area are continuing. In the event that significant operations cease and/ or economically recoverable resources are not assessed as being present, this expenditure will be expensed to the income statement.

Impairment of assets

The Group assesses each cash generating unit annually to determine whether any indication of impairment exists. Where an indicator of impairment exists, a formal estimate of the recoverable amount is made, which is considered to be the higher of the fair value less costs to sell and value in use. These assessments require the use of estimates and assumptions such as long-term commodity prices, discount rates, future capital requirements, exploration potential and operating performance. Fair value is determined as the amount that would be obtained from the sale of the asset it an arm's length transaction between knowledgeable and willing parties. Fair value for mineral assets is generally determined as the present value of estimated future cash flows arising from the continued use of the asset, which includes estimates such as the cost of future expansion plans and eventual disposal, using assumptions that an independent market participant may take into account. Cash flows are discounted by an appropriate discount rate to determine the net present value. Management has assessed its cash generating units as being an individual well, which is the lowest level for which cash flows are largely independent of other assets.

Share-based payment transactions

The Group measures the cost of equity-settled transactions with management and other parties by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined by the Board of Directors using the Black-Scholes formula, taking into account the terms and conditions upon which the equity 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 expenses and equity.

Notes to the Financial Statements (continued)

For the year ended 30 June 2009

NOTE 2: NEW ACCOUNTING STANDARDS AND INTERPRETATIONS

In the current year, the Group has adopted all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board (the AASB) that are relevant to its operations and effective for the current annual reporting period. The adoption of these new and revised Standards and Interpretations has not resulted in any changes to the Group's accounting policies nor affected the amounts reported for the current or prior years.

The AASB has issued new, revised and amended standards and interpretations that have mandatory application dates for future reporting periods. The Group has decided against early adoption of these standards. A discussion of those future requirements and their impact on the Group follows:

- AASB 3: Business Combinations, AASB 127: Consolidated and Separate Financial Statements, AASB 2008-3: Amendments to Australian Accounting Standards arising from AASB 3 and AASB 127 [AASBs 1, 2, 4, 5, 7, 101, 107, 112, 114, 116, 121, 128, 131, 132, 133, 134, 136, 137, 138 & 139 and Interpretations 9 & 107] (applicable for annual reporting periods commencing from 1 July 2009) and AASB 2008-7: Amendments to Australian Accounting Standards – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate [AASB 1, 118, 121, 127 & 136] (applicable for annual reporting periods commencing from 1 January 2009). These standards are applicable prospectively and so will only affect relevant transactions and consolidations occurring from the date of this application. In this regard, its impact on the Group is unable to be determined. The following changes to accounting requirements are included:

  - Acquisition costs incurred in a business combination will no longer be recognised in goodwill but will be expensed unless the cost relates to issuing debt or equity securities;

  - Contingent consideration will be measured at fair value at the acquisition date and may only be provisionally accounted for during a period of 12 months after acquisition;

  - A gain or loss of control will require the previous ownership interests to be remeasured to their fair value;

  - There shall be no gain or loss from transactions affecting a parent's ownership interest of a subsidiary with all transactions required to be accounted for through equity (this will not represent a change to the Group's policy);

  - Dividends declared out of pre-acquisition profits will not be deducted from the cost of an investment but will be recognised as income;

  - Impairment of investments in subsidiaries; joint ventures and associates shall be considered when a dividend is paid by the respective investee;

NOTE 2: NEW ACCOUNTING STANDARDS AND INTERPRETATIONS (CONTINUED)

- Where there is, in substance, no change to Group interests, parent entities inserted above existing Groups shall measure the cost of its investments at the carrying value of its share of the equity items shown in the balance sheet of the original parent at the date of reorganisation; and

- Under AASB 3, the Group has the option to record the parent entity's share of goodwill only, or the total goodwill of the parent and the non-controlling interest. The Group will need to determine whether to maintain its present accounting policy of calculating goodwill acquired based on the parent entity's share of net assets acquired, or change its policy so goodwill recognised also reflects that of the non-controlling interest.

- AASB 8: Operating Segments and AASB 2007-3: Amendments to Australian Accounting Standards arising from AASB 8 [AASB 5, 6, 102, 107, 119, 127, 134, 136, 1023 & 1038] (applicable for annual reporting periods commencing from 1 January 2009). AASB 8 replaces AASB 114 and requires identification of operating segments on the basis of internal reports that are regularly reviewed by the Group's Board for the purpose of decision making. While the impact of this standard cannot be assessed at this stage, there is the potential for more segments to be identified.

- AASB 101: Presentation of Financial Statements, AASB 2007-8: Amendments to Australian Accounting Standards arising from AASB 101, and AASB 2007-10: Further Amendments to Australian Accounting Standards arising from AASB 101 (all applicable to annual reporting periods commencing from 1 January 2009). The revised AASB 101 and amendments supersede the previous AASB 101 and redefines the composition of financial statements including the inclusion of a statement of comprehensive income. There will be no measurement or recognition impact on the Group. If an entity has made a prior period adjustment or reclassification, a third balance sheet as at the beginning of the comparative period will be required.

- AASB 123: Borrowing Costs and AASB 2007-6: Amendments to Australian Accounting Standards arising from AASB 123 [AASB 1, 101, 107, 111, 116 & 138 and Interpretations 1 & 12] (applicable for annual reporting periods commencing from 1 January 2009). The revised AASB 123 has removed the option to expense all borrowing costs and will therefore require the capitalisation of all borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset. Management has determined there will be no effect on the Group as the Group currently has no qualifying assets, however there may be implications for future development projects.

NOTE 2: NEW ACCOUNTING STANDARDS AND INTERPRETATIONS (CONTINUED)

- AASB 2008-1: Amendments to Australian Accounting Standard – Share Based Payments: Vesting Conditions and Cancellations [AASB 2] (applicable for annual reporting periods commencing from 1 January 2009). This amendment to AASB 2 clarifies that vesting conditions consist of service and performance conditions only, and that other elements of a share-based payment transaction should be considered for the purposes of determining fair value. Cancellations are also required to be treated in the same manner whether cancelled by the entity or another party. No changes are expected to materially affect the Group.

- AASB 2008-5: Amendments to Australian Accounting Standards arising from the Annual Improvements Project (applicable 1 Jan 09) and AASB 2008-6: Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project (applicable 1 Jul 09) detail numerous non-urgent but necessary changes to accounting standards arising from the IASB's annual improvements project. The full impact of these changes have not yet been assessed.

- AASB Interpretation 16: Hedges of a Net Investment in a Foreign Operation (applicable for annual reporting periods commencing from 1 October 2008). Interpretation 16 applies to entities that hedge foreign currency risk arising from net investments in foreign operations and that want to adopt hedge accounting. The interpretation provides clarifying guidance on several issues in accounting for the hedge of a net investment in a foreign operation and is not expected to impact the Group.

- AASB 2009-2: Amendments to Australian Accounting Standards – Improving Disclosures about Financial Instruments (applicable for annual reporting periods beginning on or after 1 January 2009). Requires fair value measurements to be disclosed by the source of inputs, using the following three-level hierarchy:
  - quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1);
  - inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices) (Level 2); and
  - inputs for the asset or liability that are not based on observable market data (unobservable inputs) (Level 3).

  The amendment is not expected to materially affect the Group.

