EMERALD
OIL AND GAS NL

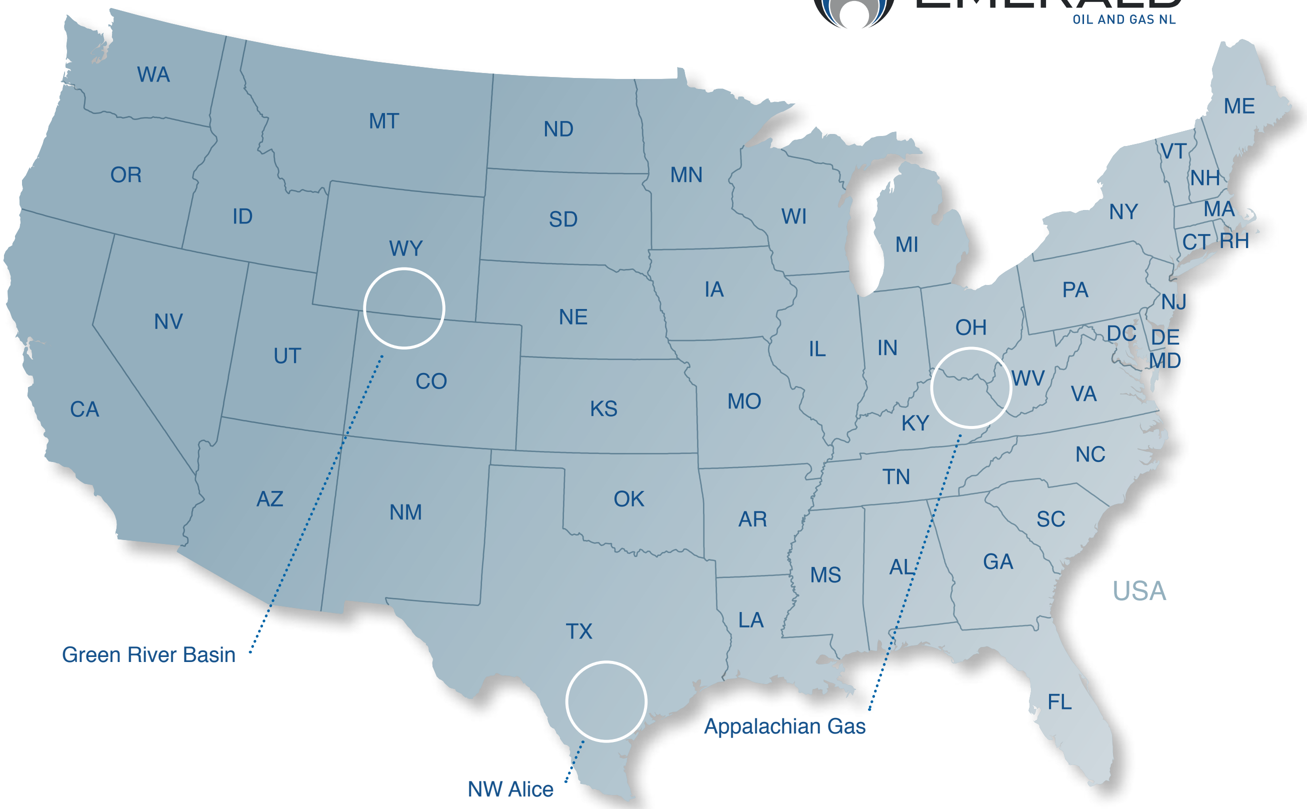
ANNUAL REPORT 2011

ABN 72 009 795 046

Emerald Oil & Gas NL is a petroleum exploration company with projects in USA and Western Australia. Emerald holds interests in a large acreage position in the Niobrara Continuous shale oil accumulation located in the Green River Basin in Colorado and Wyoming, as well as conventional oil and gas exploration and production operations in Kentucky and Texas.

www.emeraldoilandgas.com

EMERALD
OIL AND GAS NL



HIGHTLIGHTS

Green River Basin
Shale Oil & CBM

(USA: Colorado/Wyoming) 45% interest in GRBJV - 80,000 gross (approx 30,000 net EMR) lease acres covering Niobrara Shale Oil play, 500Mcfd CBM production, 29 km gas gathering pipeline & gas production facilities

Appalachian Gas

(USA: Kentucky) 75’30 interest in Kentucky Energy Partners LLC - 2500 net lease acres, 29 existing wells, 200Mcfd gas production, 13 km gas gathering pipeline, gas conditioning facilities

Canning Basin
Offshore Exploration

(Australia: WA) 100% interest in 9600 km^2 offshore exploration permits

NW Alice
Onshore GOM Exploration

(USA: Texas) 35% interest in 2,500 net lease acres covered by 55 square miles of 3D seismic survey

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

Emerald Oil & Gas NL is a company limited by shares, incorporated and domiciled in Australia. Its 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 6 to 27, which does not form part of this financial report.

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

CORPORATE INFORMATION

Directors

Jeremy Shervington
Chairman

John Hannaford
Non Executive Director

Laurie Shervington
Alternate Director

Mike Krzus
Managing Director

Company Secretary

Morgan Barron

Auditors

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

Solicitors

Jeremy Shervington and Associates
52 Ord Street
WEST PERTH WA 6005

Registered & Principal Office

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

P.O. Box 902
WEST PERTH WA 6872

Home Securities Exchange

Australian Securities Exchange Limited
Exchange Plaza
2 The Esplanade
PERTH WA 6000
ASX Codes – EMR

Share Registry

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

GLOSSARY OF TERMS

bbl:	barrel of oil
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
WI:	working interest

CHAIRMAN'S LETTER

Dear Shareholder,

The past year has been transformational for the Group. In last year's annual report, the Group set out a strategic objective to more than double Emerald's market capitalisation to $25+ million with a solid foundation for future growth within the next two years, while increasing share price.

In presenting the 2011 Annual Report of Emerald Oil & Gas NL, I am pleased to note that we have already achieved the strategic objectives set out in last year's Annual Report, with the acquisition of the Green River Basin assets in Colorado and Wyoming.

Since the acquisition closed in May, 2011 we have been actively working with the operator of the Green River Basin Joint Venture (GRBJV), Entek Energy Ltd, to add further value to our newly acquired assets. At the time of writing, a 3 well appraisal drilling program is underway to appraise the Niobrara shale oil resource and provide valuable information for oil development wells planned for next year, additional acreage has been acquired to increase the GRBJV lease holding to approximately 80,000 gross acres (approximately 30,000 Net EMR) and plans are well advanced to leverage value from the Group's shale oil assets to further build the Group's US shale oil business.

We look forward to a dynamic year of shareholder value growth in 2012.

The Group is currently well funded, with approximately $17.6 million (net) raised for the GRBJV interest acquisition providing sufficient funding to complete the 2011 appraisal drilling and field activity program.

Emerald's Appalachian gas business, operated through its 75% owned Kentucky Energy Partners (KEP) joint venture, also achieved some key milestones during the year, with gas production from its Beetree project commencing in Q1 2011 and currently producing approximately 250 Mcfd. KEP increased its asset base through selective lease acquisitions during the year and currently holds 2,500 acres and 29 existing gas wells, with aggregate shut in wellhead gas production potential of approximately 2,000 Mcfd confirmed with well tests during the year. Arrangements are being finalised to process KEP's sour gas production through a new gas plant planned to start up in Q4 2011. Once the plant is operational, KEP's shut in wells will be sequentially hooked up to gathering systems and placed on production.

