



**Emerald**

OIL & GAS NL

**Interim Financial Report**  
**for the half year ended 31 December 2010**

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This half year financial report covers the Consolidated Entity consisting of Emerald Oil & Gas NL and its subsidiaries. The financial report is presented in Australian dollars.

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  
Suite 2  
12 Parliament Place  
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 2 to 7.

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## Corporate Information

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### **Directors:**

Jeremy Shervington  
*Chairman*

Mike Krzus  
*Managing Director*

John Hannaford  
*Non Executive Director*

Morgan Barron  
*Company Secretary*

### **Registered & Principal Office:**

Suite 2, 12 Parliament Place  
WEST PERTH WA 6005  
Telephone: + 618 9482 0510  
Facsimile: + 618 9482 0505

### **Postal Address:**

P.O. Box 902  
WEST PERTH WA 6872

### **Auditors:**

HLB Mann Judd  
Level 4, 130 Stirling Street  
PERTH WA 6000

### **Solicitors - Perth:**

Jeremy Shervington  
52 Ord Street  
WEST PERTH WA 6005

### **Home Securities Exchange:**

Australian Securities 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 (within Australia) (08) 9315 2333

## Directors' Report

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Your Directors have pleasure in submitting their report on the Group; being the Company and its controlled entities, for the half-year ended 31 December 2010.

### DIRECTORS

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

Jeremy Shervington	Non Executive Chairman
Mike Krzus	Managing Director
Robert Berven	Non Executive Director (resigned 31 Dec 10)
John Hannaford	Non Executive Director

Directors have been in office since the start of the financial year to the date of this report unless otherwise stated.

### PRINCIPAL ACTIVITIES

The principal activities of Emerald Oil & Gas NL for the period were the exploration and evaluation of oil and gas resources in the USA and Australia. There were no changes to the principal activities during the period.

### RESULTS

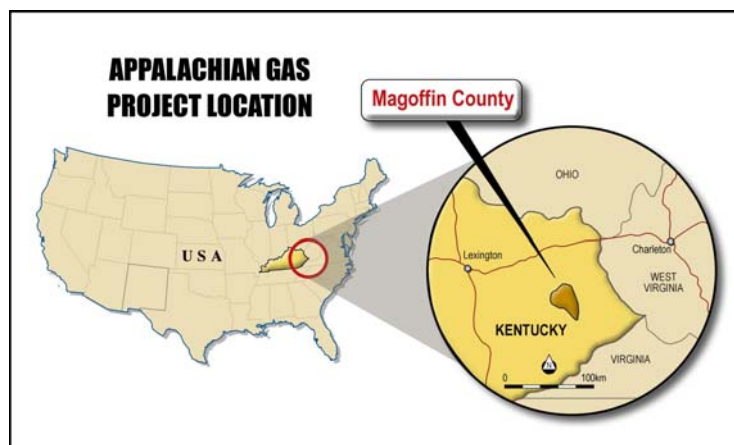
The net loss of the Group for the half-year ended 31 December 2010 after income tax amounted to \$2,294,379 (2009: \$1,828,266).

### OPERATING AND FINANCIAL REVIEW

#### USA Projects

##### Appalachian Gas

Emerald's Appalachian gas activities are conducted through Kentucky Energy Partners LLC (KEP). Emerald owns 75% of KEP, with the other 25% being held by Slone Production LLC. KEP currently holds approximately 1,400 acres of leases, containing 14 potentially productive existing gas wells in Magoffin County, Kentucky and is concurrently progressing several separate gas projects. KEP is currently producing approximately 170Mcf/d of sales gas.



Directors' Report



**Beetree Project**

The Beetree Project consists of a new 10 km gathering line and a new sales gas pipeline tap and several existing sweet gas wells.

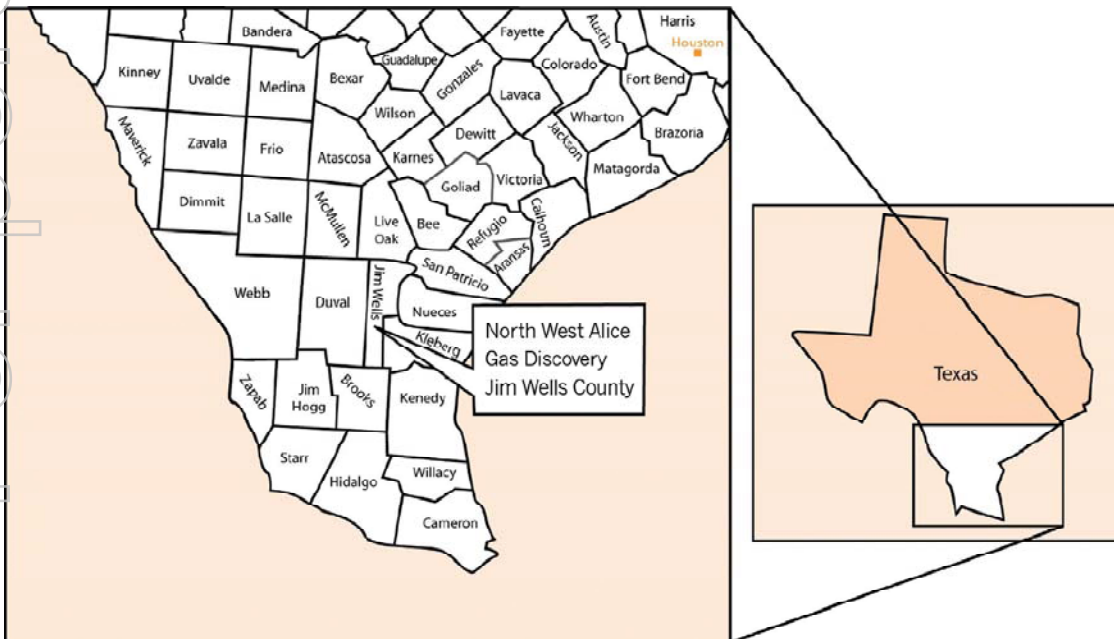
Construction was completed and initial production established at the end of October with production from one well. Stabilised production rates of 150 Mcfd have been established from this single well. Beetree production is expected to increase to over 500Mcf/d after a second well is hooked up and compression is commissioned. Timing for this is dependent on weather, with wet winter conditions constraining field activity.