- AASB 2009-4: Amendments to Australian Accounting Standards arising from the Annual Improvements Project (applicable for annual reporting periods commencing from 1 July 2009) prescribes the treatment of intangible assets, such as goodwill acquired in a business combination. No changes are expected to materially affect the Company.

Notes to the Financial Statements (continued)

For the year ended 30 June 2009

NOTE 2: NEW ACCOUNTING STANDARDS AND INTERPRETATIONS (CONTINUED)

- AASB 2009-5: Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project (applicable for annual reporting periods commencing from 1 January 2010) prescribes certain changes to existing standards, of which the only effect on the Company is that only expenditures resulting in a recognised asset in the statement of financial position are eligible for classification as investing activities in the cash flow statement.

- AASB 2009-7: Amendments to Australian Accounting Standards (applicable for annual reporting periods commencing from 1 July 2009) makes numerous amendments to accounting standards as a result of editorial corrections by the AASB and by the IASB, some of which relate to correcting errors made in AASB 2008-12. The standards affected are AASB 5, 7, 107, 112, 136 & 139 and Interpretation 17. The full impact of these changes have not yet been assessed.

- Amendments to IFRS 2. The amendments clarify the accounting for group cash-settled share-based payment transactions, in particular:
  - the scope of AASB 2; and
  - the interaction between IFRS 2 and other standards.

  An entity that receives goods or services in a share-based payment arrangement must account for those goods or services no matter which entity in the group settles the transaction, and no matter whether the transaction is settled in shares or cash. The full impact of these changes have not yet been assessed.

The Group does not anticipate early adoption of any of the above reporting requirements and does not expect these requirements to have any material effect on the Group's financial statements.

NOTE 3: REVENUE

	Consolidated		Parent	
	2009	2008	2009	2008
	$	$	$	$
Revenue				
Gas sales	-	9,955	-	-
Interest revenue	230,647	143,480	1,022,768	569,704
Management fees	-	-	-	362,362
Other revenue	8,285	-	8,285	-
Total Revenue	238,932	153,435	1,031,053	932,066
Other income				
Reversal of impairment loss(1)	511,584	-	-	-

(1) Impairment reversal relates to capitalised costs associated with the Greenbush and Hamlet exploration wells in the USA. During the period the Company farmed out these wells, realising an amount in excess of the carrying amount of these assets, resulting in a reversal of prior impairment losses applied against these assets.

Notes to the Financial Statements (continued)

For the year ended 30 June 2009

NOTE 4: LOSS FOR THE YEAR

	Consolidated		Parent	
	2009 $	2008 $	2009 $	2008 $
Loss before income tax has been determined after :				
a) Employee benefits expense				
Wages, salaries and fees[1]	586,679	328,000	586,679	328,000
Defined contribution superannuation expense	10,321	-	10,321	-
Share based payments	34,980	-	34,980	-
Total employee benefits expense	631,980	328,000	631,980	328,000
b) Other expenses				
Depreciation	157	-	157	-
Financing expenses	119	-	72	-

(1) Amounts are prior to re-charges to exploration expenditure or business development. Net wages, salaries and fees are included in consulting expenses in the Income Statement.

NOTE 5: EARNINGS PER SHARE

	Consolidated	
Basic earnings per share - cents	(1.866)	(4.388)
Diluted earnings per share - cents	(1.866)	(4.388)
Earnings used in the calculation of basic and dilutive EPS	(2,154,636)	(3,163,621)
Weighted average number of ordinary shares outstanding during the period used in calculation of basic and dilutive EPS.	115,481,534	72,090,961

The total 11,486,639 (2008: 6,486,639) options outstanding at 30 June 2009 are potential ordinary shares but are antidilutive for the periods presented.

Notes to the Financial Statements (continued)

For the year ended 30 June 2009

NOTE 6: INCOME TAX

	Consolidated 2009 $	Consolidated 2008 $	Parent 2009 $	Parent 2008 $
(a) Income tax expense				
The major components of income tax expense are:				
Income Statement				
Deferred Income Tax				
Relating to the origination and reversal of temporary differences	-	-	-	-
Relating to the recognition of deferred tax assets arising from tax losses	-	-	-	-
Income tax expense reported in the income statement	-	-	-	-
(b) Numerical reconciliation between aggregate tax expense recognised in the income statement and tax expense calculated per the statutory income tax rate				
Loss before income tax	(2,154,636)	(3,163,621)	(2,861,421)	(3,488,812)
At statutory income tax rate of 30%	(646,391)	(949,086)	(858,426)	(1,046,644)
Foreign tax rate adjustment	(93,690)	-	-	-
Share based payments	10,494	-	10,494	-
Impairment of intercompany loan	-	-	789,981	1,038,242
Impairment of investment in subsidiary	-	-	120,000	105,000
Impairment of exploration assets	248,160	805,888	-	-
Sale of exploration assets	389,434	-	-	-
Other	91,993	(27,907)	(30,112)	(31,806)
Unrecognised tax losses and deferred tax assets	-	171,105	-	-
Deferred tax assets brought to account	(290,942)	(999,343)	(31,936)	(64,792)
Movements in deferred tax balances	290,942	999,343	-	-
Income tax expense	-	-	-	-

Notes to the Financial Statements (continued)

For the year ended 30 June 2009

NOTE 6: INCOME TAX (CONTINUED)

(c) Recognised Deferred Tax Assets and Liabilities

	Balance Sheet		Income Statement	
	2009	2008	2009	2008
CONSOLIDATED	$	$	$	$
Deferred Tax Liabilities				
Exploration expenditure	1,751,991	1,461,049	(290,942)	(999,343)
	1,751,991	1,461,049	(290,942)	(999,343)
Deferred tax assets				
Tax losses	1,751,991	1,461,049	290,942	999,343
	1,751,991	1,461,049	290,942	999,343
Net deferred tax assets	-	-		
Deferred tax income (expense)			-	-
PARENT				
Deferred Tax Liabilities				
Exploration expenditure	-	-	-	-
Deferred tax assets				
Tax losses	-	-	-	-
	-	-	-	-
Net deferred tax assets	-	-		
Deferred tax income (expense)			-	-

Prior period comparatives have been restated following lodgement of 2008 tax returns. The adjustments made to disclosures have had no impact on the income statement or the balance sheet for the prior year.

(d) Tax losses

Emerald Oil & Gas NL has tax losses arising in Australia which are available indefinitely to offset against future profits of the Company providing the tests for deductibility against future profits are met. Emerald Gas USA LLC (US) has tax losses arising in the United States which are available up to a maximum of ten years.

The Consolidated Entity has available Australian tax losses of $3,550,167 (2008: $2,255,227), and available USA tax losses are estimated to be $5,888,987 (2008: $3,223,692). The Company has estimated Australian tax losses of $526,573 (2008: $633,026).

The Consolidated Entity has unrecognised deferred tax assets amounting to $2,835,254 (2008: $1,804,860) and the Company has an unrecognised deferred tax asset amounting to $126,036 (2008: $189,908). As at 30 June 2009, a deferred tax asset in relation to tax losses totalling $1,751,991 (2008: $1,461,049) has been recognised. This asset has been recognised to the extent that it nets off from a deferred tax liability in relation to exploration and evaluation expenditure.