In Texas, the Lake Alice No.1 well drilled as part of our North West Alice project with Oso Exploration, was unfortunately not successful. Although drilled with the benefit of good quality 3D seismic and demonstrating excellent hydrocarbon shows while drilling, the Yegua sands proved to be too tight for commercial production. However, significant potential for shallow gas and oil was highlighted by the well and the 3D data is now being worked to assess the potential for shallow drilling plays.

The Group continues to progress its Canning Basin exploration program, with a seismic feasibility study completed during the year and is seeking to farm down its interest in its Offshore Exploration Permits. Onshore, a flow test conducted on the Stokes Bay drilled in 2007, unfortunately produced water.

Looking forward, Emerald's primary growth strategy from this point will be to increase the value of our current GRBJV shale oil assets through appraisal and development and to acquire additional US shale oil interests in the Rocky Mountain region, while increasing operating revenues from Appalachian gas production.

We look forward to a dynamic year of shareholder value growth in 2012.

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

The GRBJV is operated by Entek Energy and owns approximately 80,000 gross acres of mineral leases in Colorado and Wyoming.

DIRECTORS' REPORT

Your Directors are pleased to submit 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 2011.

1. DIRECTORS

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

Jeremy Shervington B.Juris, LLB (55)

(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, Australian Zircon NL (appointed 16 February 1998)
Non Executive Director, Prairie Downs Metals Limited (appointed 11 October 2002)
Non Executive Director, Papillon Resources Limited (appointed 11 May 2006)
Non Executive Chairman, Stirling Resources Limited (appointed 13 July 2009)
Non Executive Director, Industrial Minerals Corporation Limited (appointed 17 January 2004)
Non Executive Chairman, Ridge Resources Limited (appointed 11 November 2010)

OTHER DIRECTORSHIPS IN THE LAST THREE YEARS

Non Executive Director, Altera Resources Ltd (appointed 8 August 2006, resigned 24 December 2010)
Non Executive Director, Groote Resources Limited (appointed 11 May 2006, resigned 22 March 2010)

Mike Krzus BSc (Petroleum Engineering) GAIDC, SPE. (53)

(appointed 13 August 2009)
Chief Executive Officer, Chief Operating Officer and Managing Director

EXPERIENCE AND EXPERTISE

Mike Krzus is an experienced petroleum industry executive with over 27 years experience managing technical and business areas in upstream oil & gas, LNG and geothermal. Mr Krzus has extensive experience in developing onshore oil and gas fields in Canada, the Netherlands, as well as integrated offshore oil and gas developments and LNG projects in Australia during his 22 year career at Woodside Petroleum Ltd, where he held a number of executive roles in commercial and technical areas. He holds a Diploma in Oil and Gas Technology from the British Columbia Institute of Technology and a BSc. in Petroleum Engineering from 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) (70)

(appointed 14 June 2006, resigned 31 December 2010)
Non Executive Director

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. (45)

(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, Monteray Mining Group Limited (appointed 21 December 2010)
Non Executive Chairman, Strickland Resources Limited (appointed 9 February 2011)

OTHER DIRECTORSHIPS IN THE LAST THREE YEARS

Non Executive Director, Atlantic Limited (appointed 4 July 2007, resigned 11 April 2010)
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)

1. DIRECTORS (continued)

Laurence Shervington LLB, SF Fin, MAICD (Lawyer)

(appointed 28 March 2011)
Alternate Non Executive Director

EXPERIENCE AND EXPERTISE

Mr Shervington is a Special Counsel in Minter Ellison's Perth corporate advisory group. He has over 35 years specialist commercial and corporate law experience and was a member of the legal sub-committee of the Corporations and Markets Advisory Committee (CAMAC) to the federal government for 15 years and was the inaugural general counsel of ASIC's Western Australian regional office. He is currently a member of the Australian Government Takeovers Panel. Laurie is also a Senior Fellow of the Financial Services Institute of Australasia (FINSIA) and a director of Cooper Energy Limited.

OTHER CURRENT DIRECTORSHIPS

Non Executive Chairman, Cooper Energy Limited (appointed October 2003)
Alternate Non Executive Director, Horseshoe Metals Limited (appointed 14 April 2011)
Alternate Non Executive Director, Australian Zircon NL (appointed 31 March 2011)

OTHER DIRECTORSHIPS IN THE LAST THREE YEARS

None.

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.

3. DIRECTORS' MEETINGS

During the financial year, 11 Directors' meetings were held with the following attendances:

Directors	Meetings Attended	Meetings Eligible to Attend
J. Shervington	10	11
L. Shervington	1	3
R. Berven	6	6
J. Hannaford	9	11
M. Krzus	11	11

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 (USA) and Australia.

DIRECTORS' REPORT (continued)

5. OPERATING AND FINANCIAL REVIEW

Activity Summary

The most significant activity for the Group during the year involved acquiring the Green River Basin Shale Oil assets and then working closely with Operator Entek Energy Ltd (Operator) in the Green River Basin Joint Venture (GRBJV) to consolidate the GRBJV acreage position and develop plans to appraise the Niobrara shale oil resource.

The GRBJV asset interests acquired from New Frontier Energy Inc, consisted of their 45% interest in the GRBJV, involving approximately 60,000 gross lease acres covering the Niobrara Oil Shale play in Colorado/Wyoming USA, a partially developed CBM field, production facilities and a gas gathering line to a sales point at Baggs, Wyoming. The transaction closed in May, 2011. Consideration paid was $US10 million cash and 125 million Emerald shares.

Additional acreage acquisition since the New Frontier Transaction has increased the GRBJV lease holding to approximately 80,000 acres (approximately 30,000 net EMR acres).

In July, 2011 Emerald and Entek commenced a three well drilling program to appraise the Niobrara shale oil resource. This program is intended to identify the most prospective zones and provide technical data for detailed production well design for development drilling in 2012 and is expected to conclude in Q4 2011.

The Company's primary strategic objective, as articulated in last year's annual report, was to build Emerald to $25+ million market capitalisation with a solid foundation for further growth within the next two years, while increasing share price. The GRBJV transaction has to date delivered all of these objectives. Emerald's now intends to use the GRBJV assets as a foundation for its US shale oil driven Company growth strategy.

Emerald's Appalachian gas business, managed through its 75% owned company Kentucky Energy Partners LLC, commenced production with the commissioning of the Beetree production system during the year and is currently producing approximately 250Mcfd. Ongoing well testing this year increased KEP's shut in well head gas production potential to approximately 2MMcfd. KEP's holdings now consist of approximately 2,500 acres under lease, 29 wells potentially capable of gas production, a 12 km long gas gathering pipeline and gas conditioning/compression facilities. KEP is currently in the process of concluding gas processing agreements with a new gas plant, which will enable sour gas production from additional KEP wells in Q4 2011.

A well targeting Yegua gas/condensate sand was drilled in the Group's NW Alice project. Unfortunately the Yegua sands were not commercial, but the well highlighted shallow gas and oil potential which is now being investigated by the Operator, Oso Exploration.