KEP has identified a number of existing gas wells to connect to the new Beetree gas infrastructure and is currently assessing these for potential acquisition and tie in to further increase sale gas production.

**Beetree pipelining operations**

**North West Alice - Jim Wells County, Texas**

The NW Alice gas/condensate field was discovered by the RJ Hunter #1 well in 2007 (Emerald 10% WI) and is located in central Jim Wells County, near the town of Alice, Texas.



**Jim Wells County, USA Location Map**

Emerald holds a 35% working interest in approximately 3,700 acres of oil and gas

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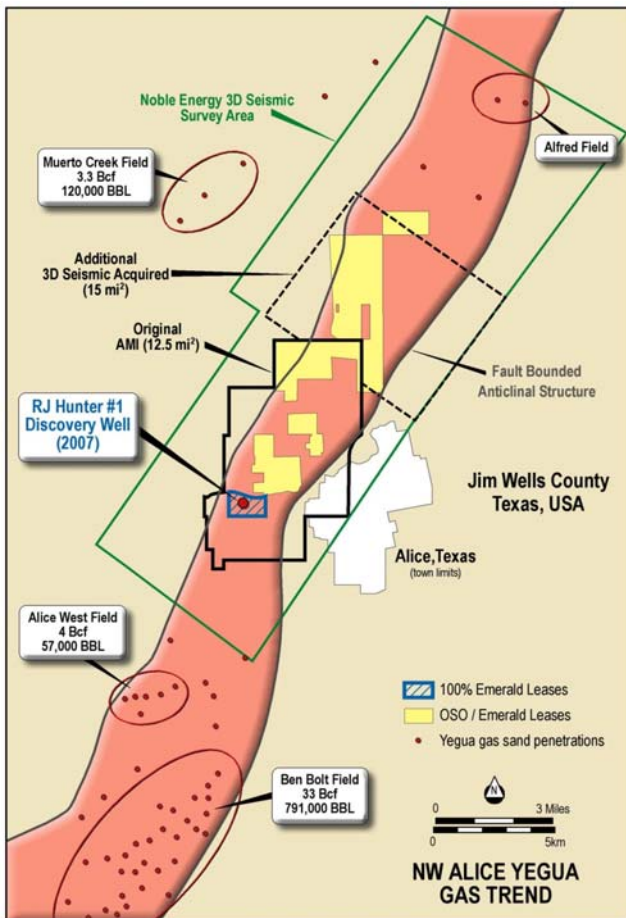
## Directors' Report

leases and 27 square miles of high quality 3D seismic data over the gas bearing NW Alice structure near the town of Alice in Jim Wells County, Texas. Oso Exploration, the operator, holds the remaining 65%.

During November/December 2010, Emerald participated in drilling the Lake Alice Gas Unit #1 well, targeting the same Yegua gas/condensate sands discovered in the RJ Hunter well, drilled in 2007. The well was drilled trouble free to a total depth of 8,300 feet with strong gas shows recorded in the Hockley sands and the target Yegua sands. However, sidewall cores subsequently indicated the Yegua sands to be anomalously tight and unlikely to flow at commercial rates.

The well was plugged back to the intermediate casing and the Hockley sands were perforated for testing. Testing problems resulting from a poor cement job resulted in several attempts to obtain flow from the Hockley sands, with final attempts in February indicating the Hockley sands incapable of commercial production in this well.

Emerald is currently awaiting advice from the Operator on plans to plug and abandon the Lake Alice Gas Unit #1 well and on plans to review the 3D seismic data to identify further NW Alice drilling opportunities.