Notes to the Financial Statements (continued)

For the year ended 30 June 2009

NOTE 6: INCOME TAX (CONTINUED)

(e) Other unrecognised temporary differences

As at 30 June 2009, the Consolidated Entity has other temporary differences (not associated with tax losses) for which no deferred tax assets or liabilities have been recognised, as follows:

	Consolidated 2009 $	Consolidated 2008 $	Parent 2009 $	Parent 2008 $
Accruals	44,000	47,850	40,500	34,850

NOTE 7: KEY MANAGEMENT PERSONNEL DISCLOSURES

(a) Key Management personnel compensation

Consolidated and Parent	Short term benefits		Share based payments (LTI)	Total	% performance related
	Salary and Fees $	Non Monetary $	Options $	$	%
2009 Consolidated and Parent	597,000	-	34,980	631,980	5.5%
2008 Consolidated and Parent	328,000	-	-	328,000	Nil

(b) Share holdings of key management personnel

The movement during the year in the number of ordinary shares of Emerald Oil & Gas NL held, directly, indirectly or beneficially, by each Director, including their personally-related entities is as follows:

2009

Directors	Held at beginning of year	Movement during year*	Options Exercised	Held at 30 June 2009
Directors				
J. Shervington	3,250,977	-	-	3,250,977
R. Berven	3,479,054	(290,000)	-	3,189,054
J. Hannaford	3,190,928	-	-	3,190,928
Total	**9,920,959**	**(290,000)**	**-**	**9,630,959**

* Movement represents shares sold on market during the financial year.

2008

Directors	Held at beginning of year	Movement during year*	Options Exercised	Held at 30 June 2008
Directors				
J. Shervington	1,912,995	-	1,337,982	3,250,977
R. Berven	3,159,054	220,000	100,000	3,479,054
J. Hannaford	2,649,613	441,315	100,000	3,190,928
Total	**7,721,662**	**661,315**	**1,537,982**	**9,920,959**

* Movement represents shares purchased on market during the financial year.

Notes to the Financial Statements (continued)

For the year ended 30 June 2009

NOTE 7: KEY MANAGEMENT PERSONNEL DISCLOSURES (CONTINUED)

(c) Options holdings of key management personnel

The movement during the reporting period in the number of options over ordinary shares in Emerald Oil & Gas NL held, directly, indirectly or beneficially, by each specified Director and specified executive, including their personally-related entities, is as follows:

2009
Listed Options

Directors	Held at beginning of year	Movement during year	Exercised	Held at 30 June 2009	Vested and exercisable at 30 June 2009
J. Shervington	-	-	-	-	-
R. Berven	-	-	-	-	-
J. Hannaford	-	-	-	-	-
Total	**-**	**-**	**-**	**-**	**-**

2008
Listed Options

Directors	Held at beginning of year	Movement during year*	Exercised	Held at 30 June 2008	Vested and exercisable at 30 June 2008
J. Shervington	1,337,982	-	(1,337,982)	-	-
R. Berven	140,000	(40,000)	(100,000)	-	-
J. Hannaford	100,000	-	(100,000)	-	-
Total	**1,577,982**	**(40,000)**	**(1,537,982)**	**-**	**-**

* Movement represents options sold on market during the financial year

2009
Unlisted Options

Directors	Held at beginning of year	Movement during year*	Exercised	Held at 30 June 2009	Vested and exercisable at 30 June 2009
J. Shervington	1,567,577	(600,000)	-	967,577	967,577
R. Berven	1,000,000	(500,000)	-	500,000	500,000
J. Hannaford	2,250,000	-	-	2,250,000	2,250,000
Specified Executives					
M. Barron	200,000	-	-	200,000	200,000
M. Krzus**	-	5,000,000	-	5,000,000	-
Total	**5,017,577**	**-**	**-**	**8,917,577**	**3,917,577**

* Decrease in J. Shervington and B. Berven options relates to expiry during the period.
** Appointed Managing Director on 13 August 2009. Options issued to M. Krzus have been accounted for as share based payments and are subject to vesting conditions and achieving a 5 day volume weighted average price above 20 cents.

Notes to the Financial Statements (continued)

For the year ended 30 June 2009

NOTE 7: KEY MANAGEMENT PERSONNEL DISCLOSURES (CONTINUED)

2008
Unlisted Options

Directors	Held at beginning of year	Movement during year	Exercised	Held at 30 June 2008	Vested and exercisable at 30 June 2008
J. Shervington	1,567,577	-	-	1,567,577	1,567,577
R. Berven	1,000,000	-	-	1,000,000	1,000,000
J. Hannaford	2,250,000	-	-	2,250,000	2,250,000
Specified Executives					
M. Barron	200,000	-	-	200,000	200,000
Total	**5,017,577**	**-**	**-**	**5,017,577**	**5,017,577**

(d) Loans to key management personnel

As at 30 June 2009 there were no loans to any Directors.

(e) Other Transactions and balances with key management personnel

	Consolidated		Parent	
	2009 $	2008 $	2009 $	2008 $
Other related parties				
1) Legal	-	10,000	-	10,000
2) Serviced office charges	96,000	93,000	96,000	93,000
3) Bookkeeping, financial accounting, company secretarial and admin	116,415	107,873	116,415	107,873
4) & 5) Consulting fees	292,000	180,000	292,000	180,000
6) Directors fees	94,000	76,000	94,000	76,000

1) Payments made or payable to Drumgaghan Pty Ltd trading as Jeremy Shervington Legal Practice, for legal services provided by Jeremy Shervington and employees of Jeremy Shervington Legal Practice in relation to the preparation of legal documentation, agreements, prospectus, notice of meeting and other services in relation to secondary capital raisings.

2) Payments made or payable to Ventnor Capital Pty Ltd a company associated with John Hannaford for serviced offices totalling $96,000 (2008: $93,000) (excl GST).

3) Payments made or payable to Ventnor Capital Pty Ltd (a company associated with John Hannaford) for office bookkeeping, financial accounting, company secretarial and administration services provided by John Hannaford and employees of Ventnor Capital totalling $116,415 (2008: $107,873) (excl GST).

4) Payments were made by the consolidated entity to Berven Consultants Pty Ltd, a company associated with Mr Berven totalling $102,000, (2008: $60,000), for the provision of technical consulting services.

5) Payments were made by the consolidated entity to Ventnor Capital Pty Ltd, a company associated with Mr Hannaford, for consulting services as financial Director $190,000, (2008: $120,000).

Notes to the Financial Statements (continued)

For the year ended 30 June 2009

NOTE 7: KEY MANAGEMENT PERSONNEL DISCLOSURES (CONTINUED)

6) Payments were made by the consolidated entity to the following related party entities in relation to Directors fees:

a. Berven Consultants Pty Ltd, a company associated with Mr Berven totalling $22,000 (2008: $12,000);
b. Riverview Corporation Pty Ltd, a company associated with Mr Hannaford totalling $12,000 (2008: $12,000); and
c. Drumgaghan Pty Ltd trading as Jeremy Shervington Legal Practice, a company associated with Mr Shervington totalling $60,000 (2008: $52,000).

All related party services were provided on normal commercial terms and conditions.