Emerald's activities on its Australian projects in the Canning Basin in North Western Australia are in early exploration stage and concentrated on feasibility studies in preparation for seismic acquisition.

5. OPERATING AND FINANCIAL REVIEW (continued)

5.1 Exploration and Production Activities

5.1.1 USA PROJECTS

GREEN RIVER BASIN NIOBRARA SHALE OIL, MOFFATT AND ROUTT COUNTIES, COLORADO AND CARBON COUNTY, WYOMING

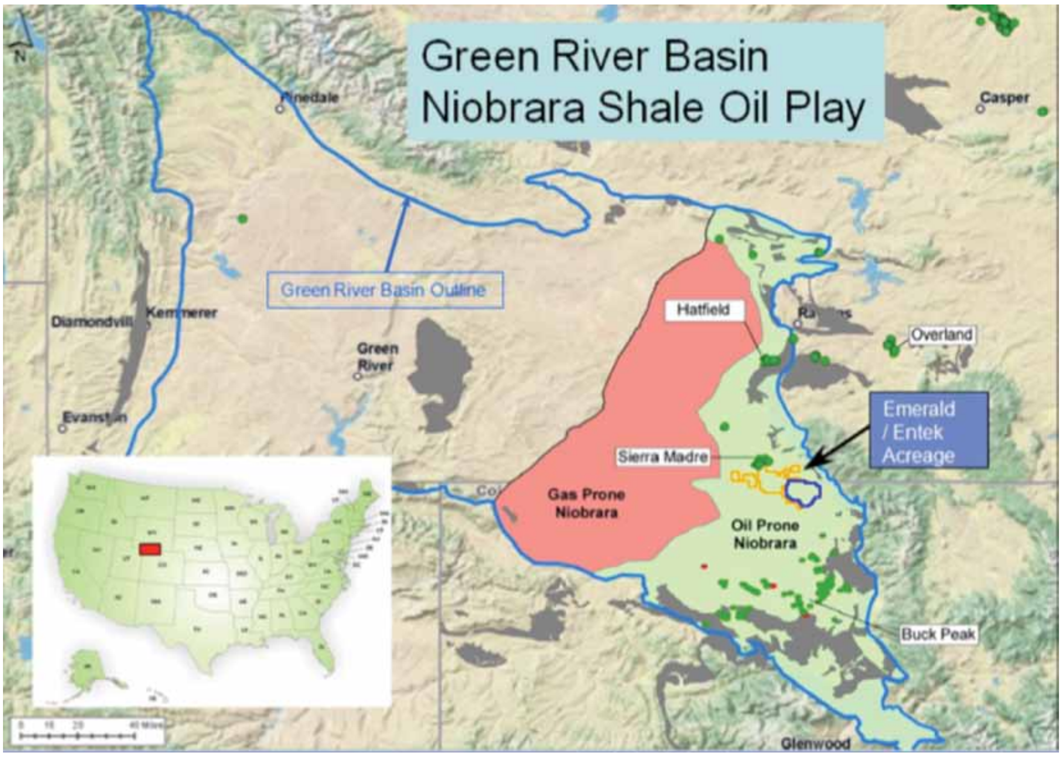
In May, 2011, Emerald completed a transaction with US listed public oil and gas company New Frontier Energy Inc (US OTCBB:NFEI) to acquire 100% of New Frontier's interest the Green River Basin JV (GRBJV).

Emerald acquired all of NFEI's Green River Basin interests including:

- Leasehold interests in over 60,000 acres of leases located in north western Colorado and south western Wyoming overlying the highly prospective Niobrara Shale formation
- A partially developed Coal Bed Methane field and associated equipment and property located on these leases used for production
- Partnership interests in a company which owns and operates an 18 mile, 6" gas export pipeline with associated access rights connected to the greater Rocky Mountain natural gas pipeline grid
- Legal claims in ongoing litigation against certain parties to recover monies from previous joint venture dealings

Consideration paid was $US10,000,000 in cash and 125,000,000 EMR ordinary shares.

At the time, Entek Energy (ASX: ETE), operator of the GRBJV was in the process of completing its farm in to secure its 55% interest in the GRBJV. Emerald now holds the remaining 45% interest.



5. OPERATING AND FINANCIAL REVIEW (continued)

5.1 Exploration and Production Activities (continued)

Subsequent acreage acquisition has increased GRBJV lease holdings to approximately 80,000 gross acres (approximately 30,000 Net EMR acres) of highly prospective undeveloped shale oil acreage. Emerald is working closely with Entek to maximise the value of the GRBJV assets through a well planned appraisal and field development program targeting the Niobrara shale oil resource and an active ongoing acreage acquisition initiative to further consolidate and expand the GRBJV land position.

In July 2011, Emerald and Entek commenced a Niobrara shale oil appraisal drilling program consisting of 3 vertical wells, with drilling operations being successfully completed in September 2011. Multiple zones in each well are planned to be sequentially completed, stimulated with hydraulic fracture stimulation treatments and tested to assess reservoir performance, identify the most prospective zones for development drilling in 2012, and gather technical information necessary to design and execute effective fracture stimulation treatments in oil development wells.

The wells in the 2011 appraisal program were drilled vertically to intersect multiple reservoirs in the Niobrara Shale Oil section which can be up to 1,100 ft thick in the area. The wells penetrated the naturally fractured bench reservoirs within the Niobrara section as well as naturally fractured igneous intrusives seen in previous wells on GRBJV acreage. One of these previously drilled wells, Focus Ranch 12-1, has already provided indications of the production potential from igneous intrusives and Niobrara in the area, having flowed at aggregate rate of 240 BOPD and 2.75 MMcfd gas on test.

The primary objectives of the 2011 vertical well appraisal program are to:

1. assess reservoir performance of individual reservoir intervals and establish production from the Niobrara Shale Oil section;
2. identify the most prospective Niobrara intervals to target with both vertical and horizontal wells in 2012 as part of the continued appraisal and development program; and
3. gather technical information necessary to design and execute effective fracture stimulation treatments for the different reservoir rock types.

Battle Mountain 14-10L Appraisal Well Drill site

5. OPERATING AND FINANCIAL REVIEW (continued)

5.1 Exploration and Production Activities (continued)

As expected, multiple reservoir sections were intersected in the 3 appraisal wells. Individual reservoir sections are now being selected and separately fracced and then flow tested to determine optimal stimulation treatments, with several frac treatments planned in each well. The operating team in Denver is working closely with Halliburton to design fracture stimulation treatments, with monthly frac slots scheduled with Halliburton from August to November.

Emerald expects to finish the current appraisal program in Q4 2011. Based on information from the appraisal program, a 2012 appraisal/development plan involving a combination of vertical and horizontal wells will be agreed with Entek.

Indications from the appraisal program to date are very encouraging, with a number of clear hydrocarbon shows in the wells across multiple intervals above, below and within the primary Niobrara targets. Additionally, oil was recovered while producing back frac fluid from the initial fracture stimulation treatment in the Battle Mountain 14-10 well.

Battle Mountain 14-10L - Preparing to Frac first zone

With positive initial indications from the appraisal drilling program and in anticipation of the 2012 appraisal/development program, Emerald is now preparing for its next stage of company growth, which will involve aggressively building on its recently acquired US shale oil assets.