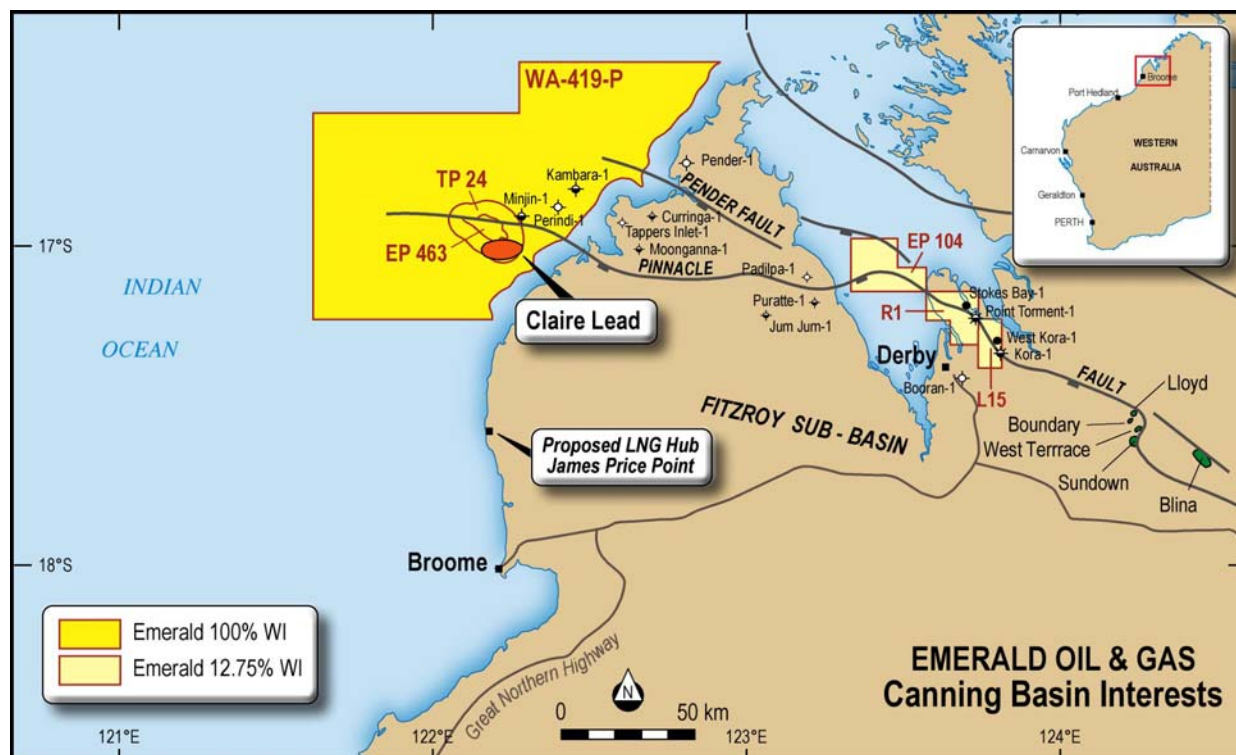
## Directors' Report

### NOXXE dealings and subsequent legal action

On 11 March 2010, Emerald announced execution of a Memorandum of Understanding securing an option to acquire a 31.5% foundation equity interest in a newly formed company, NOXXE LLC (via payment of US\$550,000), which holds interests in producing oil and gas leases in Texas USA. Subsequently, the other NOXXE parties breached their obligations to Emerald under various agreements and Emerald has filed actions in the District Court of Harris County, Texas against all relevant parties to seek appropriate remedies for such breaches. After filing the legal actions, NOXXE unconditionally tendered funds to Emerald totalling \$US550,000, however Emerald is still pursuing its lawsuit against NOXXE.

### Australian Exploration – Canning Basin

Emerald's exploration acreage in the Canning Basin currently comprises approximately 9,800 square kilometres in the Canning Basin in Western Australia, located approximately 1,650 km (1000 mi) NNE of Perth.



#### EP104 (12.75% WI) - Onshore Western Australia

In November, Buru Energy conducted coiled tubing well operations on Stokes Bay #1 to obtain reservoir fluid samples. The well recovered salt water with no hydrocarbons. Emerald elected not to participate in this well operation, but retained its rights to the well and EP104/R1.

#### Offshore Exploration Permits: EP463 & TP24 (Lacepede Islands), WA-419-P

Seismic feasibility studies were completed and Emerald is now seeking to farm out a portion its 100% interest in the Claire lead and permit areas in anticipation of new seismic acquisition in 2011.

## Directors' Report

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### CORPORATE

At 31 December 2010 the Consolidated Entity had \$1.43 million cash on hand.

The net loss for the period after tax was \$2,294,379 (2009: \$1,828,266).

### EVENTS SUBSEQUENT TO BALANCE DATE

The Company announced the retirement of Mr Bob Berven as a director on 4 January 2011.

On February 17 2011, the Company announced it had executed a binding Memorandum of Understanding ("MOU") with New Frontier Energy Inc to purchase its oil and gas interests in the Green River Basin area of North Western Colorado and South Western Wyoming.

New Frontier is a US listed oil and gas company (US OTCBB:NFEI) holding interests in approximately 65,000 gross acres of mineral leases, producing gas wells and gas production infrastructure. The lease acreage covers the highly prospective Niobrara shale oil play and includes a producing coal bed methane field as well as potential for oil and gas production from several other horizons. An interest in an 18 mile 6 inch gas pipeline is also included in the assets.