NOTE 8: CASH AND CASH EQUIVALENTS

	Consolidated		Parent	
	2009 $	2008 $	2009 $	2008 $
Cash at bank and on hand [(a)]	2,439,140	5,407,348	2,429,361	5,407,348
[(a)] Cash at bank is bearing floating interest rates at a effective interest rate of:	2.78% per annum	7.02% per annum	2.79% per annum	7.02% per annum

NOTE 9: TRADE AND OTHER RECEIVABLES (Current)

	Consolidated		Parent	
	2009 $	2008 $	2009 $	2009 $
Other receivables	24,304	109,121	24,301	109,118
Refundable deposit	115,009	-	-	-
	139,313	109,121	24,301	109,118

Other receivables do not bear interest and their carrying amount is equivalent to their fair value. Refundable deposits are interest bearing at rates disclosed in Note 28.

NOTE 10: TRADE AND OTHER RECEIVABLES (Non Current)

Loan to subsidiaries	-	-	11,897,255	8,620,318
Less: Allowance for impairment	-	-	(7,728,570)	(5,095,302)
	-	-	4,168,685	3,525,016

Notes to the Financial Statements (continued)

For the year ended 30 June 2009

NOTE 10: TRADE AND OTHER RECEIVABLES (Non Current) (CONTINUED)

Loans between Emerald Oil & Gas NL and entities in the wholly owned group are repayable at call. Interest is charged on at call inter-company loans at a rate of 8% per annum. Classification of at call related party loans as non-current in the financial statements is based upon current expectations of loan repayments. The Directors have considered the indicators of impairment as at 30 June 2009, such as the net assets of the subsidiaries and the commercial and development potential of each entity's projects and have reduced the carrying value of the loan to reflect the value inherent in the subsidiaries' assets where appropriate.

Movements in the allowance for impairment for the year are set out below:

	Consolidated $	Parent $
Balance as at 1 July 2008	-	5,095,302
Impairment allowance recognised	-	2,633,268
Balance as at 30 June 2009	-	7,728,570
Balance as at 1 July 2007	-	1,634,494
Impairment allowance recognised	-	3,460,808
Balance as at 30 June 2008	-	5,095,302

NOTE 11: INVESTMENTS IN SUBSIDIARIES

	Parent 2009 $	Parent 2008 $
Shares in subsidiaries		
At cost (Note 20)	2,936,000	2,936,000
Less: Allowance for impairment*	(2,850,000)	(2,450,000)
Net carrying value	86,000	486,000

* The Directors have considered the indicators of impairment as at 30 June 2009 and consequently reduced the carrying value of the investments to reflect the value of the subsidiaries' net assets.

Notes to the Financial Statements (continued)

For the year ended 30 June 2009

NOTE 12: PLANT AND EQUIPMENT

a. Reconciliation of carrying amounts at the beginning and end of the year:
Consolidated

	Capital Work in Progress $	Plant and Equipment $	Total $
Year ended 30 June 2009			
At 1 July 2008 net of accumulated depreciation and impairment	-	-	-
Additions	157,264	8,593	165,857
Depreciation	-	(157)	(157)
At 30 June 2009 net of accumulated depreciation and impairment	157,264	8,436	165,700
At 30 June 2009			
Cost	157,264	8,593	165,857
Accumulated depreciation	-	(157)	(157)
Net carrying amount	157,264	8,436	165,700

Capital work in progress represents payment made in relation to an amine plant which is under construction.

Parent

	Plant and Equipment $	Total $
Year ended 30 June 2009		
At 1 July 2008 net of accumulated depreciation and impairment	-	-
Additions	8,593	8,593
Depreciation	(157)	(157)
At 30 June 2009 net of accumulated depreciation and impairment	8,436	8,436
At 30 June 2009		
Cost	8,593	8,593
Accumulated depreciation	(157)	(157)
Net carrying amount	8,436	8,436

Notes to the Financial Statements (continued)

For the year ended 30 June 2009

NOTE 13: EXPLORATION & EVALUATION ASSETS

	Consolidated		Parent	
	2009	2008	2009	2008
	$	$	$	$
Exploration and evaluation costs carried forward in respect of areas of interest in the USA and Australia	5,053,839	4,394,937	-	-
(a) Reconciled as follows:				
Balance at the beginning of the year	4,394,937	1,333,517	-	8,996
Capitalised during the year	2,784,213	5,747,715	-	-
Transferred to other group entity	-	-	-	(8,996)
Impairment of exploration expenses*	(1,338,782)	(2,686,295)	-	-
Impairment loss reversal**	511,584	-	-	-
Sale of exploration assets**	(1,298,113)	-	-	-
Balance at the end of the year	5,053,839	4,394,937	-	-

*Throughout the financial year the Board of Directors reviewed exploration, evaluation and development costs capitalised on its projects and made impairment adjustments to a number of its prospects based on the fair value less costs to sell.

Exploration and evaluation expenditure impaired during the year relates to the Steamboat, Palito Blanco and EP-104 oil and gas prospects (2008: Pandura, Progresso, Greenbush, Hope, Glamour Girl, EP-104 and Palito Blanco). After assessing the potential of each project, the Directors are of the opinion that the costs associated with these projects should be written off.

** During the year the Operator of the Greenbush Project farmed-out the project to Encore Operating LP with Encore to reimburse the project partners for previous sunk costs in the project. Emerald retained a free carried 3.75% working interest after payout in the project and received a reimbursement of A$1,298,113 cash for its drilling, 3-D seismic and leasing costs. This resulted in the reversal of impairment provisions totalling $511,584 based on a recoverable amount determined as the fair value less costs to sell, such that there was no gain or loss on disposal of this asset.

The recoverability of the carrying amount of deferred exploration and evaluation expenditure is dependent on the successful development and commercial exploitation, or alternatively the sale, of the respective areas of interest.

NOTE 14: TRADE AND OTHER PAYABLES

	Consolidated		Parent	
	2009	2008	2009	2008
	$	$	$	$
Trade Creditors	151,136	141,044	151,136	141,044
Accruals	44,000	47,850	40,500	34,850
	195,136	188,894	191,636	175,894

Trade payables are non interest bearing, unsecured and are usually paid within 30 days of recognition.

Notes to the Financial Statements (continued)

For the year ended 30 June 2009

NOTE 15: CONTRIBUTED EQUITY

	Number of Shares	$
Parent Entity		
2009		
(a) Issued and Paid Up Capital		
Fully paid ordinary shares	115,481,534	95,364,479
(b) Movements in fully paid shares on issue		
Opening balance as at 1 July 2007	49,619,261	85,365,548
Issue of shares		
Capital raising to the public	50,250,000	7,320,000
Share issue costs	-	(453,524)
On exercise of options	15,862,273	3,172,455
Cancelled shares	(250,000)	(40,000)
Total fully paid shares on issue at 30 June 2008	115,481,534	95,364,479
Total fully paid shares on issue at 30 June 2009	115,481,534	95,364,479

Consolidated Entity

The contributed equity of the Consolidated Entity comprises the contributed equity of Emerald Gas Pty Ltd, a company deemed to be the acquirer of Emerald Oil and Gas NL under a reverse acquisition transaction. The monetary share capital balance represents the equity in Emerald Gas Pty Ltd at the time of the acquisition plus the fair value of the equity held in Emerald Oil and Gas NL and subsequent transactions with equity holders of Emerald Oil & Gas NL in their capacity as equity holders.