5. OPERATING AND FINANCIAL REVIEW (continued)

5.1 Exploration and Production Activities (continued)

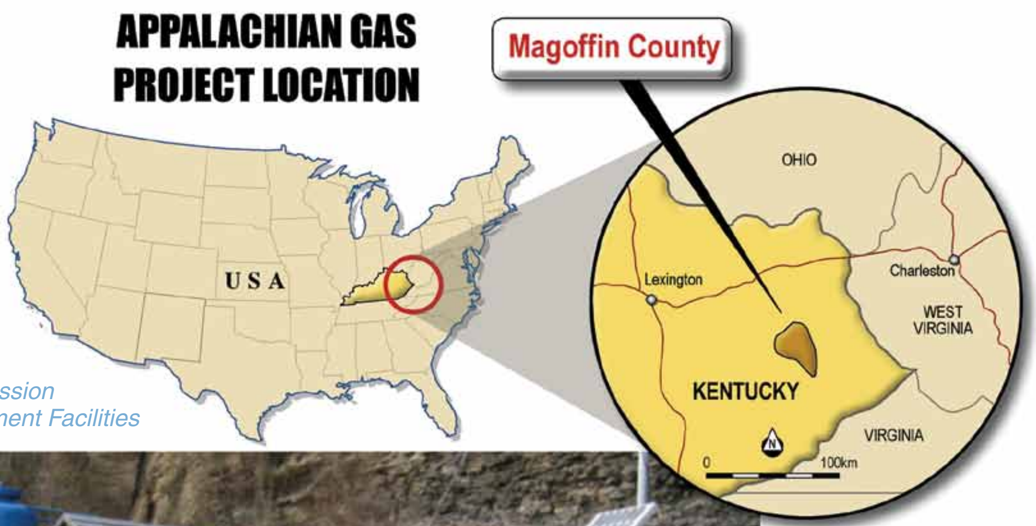
APPALACHIAN GAS
MAGOFFIN COUNTY, KENTUCKY

Emerald's areas of interest in the Appalachian Basin are in Magoffin County in Eastern Kentucky. Wells in Emerald's Appalachian areas of interest typically produce from areally extensive gas bearing zones in Devonian/Silurian Corniferous limestones, the Silurian Big 6 Sandstone.

Hundreds of gas wells, shut in through lack of local operational capability, exist in the area. Emerald's business model is to work with local land owners to test wells to establish production potential and then selectively acquire leases and wells which are then placed on production through KEP's gas production infrastructure.

Emerald's Appalachian gas assets are operated through Kentucky Energy Partners LLC (KEP), a company owned 75% by Emerald and 25% by Slone Production LLC, a capable local gas field operator. KEP currently holds 2,500 lease acres with 29 existing wells potentially capable of gas production, a newly constructed 12 km long gas gathering pipeline with gas conditioning/ compression facilities.

The Beetree pipeline project, consisting of a new 12 km gathering line constructed during the past year to provide gas market access for a number of stranded sweet gas wells through gas treatment and compression facilities and a gas sales delivery point located at Sublett, Kentucky. Currently gas production is approximately 250 Mcfd.



Beetree Gas Compression and Sales Gas Treatment Facilities

5. OPERATING AND FINANCIAL REVIEW (continued)

5.1 Exploration and Production Activities (continued)

Gas from existing wells in the area contains varying levels of Hydrogen Sulphide (H2S), which must be removed prior to sale. Where H2S levels are low, the H2S can be economically removed from the wellhead gas with dry chemical scrubbers (sweet gas). Gas with higher H2S gas cannot be produced economically with wellhead treatment (sour gas), requires a gas processing plant to remove the sulphur compounds including H2S.

To date Emerald has targeted sweet gas production with its Beetree project. However, the sour gas potential of the area is much greater than that of sweet gas.

KEP is currently finalising arrangements with operators of a new gas plant to be commissioned in Q4 2012. This will allow unconstrained production from KEP's sour gas wells. Over 2 MMcfd of shut in wellhead production potential has been identified to date from flow tests on KEP wells, with most being sour gas. Plans are being implemented to sequentially connect several KEP wells to the sour gas production system as soon as the new plant is commissioned.

Shut in sour gas well

NORTH WEST ALICE
JIM WELLS COUNTY, TEXAS

Lake Alice Gas Unit #1 spudded 15 November and was drilled trouble free to TD of 8,300 feet on December 7, 2010. Yegua gas sands (main target) were found to be anomalously tight and subsequent testing of shallower Hockley Sands was unsuccessful due to operational issues. The well was subsequently plugged and abandoned. However, the well did highlight the oil and gas prospectivity in shallow sands which had previously not been considered and the Operator, OSO Exploration, is currently reviewing the 3D seismic data to identify potential shallow drilling locations.

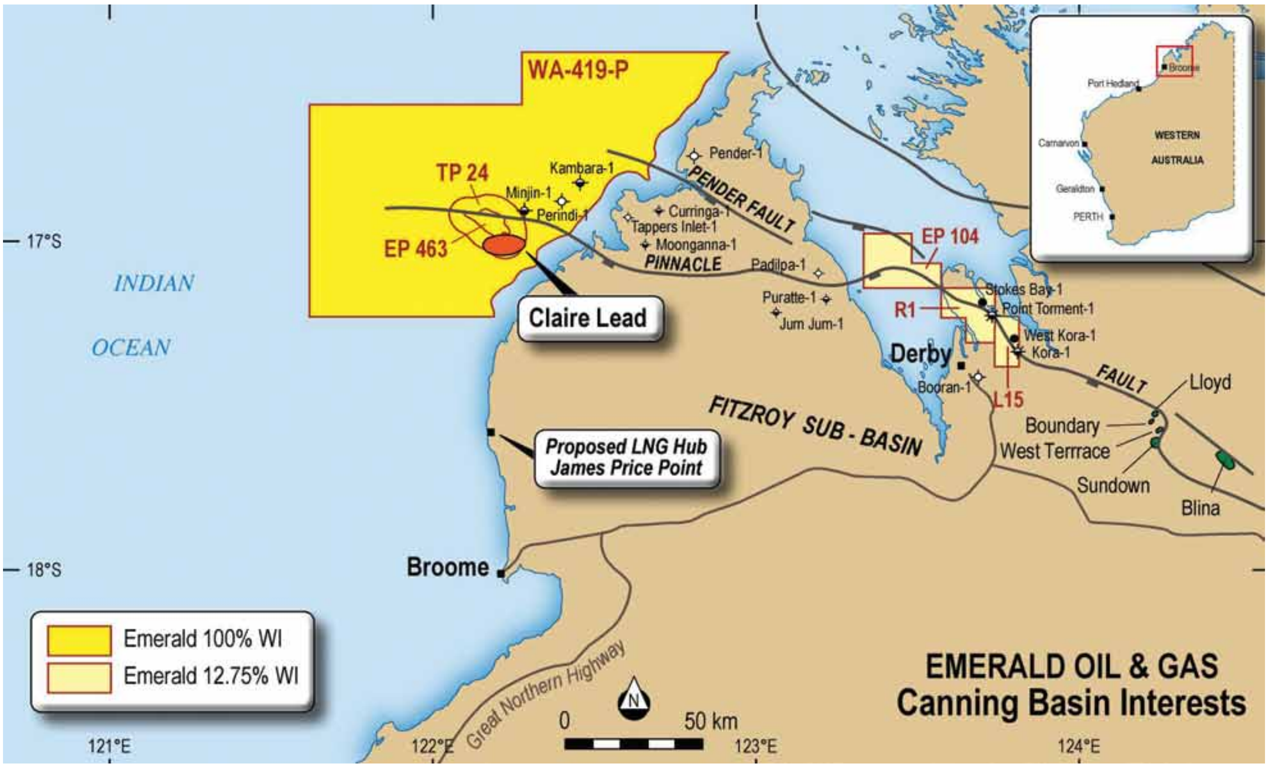
Emerald holds a 35% Working Interest in approximately 2,800 acres of oil and gas leases and 27 square miles of high quality 3D seismic data near the town of Alice in Jim Wells County, Texas.