Under the MOU, Emerald will acquire all of New Frontier's working interest ("WI") in the assets and ultimately expects to hold a 45% WI after Entek Energy Limited completes its farmin obligations under the terms of an August 2009 Participation Agreement with New Frontier. On closing, Emerald will assume New Frontier's rights as farmor under the Participation Agreement and will therefore be carried for Entek's remaining farmin expenditure, which is believed to be in the order of \$US4 million to \$US5 million.

The acquisition consideration is approximately US\$10 million cash and 125 million EMR shares. The transaction is subject to several conditions, including due diligence to the satisfaction of the Company, shareholder approval, and the successful raising of sufficient capital to satisfy the cash component of the consideration.

Aside from the matters above, no other matters or circumstances have arisen since the end of the period 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 or Consolidated Entity in subsequent financial years.

### AUDITOR'S INDEPENDENCE DECLARATION

The auditor's independence declaration as required under section 307C of the Corporations Act 2001 for the half year ended 31 December 2010 has been received and is set out on page 8.

### AUDITOR

HLB Mann Judd remain in office as at the date of this report.

Signed in accordance with a resolution of the Directors.



Directors' Report

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M. Krzus  
Managing Director  
Perth  
14 March 2011

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**AUDITOR'S INDEPENDENCE DECLARATION**

As lead auditor for the review of the financial report of Emerald Oil & Gas NL for the half-year ended 31 December 2010, I declare that to the best of my knowledge and belief, there have been no contraventions of:

- (a) the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and
- (b) any applicable code of professional conduct in relation to the review.



**Perth, Western Australia  
14 March 2011**

**L DI GIALLONARDO  
Partner**

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**EMERALD OIL & GAS NL**  
**ACN: 72 009 795 046**

**CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**  
**FOR THE HALF-YEAR ENDED 31 DECEMBER 2010**

	Note	Consolidated 2010 \$	Consolidated 2009 \$
Gas revenues		12,690	21,781
Cost of sales		(8,447)	(21,941)
Gross profit/(loss)		<u>4,243</u>	<u>(160)</u>
Other revenue		12,175	33,194
Financial administration, insurance and compliance costs		(343,968)	(195,086)
Consulting and contracting expenses		(364,212)	(365,349)
Depreciation and depletion expense		(2,510)	(17,942)
Share based payments		-	(63,151)
General administration expenses		(118,075)	(146,177)
Impairment of exploration and evaluation costs	8	<u>(1,500,000)</u>	<u>(1,421,180)</u>
Loss before income tax benefit		(2,312,347)	(2,175,851)
Income tax benefit		17,968	347,585
Loss for the period		<u>(2,294,379)</u>	<u>(1,828,266)</u>
Other comprehensive income			
Exchange differences on translation of foreign operations		(137,001)	2,862
Total other comprehensive (loss)/income		<u>(137,001)</u>	<u>2,862</u>
Total comprehensive loss for the period		<u>(2,431,380)</u>	<u>(1,825,404)</u>
Loss for the period is attributable to:			
Owners of the parent		(2,289,109)	(1,826,155)
Non-controlling interest		<u>(5,270)</u>	<u>(2,111)</u>
		<u>(2,294,379)</u>	<u>(1,828,266)</u>
Total comprehensive loss for the period is attributable to:			
Owners of the parent		(2,401,405)	(1,823,293)
Non-controlling interest		<u>(29,975)</u>	<u>(2,111)</u>
		<u>(2,431,380)</u>	<u>(1,825,404)</u>
Basic loss per share – cents per share		(1.074)	(1.581)
Diluted loss per share – cents per share		(1.074)	(1.581)

*The above Condensed Statement of Comprehensive Income should be read in conjunction with the accompanying notes.*

**EMERALD OIL & GAS NL**  
**ACN: 72 009 795 046**

**CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION**  
**AS AT 31 DECEMBER 2010**

	Notes	Consolidated 31 December 2010 \$	Consolidated 30 June 2010 \$
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents	5	1,434,525	171,789
Trade and other receivables	6	44,864	10,793
Other financial assets	7	43,784	632,978
<b>Total current assets</b>		<b>1,523,173</b>	<b>815,560</b>
<b>Non-current assets</b>			
Plant and equipment		282,509	22,676
Exploration and evaluation assets	8	2,249,418	2,795,342
Oil and gas assets	9	185,205	185,205
<b>Total non-current assets</b>		<b>2,453,627</b>	<b>3,003,223</b>
<b>TOTAL ASSETS</b>		<b>3,976,800</b>	<b>3,818,783</b>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Trade and other payables		163,316	133,179
<b>Total current liabilities</b>		<b>163,316</b>	<b>133,179</b>
<b>TOTAL LIABILITIES</b>		<b>163,316</b>	<b>133,179</b>
<b>NET ASSETS</b>		<b>3,813,484</b>	<b>3,685,604</b>
<b>EQUITY</b>			
Issued Capital	11	18,105,759	15,546,499
Reserves		(235,464)	(48,791)
Accumulated losses		(14,343,779)	(12,054,670)
Total equity attributable to owners of the parent		3,526,516	3,443,038
Non-controlling interest		286,968	242,566
<b>TOTAL EQUITY</b>		<b>3,813,484</b>	<b>3,685,604</b>