(c) Terms and conditions of contributed equity

Ordinary shares have the right to receive dividends as declared, and the proceeds on winding up of the parent entity in proportion to the number of shares held.

At shareholders meetings each ordinary share is entitled to one vote when a poll is called, otherwise each shareholder has one vote on a show of hands.

(d) Share Options

Information relating to options issued, exercised and expired during the financial year and options outstanding at the end of the financial year, is set out below:

Parent Entity	**2009**	**2008**
	No.	**No.**
Balance at beginning of the year	6,486,639	6,486,639
Issued during the year	7,000,000	-
Expired during the year	(2,000,000)	-
Balance at the end of the year	**11,486,639**	**6,486,639**

(e) Capital management

The Board's policy is to maintain a strong capital base so as to maintain investor, creditor, and market confidence and to sustain future development of the business. Given the stage of the Company's development there are no formal targets set for return on capital. Capital consists of contributed equity as disclosed in the balance sheet. There were no changes to the Company's approach to capital management during the year. The Company is not subject to externally imposed capital requirements.

Notes to the Financial Statements (continued)

For the year ended 30 June 2009

NOTE 16: RESERVES

Nature and purpose of reserves

1) Options reserve - The options reserve is used to record the value of options issued against the services received.

NOTE 17: SEGMENT REPORTING

Geographical Segment – primary reporting segment

The Consolidated Entity operates solely in the exploration and development of properties for the development of oil and gas within Australia and the USA.

2009 **Geographical segment**	**USA** **$**	**Australia** **$**	**Eliminations** **$**	**Consolidated** **$**
Segment revenues	-	800,406	(792,121)	8,285
Unallocated revenue				230,647
Total revenue				238,932
Segment result	(951,242)	(4,467,309)	3,033,268	(2,385,283)
Unallocated Revenues (Interest)				230,647
Net loss for the year				(2,154,636)
Segment assets	7,120,587	7,443,957	(6,766,552)	7,797,992
Segment liabilities	(6,264,737)	(2,957,348)	9,026,949	(195,136)
Net impairment (losses)/reversals:				
Exploration properties	336,162	(1,163,360)	-	(827,198)
Investments	-	(400,000)	400,000	-
Share-based payments	-	(45,780)	-	(45,780)
Acquisition of non current assets	2,857,458	92,613	-	2,950,071

2008 **Geographical segment**	**USA** **$**	**Australia** **$**	**Eliminations** **$**	**Consolidated** **$**
Segment result	(2,332,851)	(5,573,644)	4,599,394	(3,307,101)
Unallocated Revenues (Interest)				143,480
Net loss for the year				(3,163,621)
Segment assets	3,223,861	11,333,866	(4,646,321)	9,911,406
Segment liabilities	(6,798,808)	(2,645,707)	9,255,621	(188,894)
Impairment losses:				
Exploration properties	(1,671,870)	(1,014,425)	-	(2,686,295)
Investments	-	(350,000)	350,000	-
Share-based payments	-	-	-	-
Acquisition of exploration & evaluation assets	3,578,072	2,169,643	-	5,747,715

Notes to the Financial Statements (continued)

For the year ended 30 June 2009

NOTE 18: CASH FLOW INFORMATION

Reconciliation of cash flow from operations with loss after income tax:

	Consolidated 2009 $	Consolidated 2008 $	Parent 2009 $	Parent 2008 $
Loss for the year	(2,154,636)	(3,163,621)	(2,861,421)	(3,488,812)
Non cash items:				
Depreciation	157	-	157	-
Share based payments	34,980	-	34,980	-
Allowance for impairment of loan receivable	-	-	2,633,268	3,460,808
Allowance for impairment of investment in subsidiaries	-	-	400,000	350,000
Net impairment of exploration expenditure	827,198	2,686,295	-	-
Effect of exchange rates	150	-	-	-
Changes in assets and liabilities				
Change in trade creditors and accruals	6,242	1,829	(829,365)	(799,990)
Change in other debtors	84,817	(103,359)	84,817	(104,391)
Change in other assets	(115,009)	-	-	-
Change in deferred tax balances	-	-	-	-
Cash flows used in operations	**(1,316,101)**	**(578,856)**	**(537,564)**	**(582,385)**

NOTE 19: NON CASH INVESTING AND FINANCING ACTIVITIES

	Consolidated 2009 $	Consolidated 2008 $	Parent 2009 $	Parent 2008 $
Cancellation of share capital	-	(40,000)	-	(40,000)
Intercompany loan interest	-	-	(792,121)	(426,224)
Management fees (i)				(362,362)
Other			(52,986)	(61,983)

(i) Refer to note 21(b).

NOTE 20: INTERESTS IN CONTROLLED ENTITIES

The Company has the following Subsidiaries:

Name of Subsidiary	Place of Incorporation	Class of Shares	Percentage held 2009	Percentage held 2008	Parent Cost $	Parent Net Book Value $
Emerald Gas USA LLC	USA	Ordinary	100%	100%	1	1
Emerald Gas Pty Ltd	Australia	Ordinary	100%	100%	2,936,000	86,000
Emerald Gas USA Holdings Inc*	USA	Ordinary	100%	-	-	-
Emerald Gas Development USA LLC*	USA	Ordinary	100%	-	-	-

* Entity incorporated/formed during the year.

Notes to the Financial Statements (continued)

For the year ended 30 June 2009

NOTE 21: RELATED PARTY TRANSACTIONS

(a) Parent Entities
The parent entity within the Group is Emerald Oil & Gas NL.

(b) Subsidiaries
Interests in subsidiaries are set out in Note 20.

	Parent	
	2009 **$**	**2008** **$**
Management fees charges to US subsidiaries	-	362,362

The Company has adopted a direct cost allocation method in the current year and as such has eliminated the management fees charged to US subsidiaries.

(c) Key management personnel
Disclosures relating to key management personnel are set out in Note 7.

(d) Loans to and from related parties

	Parent	
	2009 **$**	**2008** **$**
Loans to Subsidiaries		
Beginning of the year	3,525,016	443,647
Loans advanced	3,782,929	6,155,953
Interest on loan balances	792,121	426,224
Reduction due to cancelled shares	-	(40,000)
Repayment of loan on asset sale	(1,298,113)	-
Provision for impairment	(2,633,268)	(3,460,808)
End of year	4,168,685	3,525,016

(e) Terms and Conditions
Loans between entities in the wholly owned group are interest bearing at a fixed rate of 8% per annum, unsecured and are payable at call. It is not expected that the loans will be called upon in the coming 12 months.

Transactions with other related parties are made on normal commercial terms and conditions and at market rates. Outstanding balances are unsecured and are repayable in cash.

Notes to the Financial Statements (continued)

For the year ended 30 June 2009

NOTE 22: AUDITORS' REMUNERATION

	Consolidated		Parent	
	2009 $	2008 $	2009 $	2008 $
Amounts received or due and receivable by Ernst & Young				
Audit of the financial report of the entity and any other entity in the Group	36,035	33,578	36,035	33,578

NOTE 23: SHARE BASED PAYMENTS

(a) Expenses arising from share-based payment transactions

Total expenses arising from share-based payment transactions recognised during the period as part of employee benefit expense were as follows:

	Consolidated		Parent	
	2009 $	2008 $	2009 $	2008 $
Options issued to Key Management Personnel(1)	34,980	-	34,980	-
Options issued to other parties (2)	10,800	-	10,800	-
	45,780	**-**	**45,780**	**-**

The above expenses are represented by the following:

(1) During the year, 5,000,000 (2008: Nil) options were issued to executives. This resulted in an expense of $34,980 (2008: $Nil) in the current year. Options vest in 4 tranches and are only exercisable upon Emerald realising a volume weighted average share price of greater than 20 cents for 5 consecutive days.