5. OPERATING AND FINANCIAL REVIEW (continued)

5.1 Exploration and Production Activities (continued)

5.1.2 AUSTRALIAN EXPLORATION
CANNING BASIN, WESTERN AUSTRALIA

Emerald's exploration acreage in the Canning Basin currently comprises a total of approximately 9,600 square kilometres, over several exploration permits in the Canning Basin in Western Australia, located approximately 1,650 km (1,000 mi) NNE of Perth. These permits lie on the highly prospective Pinnacle Fault trend, which runs for approximately 225 km along the northern edge of the basin.



EP104/R1
(Emerald 12.75% Working Interest; Operator: Buru Energy Ltd)

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.

5. OPERATING AND FINANCIAL REVIEW (continued)

5.1 Exploration and Production Activities (continued)

Production Licence L15 (EMR option to acquire 12.75% Working Interest; Operator Buru Energy Ltd)

Emerald holds an option to farm in to the West Kora Production Licence L15 (two rectangular blocks, 6054 and 6126 containing the West Kora-1 oil discovery) by paying 13% of West Kora #1 work over costs to earn a 12.75% WI.

West Kora-1 was drilled in 1984 in EP 104 by Esso Australia and had oil in the Anderson Formation. Approximately 20,000 barrels of oil were produced before the well was shut in due to increasing water cut.

Emerald is currently awaiting advice from Buru regarding the activity plans to re-establish oil production from West Kora #1.

EP463 & TP24 (Lacepede Islands) and WA-419-P (Offshore) (EMR 100% WI and Operator)

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 2012.

The Company is also in discussion with the Western Australia Departments of Mines regarding potential variation to the work commitment programs over the exploration permits to focus activity in the area around the Claire lead.

Exploration Permit/Retention Licence/Applications	Emerald Net Working Interest	Permit Size (approx sq km)
EP 104	12.75%	500
Retention Lease R1	12.75%	300
Production Licence L98-1 (option)	12.75%	200
EP463	100%	200
TP24	100%	400
WA-419-P	100%	8,000
Total		9,600

5. OPERATING AND FINANCIAL REVIEW (continued)

5.2 Corporate

Mr Robert Berven resigned as a director on 31 December 2010. Mr Laurence Shervington was appointed as alternate director on 28 March 2011.

5.2.1 CAPITAL RAISING

During the year Emerald raised $21,500,000 before costs. The financing for the year consisted of a placement to sophisticated and institutional clients of RM Capital in August/September 2010 to raise $2,750,000 before costs, and a private placement of $18,750,000 before costs to sophisticated clients of Soaring Securities, in conjunction with the acquisition of the Green River Basin assets, which completed in May 2011.

5.3 Financial Results

The comprehensive loss of the Group for the financial year 30 June 2011 amounted to $4,276,405 (2010: $4,578,300) after providing for income tax, foreign exchange translation and non-controlling interests.

At 30 June 2011 the Group has no debt and has $8.4 million in cash.

6. 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.

7. SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

There have been no significant changes in the state of affairs of the Group not otherwise disclosed in this report or the financial statements.

8. SIGNIFICANT EVENTS AFTER THE BALANCE DATE

The Group 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, other than the following:

GRBJV ASSET ASSIGNMENTS

A number of acreage and asset cross assignments were effected after 30 June 2011 to complete ETE's previously commenced farm-in for its 55% of the GRBJV with NFEI and new GRBJV agreements were executed between EMR and ETE.

NOXXE LITIGATION SETTLEMENT

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 Harris and Galveston counties, Texas USA. Subsequently, Emerald filed suit in the District Court of Harris County, Texas, asserting that NOXXE had breached its obligations to Emerald under various agreements. Emerald sought appropriate remedies for such breaches. After Emerald filed suit, NOXXE unconditionally tendered funds to Emerald totalling US$550,000. Subsequent to the reporting period, the Group settled its litigation against NOXXE for a cash consideration of US$400,000 relinquishing any on-going interest in NOXXE.

9. LIKELY DEVELOPMENTS

There are no likely developments in the operations of the Group 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.

10. DIRECTOR'S 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	-	8,331,915	-	2,040,469	-	367,577
L. Shervington	-	-	-		-	-
R. Berven	39,200	8,171,346	9,600	2,001,146	-	-
J. Hannaford	2,828,563	3,925,658	570,260	961,385	-	-
M. Krzus	5,000,000	709,226	2,500,000	2,673,688	5,000,000	-
Total	**7,867,763**	**21,138,145**	**3,079,860**	**7,676,688**	**5,000,000**	**367,577**

11. REMUNERATION REPORT (AUDITED)

This report outlines the remuneration arrangements in place for Directors, Executives and Key Management Personnel of the Group in accordance with the requirements of the Corporations Act 2001 and its regulations. For the purposes of this report Key Management Personnel (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
L. Shervington	Alternative Director for J.Shervington	Appointed 28 March 2011
R. Berven	Non Executive Director	Appointed 14 June 2006 Resigned 31 December 2010
J. Hannaford	Non Executive Director	Appointed 14 June 2006
M. Barron	Company Secretary/CFO	Appointed 24 July 2007
M. Krzus	Managing Director	Appointed 13 August 2009

There were no changes in KMP after reporting date and before the date the financial report was authorised for issue.

11. REMUNERATION REPORT (AUDITED) (continued)

B. PRINCIPLES USED TO DETERMINE THE NATURE AND AMOUNT OF REMUNERATION

REMUNERATION PHILOSOPHY

The remuneration policy of the Group 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 Group. The Key Management Personnel of the Group are the Executive and Non-Executive Directors.

For the purposes of this report, the term 'Executive' encompasses the Executive Directors of the Group. The Board's policy for determining the nature and amount of remuneration for Board members and Key Management Personnel of the Group is as follows:

REMUNERATION STRUCTURE

In accordance with best practice corporate governance, the structure of Non-Executive Director and Executive Director 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. Non executive directors are remunerated on a consultancy basis based on services provided by each person. The Managing Director is employed by the Company and a summary of his employment package is set out in (D) below. The Board reviews Key Management Personnel packages annually by reference to the Group'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 Group. However, to align Directors' interests with shareholder interests, the Directors are encouraged to hold shares in the Group 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.

11. REMUNERATION REPORT (AUDITED) (continued)

B. PRINCIPLES USED TO DETERMINE THE NATURE AND AMOUNT OF REMUNERATION (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 Group 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 Group believes this policy will be effective in increasing shareholder wealth.