*The above Condensed Statement of Financial Position should be read in conjunction with the accompanying notes.*

EMERALD OIL & GAS NL  
ACN: 72 009 795 046

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY  
FOR THE HALF-YEAR ENDED 31 DECEMBER 2010

2010 (CONSOLIDATED)

	Issued Capital	Options Reserve	Foreign Exchange Translation Reserve	Non-controlling Shareholders Premium Reserve	Accumulated losses	Equity attributable to the owners of the parent	Non- controlling interest	Total Equity
	\$	\$	\$	\$	\$	\$	\$	\$
Total equity at 1 July 2010	15,546,499	155,174	38,424	(242,389)	(12,054,670)	3,443,038	242,566	3,685,604
Net loss	-	-	-	-	(2,289,109)	(2,289,109)	(5,270)	(2,294,379)
Exchange difference on translation of foreign operations	-	-	(112,297)	-	-	(112,297)	(24,704)	(137,001)
Total comprehensive loss for the period	-	-	(112,297)	-	(2,289,109)	(2,401,406)	(29,974)	(2,431,380)
Issue of shares, net of transaction costs	2,559,260	-	-	-	-	2,559,260	-	2,559,260
Non-controlling interest contribution	-	-	-	(74,376)	-	(74,376)	74,376	-
Total equity at 31 December 2010	18,105,759	155,174	(73,873)	(316,765)	(14,343,779)	3,526,516	286,968	3,813,484



EMERALD OIL & GAS NL  
ACN: 72 009 795 046

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY  
FOR THE HALF-YEAR ENDED 31 DECEMBER 2010

2009 (CONSOLIDATED)

	Issued Capital	Options Reserve	Foreign Exchange Translation Reserve	Accumulated losses	Total	Non- controlling interest	Total Equity
	\$	\$	\$	\$	\$	\$	\$
Total equity at 1 July 2009	14,991,022	420,424	-	(7,808,590)	7,602,856	-	7,602,856
Net loss	-	-	-	(1,826,155)	(1,826,155)	(2,111)	(1,828,266)
Exchange difference on translation of foreign operations	-	-	2,862	-	2,862	-	2,862
Total comprehensive loss for the period	-	-	2,862	(1,826,155)	(1,823,293)	(2,111)	(1,825,404)
Share based payments	-	63,151	-	-	63,151	-	63,151
Non controlling interest contribution to formation of subsidiary	-	-	-	-	-	109	109
Total equity at 31 December 2009	14,991,022	483,575	2,862	(9,634,745)	5,842,714	(2,002)	5,840,712

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

**EMERALD OIL & GAS NL**  
**ACN: 72 009 795 046**

**CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS**  
**FOR THE HALF-YEAR ENDED 31 DECEMBER 2010**

	Notes	Consolidated 2010 \$	Consolidated 2009 \$
<i>Cash flows from operating activities</i>			
Receipts from customers		57,634	19,419
Interest received		12,175	33,052
Tax rebates received		17,968	347,585
Payments to suppliers and employees		(927,072)	(817,758)
<b>Net cash (used in) operating activities</b>		<b>(839,295)</b>	<b>(417,702)</b>
<i>Cash flows from investing activities</i>			
Exploration expenditure		(1,061,790)	(269,954)
Payments for property, plant & equipment		(595)	(17,688)
Deposit/refund on property, plant & equipment		-	115,009
Unsolicited return of/(contributions to) NOXXE equity investment		632,977	(218,609)
<b>Net cash (used in) investing activities</b>		<b>(429,408)</b>	<b>(391,242)</b>
<i>Cash flows from financing activities</i>			
Proceeds from the issue of shares		2,750,000	-
Capital raising costs		(190,740)	-
<b>Net cash flows provided by financing activities</b>		<b>2,559,260</b>	<b>-</b>
Net increase/(decrease) in cash and cash equivalents		1,290,557	(808,944)
Cash and cash equivalents at the beginning of the period		171,789	2,439,140
Effect of foreign exchange on cash balances		(27,821)	(1,051)
<b>Cash and cash equivalents at the end of the period</b>	5	<b>1,434,525</b>	<b>1,629,145</b>

*The above Condensed Statement of Cash Flows should be read in conjunction with the accompanying notes.*

## Notes to the Financial Statements FOR THE HALF-YEAR ENDED 31 DECEMBER 2010

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### NOTE 1 – REPORTING ENTITY

Emerald Oil & Gas NL (the “Company”) is a company domiciled in Australia. The consolidated half-year financial report of the Company as at and for the six months ended 31 December 2010 comprises the Company and its subsidiaries (together referred to as the “Consolidated Entity”).

The consolidated annual financial report of the Consolidated Entity as at and for the year ended 30 June 2010 is available upon request from [www.asx.com.au](http://www.asx.com.au) or from the Company’s registered office at Suite 2, 12 Parliament Place, West Perth, WA 6005.