(2) During the year, 2,000,000 (2008: Nil) options were issued to consultants in relation to capital raising services provided to the Company. This resulted in a reduction of contributed capital of $10,800 (2008: $Nil) in the current year. These were valued using the Black Scholes model. Inputs are detailed in part (d).

(b) Share Based Payment Plans

The Company currently has an Employee Share Option Plan (ESOP) in place for senior executives. Under the ESOP, Options may be issued to senior executives under the plan in accordance with the performance of the company and the services provided by the executive at the discretion of the Board. Options issued under the plan vest immediately and have a contractual life of 3 years.

Notes to the Financial Statements (continued)

For the year ended 30 June 2009

NOTE 23: SHARE BASED PAYMENTS (CONTINUED)

(c) Summary of Options Granted for the year

Options issued under ESOP arrangements

The following table illustrates the number and weighted average exercise price of, and movements in, share options issued under the ESOP during the year:

	2009 No.	2009 WAEP	2008 No.	2008 WAEP
Outstanding at the beginning of the year	325,000	$0.25	325,000	$0.25
Granted during the year	-	-	-	-
Exercised during the year	-	-	-	-
Expired during the year	-	-	-	-
Outstanding and exercisable at the end of the year	325,000	$0.25	325,000	$0.25

The outstanding ESOP option balance at 30 June 2009 is represented by options over ordinary shares with an exercise price of $0.25 each (2008: $0.25), exercisable immediately and until 31 December 2009. These options were issued to executives and consultants.

The weighted average remaining contractual life of ESOP share options outstanding as at 30 June 2009 is 0.5 years (2008: 1.5 years) and they are exercisable at 25 cents (2008: 25 cents).

(d) Weighted average fair value

The fair value at grant date is determined using a Black-Scholes option pricing model that takes into account the exercise price, the term of the option, the impact of dilution, the non-tradeable nature of the option, 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.

2009 Granted	Terms & Conditions for each Grant						Vested	
No Granted	Grant Date	Fair Value at Grant Date	Exercise Price per Option	Expiry Date	First Exercise Date	Last Exercise Date	No	%
2,000,000 (1)	28/11/08	$0.0054	$0.25	31/5/11	28/11/08	31/5/11	2,000,000	100
1,250,000 (2)	11/05/09	$0.0283	$0.10	31/03/14	1/8/09	31/03/14	-	-
1,250,000 (2)	11/05/09	$0.0283	$0.10	31/03/14	1/2/10	31/03/14	-	-
1,250,000 (2)	11/05/09	$0.0283	$0.10	31/03/14	1/8/10	31/03/14	-	-
1,250,000 (2)	11/05/09	$0.0283	$0.10	31/03/14	1/2/11	31/03/14	-	-

(1) Options issued to unrelated parties in consideration for capital raising.
(2) Options issued to Mike Krzus who was appointed Managing Director on 13 August 2009.
* Subject to satisfying vesting conditions and achieving a 5 day volume weighted average price above 20 cents.

Notes to the Financial Statements (continued)

For the year ended 30 June 2009

NOTE 23: SHARE BASED PAYMENTS (CONTINUED)

2008								
Granted	Terms & Conditions for each Grant						Vested	
No Granted	Grant Date	Fair Value at Grant Date	Exercise Price per Option	Expiry Date	First Exercise Date	Last Exercise Date	No	%
-	-	-	-	-	-	-	-	-

The weighted average remaining contractual life of all share options outstanding as at 30 June 2009 is 2.8 years (2008: 1.5 years) at a weighted average exercise price of 18.9 cents (2008: 25.8 cents).

The table below summaries the model inputs for options granted during 2009:

Model Inputs	KMP Options	Consultant Options
1. Options granted for no consideration:	5,000,000	2,000,000
2. Exercise price (cents):	10	25
3. Issue date:	11 May 2009	28 November 2008
4. Assumed exercise date:	30 September 2012	31 May 2011
5. Underlying security spot price at grant date (cents):	5.2	4.9
6. Expected price volatility of the company's shares:	100%	75%
7. Expected dividend yield:	0%	0%
8. Risk-free interest rate	3.90%	5.25%
Black & Scholes Valuation per Option	0.0283	0.0054

NOTE 24: EXPENDITURE COMMITMENTS

	Consolidated		Parent	
	2009 $	2008 $	2009 $	2008 $
Expenditure commitments				
At 30 June 2009 the Group has commitments being minimum work requirements under exploration permits for petroleum as follows:	21,010,000	1,200,000	-	-
Less than one year	330,000	1,200,000	-	-
Within one to five years	10,180,000*	-	-	-
Greater than five years	10,500,000*	-	-	-
Total	**21,010,000**	**1,200,000**	-	-

* The Group is pursuing opportunities to farm out some of this expenditure.

The commitments are required in order to maintain the petroleum exploration permits in which the Group has interests in good standing with the DMP. These obligations may be varied from time to time, subject to approval by the DMP. Emerald has also agreed, subject to completion of due diligence and a sales and purchase agreement, to issue 1,500,000 ordinary shares to P & J Resources, Inc as consideration for a 25% interest in a 10 inch pipeline system. Expenditure commitments in relation to joint venture assets held are set out in Note 26.

Notes to the Financial Statements (continued)

For the year ended 30 June 2009

NOTE 25: CONTINGENCIES

During the period the Group was made aware of a claim in relation to the Appalachian properties with an estimated value of approximately $15,000 in shares and options, for which the Group considers it may have a counterclaim, and no provision has been made in the financial statements.

The Directors are not aware of any other contingencies that the company is party to that are quantifiable. Contingencies in relation to joint venture assets held are set out in Note 26.

NOTE 26: JOINT VENTURE ASSETS

The capitalised exploration expenditure on the balance sheet includes the costs incurred on the following non-operated exploration joint venture assets:

Kentucky (USA) – Appalachian Basin
100% working interest (87.5% NRI) in 8 wells located in Kentucky, USA. Carrying value at 30 June 2009: $2,690,043 (2008: $1,155,652).

West Virginia (USA) – Appalachian Basin
80% working interest (65% NRI) in 3 wells and associated infrastructure assets located in West Virginia, USA. Carrying value at 30 June 2009: $1,405,751 (2008: $724,147).

Greenbush (USA) – 3.75% working interest in the Greenbush oil exploration project located in North Dakota. Carrying value at 30 June 2009: $Nil (2008: $676,750).

North West Alice (USA) - 14% working interest (2008: 10%) in the North West Alice gas exploration project located in Texas. Carrying value at 30 June 2009: $866,309 (2008: $659,190).

Steamboat (USA) - 25% working interest in the Steamboat gas exploration project located in Texas. Carrying value at 30 June 2009: $Nil (2008: $8,121).

EP104/Retention Lease R1/Application L98-1 – Canning Basin (Western Australia) - 12.75% working interest in the EP104 oil and gas exploration project located in the Canning basin in Western Australia. Carrying value at 30 June 2009: $Nil (2008: $1,108,994).