On the resignation of Directors the options issued as remuneration lapse within 3 months unless exercised. For details of Directors and Key Management Personnel interests in options at year end, refer Note 8(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.

11. REMUNERATION REPORT (AUDITED) (continued)

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 Group).

	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 $	$	%
2011						
Directors – Non Executive						
Jeremy Shervington (Chairman)	60,000	-	-	-	60,000	0%
Laurence Shervington	-	-	-	-	-	0%
John Hannaford	48,000	-	4,320	-	52,320	0%
Robert Berven(1)	18,000	-	-	-	18,000	0%
Specified Executives Company Secretary/CFO						
Morgan Barron(2)	70,500	-	-	-	70,500	0%
CEO/COO						
Mike Krzus	288,990	-	26,009	-	314,999	0%
Total	**485,490**	**-**	**30,329**	**-**	**515,819**	**0%**
2010						
Directors – Non Executive						
Jeremy Shervington (Chairman)	60,000	-	-	-	60,000	0%
John Hannaford(2)	60,000	-	3,960	-	63,960	0%
Robert Berven(1)	56,499	-	-	-	56,499	0%
Specified Executives Company Secretary/CFO						
Morgan Barron(2)	84,000	-	-	-	84,000	0%
CEO/COO						
Mike Krzus(3)	270,377	-	25,287	91,879	387,543	23.7%
Total	**530,876**	**-**	**29,247**	**91,879**	**652,002**	**14.1%**

(1) Payments were made to Berven Consultants Pty Ltd, a company associated with Mr Berven by the Consolidated Entity totalling $18,000, (2010: $56,499), for the provision of technical consulting and Director's fees. Mr Berven resigned on 31 December 2010.

(2) Payments for Company Secretarial fees of $70,500 (2010: $84,000) were paid to Ventnor Capital Pty Ltd, a company associated with Mr Hannaford. Director fees of $1,000 paid in 2010 were paid to Riverview Corporation Pty Ltd, a company in which Mr Hannaford has a beneficial interest.

(3) Appointed CEO on 2 February 2009.

11. 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. (2010: $60,000 p.a.) paid to Drumgaghan Pty Ltd
- There are no termination benefits or provisions in the contract
- No explicitly stated notice period

J Hannaford, Non Executive Director

- Monthly contract, agreed and reviewed annually
- Director fees of $48,000 p.a. (2010: $48,000)
- 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 $315,000 p.a. (2010: $315,000 p.a.) 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. The expense relating to these options in the current year is $Nil (2010: $91,879).

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 Group are set out in (C) above and Note 8 of the financial statements. 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.

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.

11. REMUNERATION REPORT (AUDITED) (continued)

E. SHARE-BASED COMPENSATION (continued)

OPTIONS GRANTED AND VESTED DURING THE YEAR

No Key Management Personnel Options were granted or have vested during the current or comparative year.

The total value of options granted to KMP during the year was $Nil (2010: $Nil). $91,879 relating to options issued in 2009 have been expensed during 2010 as non-market based vesting conditions are satisfied, in accordance with Australian Accounting Standards.

No options issued to KMP's were exercised during the current or comparative year, and no options issued to KMP's expired during the current or comparative year.

F. ADDITIONAL INFORMATION

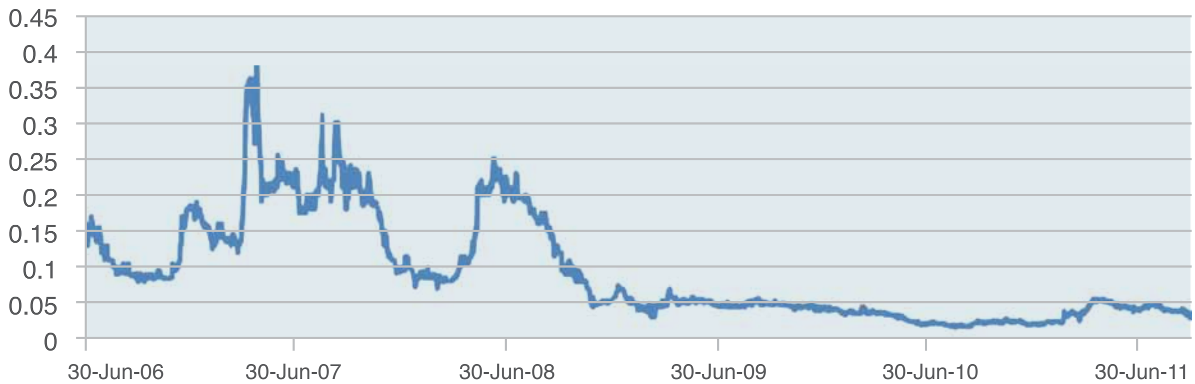
PRINCIPLES USED TO DETERMINE THE NATURE AND AMOUNT OF REMUNERATION: RELATIONSHIP BETWEEN REMUNERATION AND COMPANY PERFORMANCE.

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 Group 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 ASX in 2006.

EMR SHARE PRICE

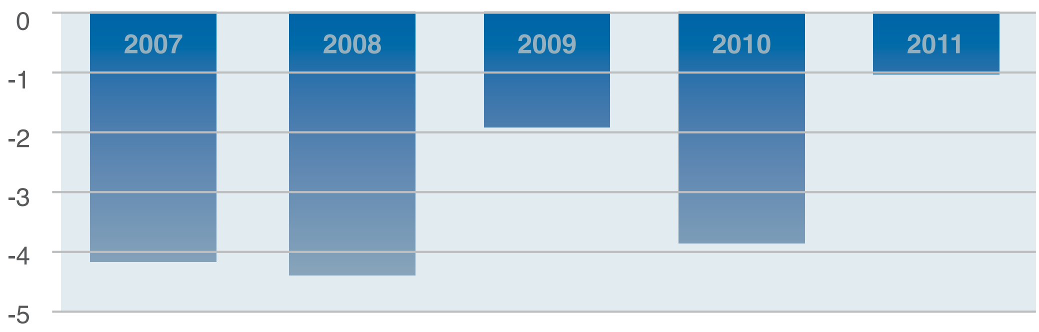


11. REMUNERATION REPORT (AUDITED) (continued)

F. ADDITIONAL INFORMATION (continued)

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 5 years (being each full financial year since reinstatement to quotation to the ASX on 30 June 2006).

EMR LOSS PER SHARE (CPS)



RELATED PARTY PAYMENTS

OTHER RELATED PARTIES

	Consolidated	
Other Related Parties	2011 $	2010 $
1) Legal	81,757	19,690
2) Serviced office charges	85,500	96,000
3) Bookkeeping, financial accounting, company secretary and admin	116,321	93,603
4) Consulting fees	-	25,499

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 $85,500 (2010: $96,000) (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 $116,321 (2010: $93,603) (excl GST).

4) Payments were made to Berven Consultants Pty Ltd, a company associated with Mr Berven totalling $Nil, (2010: $25,499), for the provision of technical consulting services.

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

End of Remuneration Report.