### NOTE 2 – BASIS OF PREPARATION

The consolidated half-year financial report is a general purpose condensed financial report which has been prepared in accordance with Australian Accounting Standard AASB 134 Interim Financial Reporting and the Corporations Act 2001. The half-year report has been prepared on a historical cost basis. For the purpose of preparing the half-year financial report, the half-year has been treated as a discrete reporting period.

The consolidated half-year financial report does not include all of the information required for a full annual financial report, and should be read in conjunction with the consolidated annual financial report of the Group as at and for the year ended 30 June 2010.

It is also recommended that the half-year financial report be considered together with any public announcements made by Emerald Oil & Gas NL and its controlled entities during the half-year ended 31 December 2010 in accordance with the continuous disclosure obligations arising under the ASX Listing Rules.

This consolidated half-year financial report was approved by the Board on 14 March 2011.

### NOTE 3 – SIGNIFICANT ACCOUNTING POLICIES

The accounting policies applied by the Consolidated Entity in this consolidated half-year financial report are the same as those applied by the Consolidated Entity in its consolidated financial report as at and for the year ended 30 June 2010, except as disclosed below.

#### (a) Changes in accounting policies

In the half-year ended 31 December 2010, the Group has reviewed all of the new and revised Standards and Interpretations issued by the AASB that are relevant to its operations and effective for annual reporting periods beginning on or after 1 July 2010.

It has been determined by the Group that there is no impact, material or otherwise, of the new and revised Standards and Interpretations on its business and, therefore, no change is necessary to Group accounting policies.

The Group has also reviewed all new Standards and Interpretations that have been issued but are not yet effective for the half-year ended 31 December 2010. As a result of this review the Directors have determined that there is no impact, material or otherwise, of the new and revised Standards and Interpretations on its business and, therefore, no change necessary to Group accounting policies.

Notes to the Financial Statements  
FOR THE HALF-YEAR ENDED 31 DECEMBER 2010

**NOTE 3 – SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**(b) Significant accounting judgements and key estimates**

The preparation of interim financial reports requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expense. Actual results may differ from these estimates.

Except as described below, in preparing this interim report, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial report for the year ended 30 June 2010.

In the half-year ended 31 December 2010, management reassessed its estimates in respect of:

*Carrying value of exploration expenditure*

The Group performed a detailed review of its exploration tenements at period end to determine whether the related expenditure should continued to be capitalised under AASB 6 or impaired. As a result of this review, management has determined that \$1,500,000 (2009: \$1,421,180) be impaired during the current period.

**NOTE 4 – INCOME TAX**

Emerald Oil & Gas NL has tax losses arising in Australia which are available to offset against future profits of the Company providing the tests for deductibility against future profits are met.

These losses have not been recognised in the financial statements, except insofar as they offset deferred tax liabilities of the consolidated entity, and there is currently insufficient probability that they will reverse in the foreseeable future.

**NOTE 5 – CASH AND CASH EQUIVALENTS**

For the purposes of the statement of cash flows, cash and cash equivalents are comprised of the following:

	<b>Consolidated</b>	
	<b>31 December 2010</b>	<b>30 June 2010</b>
	<b>\$</b>	<b>\$</b>
Cash <sup>(a)</sup>	1,434,525	171,789
	<u>1,434,525</u>	<u>171,789</u>

(a) Cash includes an amount of US\$550,000 representing an unsolicited return of funds in relation to Emerald's equity interest in NOXXE LLC.

**NOTE 6 – TRADE AND OTHER RECEIVABLES**

Other receivables	44,864	10,793
	<u>44,864</u>	<u>10,793</u>

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Notes to the Financial Statements  
FOR THE HALF-YEAR ENDED 31 DECEMBER 2010

**NOTE 7 – OTHER FINANCIAL ASSETS**

	Consolidated	
	31 December 2010	30 June 2010
	\$	\$
Deposits and prepayments	43,784	-
Contributions towards equity investments	-	632,978
	<u>43,784</u>	<u>632,978</u>

**NOTE 8 – EXPLORATION AND EVALUATION EXPENDITURE**

Costs carried forward in respect of: Exploration and evaluation expenditure, at cost	<u>2,249,418</u>	<u>2,795,342</u>
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**Reconciliation:**

A reconciliation of the carrying amounts of exploration and evaluation expenditure is set out below:

	6 months to 31 December 2010	Year to 30 June 2010
	\$	\$
Carrying amount at beginning of period	2,795,342	5,053,839
Additions	1,024,428	1,342,774
Transfer to oil and gas assets	-	(474,460)
Impairment losses	(1,500,000)	(3,085,925)
Written off	-	(40,886)
Reimbursement of exploration expenditure	(70,352)	-
Carrying amount at end of period	<u>2,249,418</u>	<u>2,795,342</u>

The impairment loss for 2009 relates to the Group's West Virginia and certain Kentucky projects.

The recoupment of costs carried forward in relation to areas of interest in the exploration and evaluation phases is dependent upon the successful development and commercial exploitation or sale of the respective areas.