Joint venture commitments and contingencies
There are no commitments within the current Joint Ventures.
The Directors are not aware of any contingent liabilities arising from the Joint Venture operations.

Notes to the Financial Statements (continued)

For the year ended 30 June 2009

NOTE 27: FINANCIAL RISK MANAGEMENT

The Group's activities expose it to a variety of financial risks; market risk (including currency risk, fair value interest rate risk and price risk), credit risk, liquidity risk and cash flow interest rate risk. The Group'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 Group.

Risk management is carried out by the Board of Directors. The Board provides written principles for overall risk management, as well as policies covering specific areas, such as mitigating foreign exchange and interest rate and credit risks.

a) Foreign exchange risk
The Group operates internationally and is exposed to foreign exchange risk arising from currency exposures to the US dollar.

Foreign currency risk refers to the risk that the fair value of future cash flows of a financial instrument will fluctuate due to exchanges in foreign exchange rates. Emerald is exposed to foreign exchange currency risk primarily through undertaking certain transactions denominated in foreign currency. Risks are managed at Board level but there are currently no formal measures in place.

At 30 June 2009, the Group had the following exposures to US$ foreign currency risk that is not designated in cash flow hedges:

	Consolidated		Parent	
	2009	2008	2009	2008
	$	$	$	$
Financial assets				
Cash and cash equivalents	9,903	-	-	-
Deposits and prepayments	115,009	-	-	-
Total financial assets	124,912	-	-	-
Financial liabilities	(3,500)	(13,000)	-	-
Net exposure	121,412	(13,000)	-	-

b) Market Risk
Price risk
The Group is not exposed to equity securities price risk as it holds no investments in securities classified on the balance sheet either as available for sale or at fair value through profit or loss.

The Company is exposed to commodity price risk through the future sales of oil and gas. Whilst the Group commenced commercial gas production in 2009, no revenues have been recorded as at 30 June 2009 in accordance with the Company's accounting policy for revenue and therefore no sensitivity analysis is provided.

Notes to the Financial Statements (continued)

For the year ended 30 June 2009

NOTE 27: FINANCIAL RISK MANAGEMENT (CONTINUED)

c) Credit Risk
The maximum exposure of the Consolidated Entity and the Company to credit risk at balance sheet date in relation to each class of recognised financial asset is limited to the carrying amounts of the financial assets as indicated in the balance sheet. The credit risk relates to trade and other receivables and deposits. At balance date there are no receivables past due. The company monitors its debtors consistently to minimise its exposure to credit risk.

Emerald is currently aligned with financial institutions that demonstrate high credit quality, significantly mitigating credit risk in regard to the Group's financial assets.

The only concentration of credit risk relates to the refundable deposits of $115,009 (2008: Nil) to one counterparty, as shown in Note 9.

d) Liquidity Risk
Prudent liquidity risk management implies maintaining sufficient cash to meet commitments as and when they fall due. Management monitors rolling cash flow forecasts to manage liquidity risk. The only financial liabilities of the Group at balance date are trade and other payables. The amounts are unsecured and are usually paid within 30 days of recognition.

e) Cashflow and Fair value Interest Rate Risk
The Group's exposure to interest rate risk relates primarily to the Company's floating interest rate cash balance which is subject to movements in interest rates. The Board monitors its cash balance on an ongoing basis and liaises with its financiers regularly to mitigate cash flow and interest rate risk. Refer to Note 28 for interest rate risk exposure and sensitivity analysis.

There were no changes to the risk management policies from prior years.

NOTE 28: FAIR VALUE AND INTEREST RATE RISK

(a) Fair value
All financial assets and financial liabilities recognised in the balance sheet, whether they are carried at cost or fair value, are recognised at amounts that represent a reasonable approximation of fair value unless otherwise stated in the applicable notes

Notes to the Financial Statements (continued)

For the year ended 30 June 2009

NOTE 28: FAIR VALUE AND INTEREST RATE RISK (CONTINUED)

(b) Interest rate risk
Emerald's exposure to interest rate risk is set out below:

2009 Consolidated	Weighted average effective interest rate	Floating interest rate	Non interest bearing	Total
	%	$	$	$
Financial assets				
Cash and cash equivalents	2.78%	2,439,140	-	2,439,140
Trade and other receivables		-	24,304	24,304
Deposits		-	115,009	115,009
Total Financial Assets		2,439,140	139,313	2,578,453
Financial Liabilities				
Trade and other payables		-	(195,136)	(195,136)
Total Financial Liabilities		-	(195,136)	(195,136)

2008 Consolidated	Weighted average effective interest rate	Floating interest rate	Non interest bearing	Total
	%	$	$	$
Financial assets				
Cash and cash equivalents	7.02%	5,407,348	-	5,407,348
Trade and other receivables		-	109,121	109,121
Total Financial Assets		5,407,348	109,121	5,516,469
Financial Liabilities				
Trade and other payables		-	(188,894)	(188,894)
Total Financial Liabilities		-	(188,894)	(188,894)

2009 Parent	Weighted average effective interest rate	Floating interest rate	Fixed interest rate	Non interest bearing	Total
	%	$	$	$	$
Financial assets					
Cash and cash equivalents	2.79%	2,429,361	-	-	2,429,361
Receivables		-	-	24,301	24,301
Loans to subsidiaries	8.00%	-	4,168,685	-	4,168,685
Total Financial Assets		2,429,361	4,168,685	24,301	6,622,347
Financial Liabilities					
Trade and other payables		-	-	(191,636)	(191,636)
Total Financial Liabilities		-	-	(191,636)	(191,636)

Notes to the Financial Statements (continued)

For the year ended 30 June 2009

NOTE 28: FAIR VALUE AND INTEREST RATE RISK (CONTINUED)

2008 Parent	Weighted average effective interest rate	Floating interest rate	Fixed interest rate	Non interest bearing	Total
	%	$	$	$	$
Financial assets					
Cash and cash equivalents	7.02%	5,407,348	-	-	5,407,348
Receivables		-	-	109,118	109,118
Loans to subsidiaries	8.00%	-	3,525,016	-	3,525,016
Total Financial Assets		5,407,348	3,525,016	109,118	9,041,482
Financial Liabilities					
Trade and other payables		-	-	(175,894)	(175,894)
Total Financial Liabilities		-	-	(175,894)	(175,894)

Sensitivity Analysis

The table below details sensitivities to the Group's exposures to changes in the interest rate and the Australian to US dollar exchange rate. The analysis indicates the impact on profit and equity values reported at balance date, holding all other variables constant. These sensitivities assume that the movement in a particular variable is independent of other variables.

		Effect On:		**Effect On:**	
Risk Variable	**Sensitivity***	**Profit 2009 $**	**Equity 2009 $**	**Profit 2008 $**	**Equity 2008 $**
Interest Rate	+ 0.50%	12,089	12,089	26,911	26,911
	- 0.50%	(12,089)	(12,089)	(26,911)	(26,911)
AUD:USD rate	+ 5.0%	6,071	6,071	(650)	(650)
	- 5.0%	(6,071)	(6,071)	650	650

*The method used to arrive at the possible interest rate change was based on the analysis of the absolute nominal change of the Reserve Bank of Australia (RBA) monthly issued cash rate. Historical rates indicate that for the past five financial years, there was a bias towards an increase in interest rate ranging between 0 to 50 basis points. It is considered that 50 basis points is a 'reasonably possible' estimate as it accommodates for the maximum variations inherent in the interest rate movement over the past five years. AUD to USD rate movements are considered to be reasonably possible by management.