DIRECTORS' REPORT (continued)

12. PROCEEDINGS ON BEHALF OF THE GROUP

No person has applied to the Court to bring proceedings on behalf of the Group or intervene in any proceedings to which the Group is a party for the purpose of taking responsibility on behalf of the Group for all or any part of those proceedings.

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

13. SHARE OPTIONS

SHARES UNDER OPTION

At the date of this report, there are 263,005,683 unissued shares under option outstanding.

Date Granted	Expiry Date	Exercise Price	Number Shares Under Option
11/05/2009	31/03/2014	$0.10	5,000,000
25/06/2010	30/06/2012	$0.10	11,661,115
18/08/2010	31/08/2012	$0.05	2,500,000
26/08/2010	31/08/2012	$0.05	2,500,000
17/09/2010	31/08/2012	$0.05	73,744,568
29/04/2011	30/04/2014	$0.05	75,800,000
28/06/2011	30/04/2014	$0.05	41,800,000
28/06/2011	28/06/2014	$0.05	50,000,000
			263,005,683

These options do not entitle the holders to participate in any share issue of the Company or any other body corporate. 5,432 shares (2010: Nil) were issued as a result of the exercise of an option during period. No options have been exercised since balance date.

14. INDEMNIFICATION AND INSURANCE OF DIRECTORS AND OFFICERS

During the financial year, the Group has paid a premium of $6,932 (2010: $11,747) to insure the Directors and Secretary of the Group.

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 Group.

DIRECTORS' REPORT (continued)

15. NON-AUDIT SERVICES

There were no non-audit services provided by the Group's auditor, HLB Mann Judd in the current or prior year.

	Consolidated	
	2011 $	2010 $
Paid or payable to HLB Mann Judd:		
Audit and review fees	23,500	25,000

16. AUDITOR'S INDEPENDENCE DECLARATION

The auditor's independence declaration as required under section 307C of the Corporations Act 2001 for the financial year ended 30 June 2011 has been received and can be found on page 28.

17. AUDITOR

HLB Mann Judd continues in office in accordance with Section 327 of the Corporations Act 2001.

Signed in accordance with a resolution of the Directors.

M. Krzus
Managing Director

Perth
30 September 2011

AUDITOR'S INDEPENDENCE DECLARATION

HLB Mann Judd

Accountants | Business and Financial Advisers

AUDITOR'S INDEPENDENCE DECLARATION

As lead auditor for the audit of the financial report of Emerald Oil & Gas NL for the year ended 30 June 2011, 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 audit; and

b) any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Emerald Oil & Gas NL.

Perth, Western Australia
30 September 2011

L DI GIALLONARDO
Partner, HLB Mann Judd

HLB Mann Judd (WA Partnership) ABN 22 193 232 714
Level 4, 130 Stirling Street Perth WA 6000. PO Box 8124 Perth BC 6849 Telephone +61 (08) 9227 7500. Fax +61 (08) 9227 7533.
Email: hlb@hlbwa.com.au. Website: http://www.hlb.com.au

CORPORATE GOVERNANCE STATEMENT

The Board of Directors is responsible for the corporate governance of the Group. The Board guides and monitors the business activities and affairs of the Group on behalf of the shareholders by whom they are elected and to whom they are accountable. The Group 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 Group'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 Group.

Information about the Group's corporate governance practices available via the Group 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 Group'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 Group'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 Group 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 Group's activities and to ensure that it adheres to appropriate ethical standards.

DIVERSITY

The Group is currently preparing a draft Diversity Policy for consideration and adoption by the Board. The Policy is expected to be in place during the second half of 2011 and will make provision for the Board to determine measurable objectives in line with the overall objectives of the policy.

As at 30 June 2011, the proportion of women employed across the Group, as a whole, and at Board level were:

	Number	Number of Women	Percentage
Employees	1	-	Nil
Board*	4	-	Nil

** Includes alternate director and contractors*

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 Group'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 Group'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 Group has identified and actively monitors a number of risks inherent in the industry in which the Group 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 Group and the industry in which we operate, and are not an exhaustive list of the business risks faced by the Group.

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.

CORPORATE GOVERNANCE STATEMENT (continued)

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 Group. 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 Group.

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 Group's size and the resources it has available.

As the Group'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 Group, 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 Group 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.
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 Group 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 Group, whilst maintaining the Group's cash reserves.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 30 June 2011

Other Related Parties	Notes	Consolidated 2011 $	Consolidated 2010 $
Revenues	3	108,611	28,554
Cost of sales		(55,588)	(25,779)
Gross Profit		53,023	2,775
Other income	4	-	143
Financial administration, insurance and compliance costs		(925,839)	(369,105)
Consulting and contracting expenses		(664,167)	(703,168)
Impairment of property, plant and equipment	13	-	(157,264)
Impairment of exploration and evaluation expenditure	14	(1,500,000)	(3,085,925)
Impairment of oil and gas assets	15	-	(273,915)
Write off of exploration expenditure	14	(600,000)	(40,886)
Write off of oil and gas assets	15	(185,205)	-
Depreciation expense		(141,619)	(20,357)
Share-based payments	25	-	(91,879)
Loss on sale of plant and equipment		(474)	-
General administration expenses		(285,994)	(281,620)
Results from operating activities		(4,250,275)	(5,021,201)
Finance income		76,436	44,454
Loss before income tax benefit	5	(4,173,839)	(4,976,747)
Income tax benefit	7	17,968	347,585
Loss for the year	5	(4,155,871)	(4,629,162)
Other comprehensive income			
Exchange differences on translation of foreign operations		(183,804)	51,232
		(183,804)	51,232
Total comprehensive loss for the year		(4,339,675)	(4,577,930)
Loss for the year is attributable to:			
Owners of the parent		(4,106,282)	(4,616,724)
Non-controlling interest		(49,589)	(12,438)
		(4,155,871)	(4,629,162)
Total comprehensive loss for the year is attributable to:			
Owners of the parent		(4,276,405)	(4,578,300)
Non-controlling interest		(63,270)	370
		(4,339,675)	(4,577,930)
Basic earnings (loss) per share (cents)	6	(0.998)	(3.866)
Diluted earnings (loss) per share (cents)	6	(0.998)	(3.866)

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2011

Other Related Parties	Notes	Consolidated 2011 $	Consolidated 2010 $
ASSETS			
Current assets			
Cash and cash equivalents	9	8,385,274	171,789
Trade and other receivables	10	154,370	10,793
Other financial assets	11	106,655	632,978
Total current assets		8,646,299	815,560
Non-current assets			
Investments accounted for using the equity method	12	2,744,806	-
Plant and equipment	13	210,248	22,676
Exploration and evaluation assets	14	17,893,489	2,795,342
Oil and gas assets	15	-	185,205
Total non-current assets		20,848,543	3,003,223
TOTAL ASSETS		29,494,842	3,818,783
LIABILITIES			
Current liabilities			
Trade and other payables	16	1,972,862	133,179
Total current liabilities		1,972,862	133,179
TOTAL LIABILITIES		1,972,862	133,179
NET ASSETS		27,521,980	3,685,604
Equity			
Issued capital	17	42,497,549	15,546,499
Reserves	18	925,993	(48,791)
Accumulated losses		(16,150,151)	(12,054,670)
Total equity attributable to owners of the parent		27,273,391	3,443,038
Non-controlling interest		248,589	242,566
TOTAL EQUITY		27,521,980	3,685,604