**EMERALD OIL & GAS NL**  
**ACN: 72 009 795 046**

**Notes to the Financial Statements**  
**FOR THE HALF-YEAR ENDED 31 DECEMBER 2010**

**NOTE 9 – OIL AND GAS ASSETS**

	<b>Consolidated</b>	
	<b>31 December 2010</b>	<b>30 June 2010</b>
	<b>\$</b>	<b>\$</b>
Costs carried forward in respect of: Oil and gas assets, at cost	185,205	185,205
<b>Reconciliation:</b> A reconciliation of the carrying amounts of oil and gas assets is set out below:	<b>6 months to 31 December 2010</b>	<b>Year to 30 June 2010</b>
	<b>\$</b>	<b>\$</b>
Carrying amount at beginning of period	185,205	-
Additions	-	1,028
Transfer from exploration and evaluation assets	-	474,460
Depreciation and depletion expense	-	(16,368)
Impairment expense	-	(273,915)
Carrying amount at end of period	185,205	185,205

**NOTE 10 – CONTROLLED ENTITIES**

The Company has the following Subsidiaries:

<b>Name of Subsidiary</b>	<b>Country of Incorporation</b>	<b>Class of Shares</b>	<b>Percentage held</b>	
			<b>2010</b>	<b>2009</b>
Emerald Gas USA LLC	USA	Ordinary	100%	100%
Emerald Gas Pty Ltd	Australia	Ordinary	100%	100%
Emerald Gas USA Holdings Inc	USA	Ordinary	100%	100%
Emerald Gas Development USA LLC	USA	Ordinary	100%	100%
Emerald Gas Kentucky Processing LLC	USA	Ordinary	100%	100%
Emerald Gas West Virginia Processing LLC	USA	Ordinary	100%	100%
Emerald Gas Development West Virginia LLC	USA	Ordinary	100%	100%
Emerald Gas Kentucky Ventures LLC	USA	Ordinary	100%	100%
Kentucky Energy Partners LLC	USA	Ordinary	75%	75%

**NOTE 11 – ISSUED CAPITAL**

	<b>Number of Shares</b>	<b>\$</b>
<b>2010</b>		
<b>(a) Issued and Paid Up Capital</b>		
Fully paid ordinary shares	270,303,764	18,105,759
<b>(b) Movements in fully paid shares on issue</b>		
Opening balance as at 1 July 2010	132,803,764	15,546,499
Shares issued during the period	137,500,000	2,750,000
Capital raising costs	-	(190,740)
<b>Total fully paid shares on issue at 31 Dec 2010</b>	<b>270,303,764</b>	<b>18,105,759</b>

Notes to the Financial Statements  
FOR THE HALF-YEAR ENDED 31 DECEMBER 2010

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**NOTE 12 – RELATED PARTY TRANSACTIONS**

**(a) Parent and ultimate controlling party**

The Parent Entity and ultimate controlling party is Emerald Oil & Gas NL.

**(b) Other related party transactions**

Ventnor Capital Pty Ltd, a company of which Mr John Hannaford is a director, was paid rent and company secretarial fees in relation to the administration of the Consolidated Entity. A summary of the total fees paid to Ventnor Capital Pty Ltd during the period is as follows:

	<b>2010</b>	<b>2009</b>
	\$	\$
Rent and office administration	48,000	48,000
Company secretarial fees	42,000	42,000
Financial administration	17,194	6,306
Director fees	-	15,000
Total	<u>107,194</u>	<u>96,306</u>

The total amount of fees due to Ventnor Capital as at 31 December 2010 was \$19,894 (2009: \$16,516).

Riverview Corporation Pty Ltd, a company of which Mr John Hannaford is a director, was paid advisory fees on commercial terms for the half year ended 31 December 2010 totalling \$Nil (2009: \$1,000).

**(c) Terms and Conditions**

Loans between entities in the wholly owned Consolidated Entity are interest bearing, are unsecured and are payable at call.

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

**NOTE 13 – SEGMENT REPORTING**

**Description of segments**

The Group's reportable operating segments are as follows:

1. Appalachian projects
2. Texas projects
3. All other segments – which includes the Canning Basin activities and corporate and administration activities

The Group's operating segments have been determined with reference to the information used by the chief operating decision maker to make decisions regarding the Group's operations and the allocation of the Group's working capital. The Managing Director, in conjunction with the Board, has been determined as the chief operating decision maker.

Notes to the Financial Statements  
FOR THE HALF-YEAR ENDED 31 DECEMBER 2010

**NOTE 13 – SEGMENT REPORTING (CONTINUED)**

The segments disclosed in the table below have been identified as operating segments that meet any of the following thresholds:

- Segment revenue greater than 10% of combined revenue (internal and external operating segments);
- Segment profit or loss greater than 10% of combined profit of profitable operating segments or profit or loss greater than 10% of combined loss of loss making operating segments; and
- Segment assets greater than 10% of combined assets of all operating segments.

**Segment information**

The following tables present the revenue and profit information regarding the segment information provided to the Board of Directors for the half year periods ended 31 December 2009 and 31 December 2010.