NOTE 29: EVENTS SUBSEQUENT TO BALANCE DATE

The Company is not aware of any matters or circumstances have arisen since the end of the financial year which significantly affected or may significantly affect the operations of the Company or Consolidated Entity, the results of those operations or the state of affairs of the Company and Consolidated Entity in subsequent financial years.

Emerald OIL & GAS NL

ACN: 009 795 046

Directors' Declaration

In the Directors' opinion:

a) the financial statements, notes and additional disclosures included in the Directors' Report designated as audited, of the Company and of the Consolidated Entity are in accordance with the *Corporations Act 2001,* including:

i. giving a true and fair view of the Company's and Consolidated Entity's financial position as at 30 June 2009 and of their performance, as represented by the results of their operations, changes in equity and their cash flows, for the financial year ended on that date; and

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

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

This declaration has been made after receiving the declarations by the Chief Executive Officer and Chief Financial Officer required by section 295A of the *Corporations Act 2001* for the financial year ended 30 June 2009.

This declaration is made in accordance with a resolution of the Directors.

On behalf of the Board

M. Krzus
Managing Director

Perth
24 September 2009

Independent Audit Report

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Independent auditor's report to the members of Emerald Oil & Gas NL

Report on the Financial Report

We have audited the accompanying financial report of Emerald Oil & Gas NL, which comprises the balance sheet as at 30 June 2009, and the income statement, statement of changes in equity and cash flow statement for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with the Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Act 2001. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 1, the directors also state that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, we consider internal controls relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independence

In conducting our audit we have met the independence requirements of the Corporations Act 2001. We have given to the directors of the company a written Auditor's Independence Declaration, a copy of which is included in the directors' report.

Independent Audit Report (continued)

Auditor's Opinion

In our opinion:

1. the financial report of Emerald Oil & Gas NL is in accordance with the Corporations Act 2001, including:

   i giving a true and fair view of the financial position of Emerald Oil & Gas NL and the consolidated entity at 30 June 2009 and of their performance for the year ended on that date; and

   ii complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001.

2. the financial report also complies with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Report on the Remuneration Report

We have audited the Remuneration Report included in pages 23 to 30 of the directors' report for the year ended 30 June 2009. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the Corporations Act 2001. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Auditor's Opinion

In our opinion the Remuneration Report of Emerald Oil & Gas NL for the year ended 30 June 2009, complies with section 300A of the Corporations Act 2001.

Ernst & Young

Ernst & Young

J C Palmer
Partner
Perth
24 September 2009

JP:HG:EMERALDOIL&GAS:007

ASX Additional Information

Additional information required by the ASX Limited Listing Rules not disclosed elsewhere in this Annual Report is set out below.

Shareholdings

The issued capital of the Company at 31 August 2009 is 115,481,534 ordinary fully paid shares. All ordinary shares carry one vote per share.

Top 20 Shareholders as at 31 August 2009

		No. of Shares Held	% Held
1	Klip Pty Ltd	9,523,424	8.25%
2	Rotherwood Enterprises Pty Ltd	7,000,000	6.06%
3	Cheryl Pearse Enterprises Pty Ltd	5,666,842	4.91%
4	Drum Gaghan Pty Ltd	3,150,977	2.73%
5	Zadar Holdings Pty Ltd	3,029,054	2.62%
6	Dick Cooper Exploration Pty Ltd	2,819,054	2.44%
7	Greatcity Corporation Pty Ltd	2,763,000	2.39%
8	Cadex Petroleum Pty Ltd	2,655,184	2.30%
9	National Nominees Pty Ltd	2,641,096	2.29%
10	Mr Robert Archer Black & Dr Ann Carolyn Black	2,400,000	2.08%
11	Mr Graeme Bateman Gould & Mrs Carolyn Mary Gould	2,300,000	1.99%
12	UBS Wealth Management Australia Nominees Pty Ltd	2,058,047	1.78%
13	Dr Salim Cassim	1,985,175	1.72%
14	C W Johnston Pty Ltd	1,595,000	1.38%
15	Mr Gregory Vincent Beirne & Ms Josephine Anne Beirne	1,492,821	1.29%
16	Mr Saleem Shehadie	1,335,900	1.16%
17	Rivercrest Enterprises Pty Ltd	1,265,000	1.10%
18	Ozzitec Incorporated	1,205,619	1.04%
19	Mrs Emma Kate Hannaford	1,188,042	1.03%
20	Mr John Andrew Hannaford	1,188,042	1.03%
		57,262,277	49.59%

Shares Range	No. of Holders	No. of Shares
1 – 1,000	295	42613
1,001 – 5,000	114	393,441
5,001 – 10,000	331	2,420,991
10,001 – 100,000	558	18,757,168
100,001 and over	125	93,867,321
	1,423	115,481,534
Number holding less than a marketable parcel size of 8,928 shares at $0.056 per share	647	1,938,812

Shareholders by Location	No. of Holders	No. of Shares
Australian holders	1,376	106,877,397
Overseas holders	47	8,604,137
	1,423	115,481,534

ASX Additional Information (continued)

Voting Rights

In accordance with the Company's Constitution, on a show of hands every shareholder present in person or by proxy, attorney or representative of a shareholder has one vote and on a poll every shareholder present in person or by proxy, attorney or representative of a shareholder has in respect of fully paid shares, one vote for every share held. No class of option holder has a right to vote, however the shares issued upon exercise of options will rank pari passu with the then existing issued fully paid ordinary shares.

Substantial Shareholders as at 31 August 2009

		No. of Shares Held	% Held
1	Greg Beirne	18,795,681	16.26%

Unlisted Options

Options Range	No. of Holders	No. of Options
1 – 1,000	-	-
1,001 – 5,000	-	-
5,001 – 10,000	-	-
10,001 – 100,000	1	75,000
100,001 and over	13	11,411,638
	14	11,486,638

Option holders by Location	No. of Holders	No. of Options
Australian holders	14	11,486,638
Overseas holders	-	-
	14	11,486,638

Unlisted Option Holders

		No. of Options Held	% Held
1	Mr Mike Krzus	5,000,000	43.54%
2	Sonmit Pty Ltd	980,000	8.53%
3	Ventnor Capital Pty Ltd	750,000	6.53%
4	Mr John Andrew Hannaford	712,500	6.20%
5	Greatcity Corporation Pty Ltd	712,500	6.20%
6	Drum Gaghan Pty Ltd	661,638	5.76%
7	Azure Capital Investments Pty Ltd	600,000	5.22%
8	Panga Pty Ltd	600,000	5.22%
9	Zadar Holdings Pty Ltd	500,000	4.35%
10	Gandria Capital Pty Ltd	420,000	3.66%
11	Mr Morgan Barron	200,000	1.74%
12	Dick Cooper Exploration Pty Ltd	150,000	1.31%
13	Mr Marvin G Ginzel	125,000	1.09%
14	Celery Pty Ltd	75,000	0.65%
		11,486,638	100.00%