**2010**

Geographical segment	USA		Australia	Consolidated \$
	Appalachian \$	Texas \$	All other segments \$	
Operating Segment				
Segment Revenues	12,690	-	12,175	24,865
Segment result	(128,501)	(1,759,140)	(406,738)	(2,294,379)
Segment assets	1,845,170	1,049,361	1,082,269	3,976,800
Segment liabilities	(567)	-	(162,749)	(163,316)
Included in segment result				
Interest revenue	-	-	12,175	12,175
Impairment	-	(1,500,000)	-	(1,500,000)
Depreciation	-	-	(2,510)	(2,510)
Acquisition of plant & equipment, exploration & evaluation and other non current assets	(229,597)	(658,256)	(72,088)	(959,941)

**EMERALD OIL & GAS NL**  
**ACN: 72 009 795 046**

**Notes to the Financial Statements**  
**FOR THE HALF-YEAR ENDED 31 DECEMBER 2010**

**NOTE 13 – SEGMENT REPORTING (CONTINUED)**

**2009**

Geographical segment	USA		Australia	Consolidated \$
	Appalachian \$	Texas \$	All other segments \$	
Operating Segment				
Segment Revenues	21,781	143	33,051	54,975
Segment result	(1,551,641)	(77,925)	(198,700)	(1,828,266)
Segment assets	3,149,731	1,133,248	1,656,532	5,939,511
Segment liabilities	(20,234)	(5,130)	(73,435)	(98,799)
Included in segment result				
Interest revenue	-	-	33,052	33,052
Impairment	1,421,180	-	-	1,421,180
Depreciation	(16,368)	-	(1,574)	(17,942)
Share based payments	-	-	(63,151)	(63,151)
Acquisition of plant & equipment, exploration & evaluation and other non current assets	(188,758)	(44,711)	(42,808)	(276,277)

The Consolidated Entity operates solely in the exploration and development of properties for the development of oil and gas within Australia and the USA. All other segments as defined above operate in one geographical segment being Australia.

**NOTE 14 – POST BALANCE DATE EVENTS**

The Company announced the retirement of Mr Bob Berven as a director on 4 January 2011.

On February 17 2011, the Company announced it had executed a binding MOU with New Frontier Energy Inc to purchase its oil and gas interests in the Green River Basin area of North Western Colorado and South Western Wyoming.

New Frontier is a US listed oil and gas company (US OTCBB:NFEI) holding interests in approximately 65,000 gross acres of mineral leases, producing gas wells and gas production infrastructure. The lease acreage covers the highly prospective Niobrara shale oil play and includes a producing coal bed methane field as well as potential for oil and gas production from several other horizons. An interest in an 18 mile 6 inch gas pipeline is also included in the assets.

Under the MOU, Emerald will acquire all of New Frontier's WI in the Assets and ultimately expects to hold a 45% WI after Entek Energy Limited completes its farmin obligations under the terms of an August 2009 Participation Agreement with New Frontier Inc. On closing, Emerald will assume New Frontier's rights as farmor under the Participation Agreement and will therefore be carried for Entek's remaining farmin expenditure, which is believed to be in the order of \$US4 million to \$US5 million.

Notes to the Financial Statements  
FOR THE HALF-YEAR ENDED 31 DECEMBER 2010

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**NOTE 14 – POST BALANCE DATE EVENTS (CONTINUED)**

The acquisition consideration is approximately US\$10 million cash and 125 million EMR shares. The transaction is subject to several conditions, including due diligence to the satisfaction of the Company, shareholder approval, and the successful raising of sufficient capital to satisfy the cash component of the consideration.

Aside from the matters above, no other matters or circumstances have arisen since the end of the period 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 or Consolidated Entity in subsequent financial years.

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## Directors' Declaration

In the Directors' opinion:

- a) the financial statements and notes set out on pages 9 to 21:
- i. comply with Australian Accounting Standard AASB 134 Interim Financial Reporting and the Corporations Regulations 2001; and
  - ii. give a true and fair view of the Consolidated Entity's financial position as at 31 December 2010 and of its performance, as represented by the results of its operations, changes in equity and cash flows, for the half year then ended; 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.

This declaration is made in accordance with a resolution of the Board of Directors, made pursuant to s.303(5) of the Corporations Act 2001.

On behalf of the board,



M. Krzus  
Managing Director  
Perth  
14 March 2011

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## **INDEPENDENT AUDITOR'S REVIEW REPORT**

To the members of Emerald Oil & Gas NL

### **Report on the Half-Year Financial Report**

We have reviewed the accompanying half-year financial report of Emerald Oil & Gas NL ("the Company") which comprises the condensed statement of financial position as at 31 December 2010, the condensed statement of comprehensive income, condensed statement of changes in equity and condensed statement of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory notes and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the half-year's end or from time to time during the financial period.

### **Directors' Responsibility for the Half-Year Financial Report**

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

### **Auditor's Responsibility**

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2010 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Emerald Oil & Gas NL, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

### **Independence**

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*.

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**Conclusion**

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

- (a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2010 and of its performance for the half-year ended on that date; and
- (b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

*HLB Mann Judd*

**HLB MANN JUDD**  
Chartered Accountants

*L Di Giallonardo*

**L DI GIALLONARDO**  
Partner

Perth, Western Australia  
14 March 2011

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