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 30 June 2011

Consolidated	Note	Issued Capital $	Options Reserve $	Foreign Exchange Translation Reserve $	Non-controlling Shareholders Premium Reserve $	Accumulated Losses $	Equity Attributable to Owners of the Parent $	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
Loss for the period		-	-	-	-	(4,616,724)	(4,616,724)	(12,438)	(4,629,162)
Other comprehensive income									
Foreign exchange translation		-	-	38,424	-	-	38,424	12,808	51,232
Total comprehensive loss for the period		-	-	38,424	-	(4,616,724)	(4,578,300)	370	(4,577,930)
Transactions with owners recorded in equity									
Non-controlling interest contribution to subsidiary		-	-	-	-	-	-	(193)	(193)
Non-controlling shareholders premium reserve		-	-	-	(242,389)	-	(242,389)	242,389	-
Issue of shares, net of transaction costs		568,992	-	-	-	-	568,992	568,992	-
Share-based payments:									
Options issued during the period	23	(13,515)	13,515	-	-	-	-	-	-
Options vested during the period		-	91,879	-	-	-	91,879	-	91,879
Options expired during the period		-	(258,844)	-	-	258,844	-	-	-
Options expired in prior periods		-	(111,800)	-	-	111,800	-	-	-
Total equity at 30 June 2010		15,546,499	155,174	38,424	(242,389)	(12,054,670)	3,443,038	242,566	3,685,604
Loss for the period		-	-	-	-	(4,106,282)	(4,106,282)	(49,589)	(4,155,871)
Other comprehensive income									
Foreign exchange translation		-	-	(170,124)	-	-	(170,124)	(13,680)	(183,804)
Total comprehensive loss for the period		-	-	(170,124)	-	(4,106,282)	(4,276,406)	(63,269)	(4,339,675)
Transactions with owners recorded in equity									
Non-controlling interest distributions		-	-	-	1,066	-	1,066	(1,066)	-
Non-controlling shareholders premium reserve		-	-	-	(70,358)	-	(70,358)	70,358	-
Issue of shares, net of transaction costs		26,951,050	-	-	-	-	26,951,051	-	26,951,051
Share-based payments:									
Options issued during the period		-	1,225,000	-	-	-	1,225,000	-	1,225,000
Options vested during the period		-	-	-	-	-	-	-	-
Options expired during the period		-	(10,800)	-	-	10,801	-	-	-
Total equity at 30 June 2011		42,497,549	1,369,374	(131,700)	(311,681)	(16,150,151)	27,273,391	248,589	27,521,980

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

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 30 June 2011

		Consolidated	
Other Related Parties	Notes	2011 $	2010 $
Cash flows from operating activities			
Receipts from customers		144,588	118,838
Interest received		76,436	44,454
Payments to suppliers and employees		(1,640,004)	(1,517,560)
Income tax benefit received		17,968	347,585
Net cash used in operating activities	20	**(1,401,012)**	**(1,006,683)**
Cash flows from investing activities			
Purchase of property, plant and equipment		(292,871)	(18,229)
Exploration, evaluation and development expenditure		(7,914,992)	(1,292,570)
Payments for equity investments		(2,744,806)	-
Deposit refunded for infrastructure assets		-	115,009
(Contributions towards)/unsolicited return of equity investments		612,063	(632,978)
Net cash used in investing activities		**(10,340,606)**	**(1,828,768)**
Cash flows from financing activities			
Proceeds from issues of shares		21,500,272	606,278
Capital raising costs		(1,549,221)	(37,286)
Net cash flows provided by financing activities		19,951,051	568,992
Net increase/(decrease) in cash and cash equivalents		8,209,433	(2,266,459)
Cash and cash equivalents at the beginning of the financial year		171,789	2,439,140
Effect of exchange rates on cash holdings in foreign currencies		4,052	(892)
Cash and cash equivalents at the end of the financial year	9	**8,385,274**	**171,789**

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2011

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This financial report of Emerald Oil & Gas NL for the year ended 30 June 2011 was authorised for issue in accordance with a resolution of Directors on 30 September 2011.

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 ($).

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

During the period ended 30 June 2011, the Group incurred a comprehensive loss of $4,276,405 and net cash inflows of $8,209,433 (2010: loss of $4,578,300 and net outflows of $2,266,459). The cash position of the Group as at 30 June 2011 was $8,385,274.

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

SUBSIDIARIES

The consolidated accounts comprise the assets and liabilities of Emerald Oil & Gas NL and its subsidiaries at 30 June 2011 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.

The acquisition 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.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. PRINCIPLES OF CONSOLIDATION (continued)

SUBSIDIARIES (continued)

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.

NON-CONTROLLING INTERESTS

Non-controlling interests are allocated their share of net profit/loss after tax in the statement of comprehensive income and are presented within equity in the consolidated statement of financial position, separately from the equity of the owners of the parent.

Losses are attributed to the non-controlling interest even if that results in a deficit balance.

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 28.

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 date.

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

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.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

D. INCOME TAX (continued)

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 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 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 date. 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 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 statement of financial position 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 statement of financial position.

Cash flows are included in the statement of cash flows 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.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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 statement of comprehensive income.

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 at 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.

Accumulated costs in relation to an abandoned area are written off in full against the statement of comprehensive income 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.

Once production statements are received from a particular well, the carried costs are transferred to oil and gas assets.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

I. OIL & GAS ASSETS

Oil and gas assets are recognised at cost less accumulated amortisation and any impairment losses. Where commercial production in an area of interest has commenced, the associated costs together with any forecast capital expenditure necessary to develop proved and probable reserves are amortised over the estimated economic life of the field on a units-of-production basis.

Changes in factors such as estimates of proved and probable reserves that affect unit-of-production calculations are dealt with on a prospective basis.

Although an area of interest has entered the development and production phase, exploration activities within the same area of interest may continue. Such costs, although of an exploration nature, are classified as expenditure on development phase properties and are amortised along with carried forward costs and current financial year development expenditure. Areas of interest are recognised at the cash generating unit level, being the smallest grouping of assets generating independent cash flows which usually is represented by an individual oil or gas well.

J. 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 3-5 years
Plant and equipment (field equipment) – over 5 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 plant and equipment is derecognised upon disposal or when no further future economic benefits are expected from its use or disposal.

K. 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.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

K. FOREIGN CURRENCY TRANSLATION (continued)

GROUP COMPANIES

The functional currency of the 100% owned 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 functional currency of Kentucky Energy Partners LLC ("KEP") is US dollars. As at the balance date the assets and liabilities of KEP are translated into the presentation currency of Emerald Oil & Gas NL at the rate of exchange ruling at balance date and their statements of comprehensive income are translated at the weighted average exchange rate for the year.

The exchange differences arising on the translation are taken directly to a separate component of recognised in the foreign currency translation reserve in equity.

On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in profit or loss.

The Board of Directors assess the appropriate functional currency of this entity on an ongoing basis. The functional currency of the Group's 100% owned US subsidiaries may convert to US dollars upon successful establishment of oil or gas reserves and increased levels of operations in the USA.

L. BUSINESS COMBINATIONS

The acquisition method of accounting is used to account for all business combinations, regardless of whether equity instruments or other assets are acquired. The consideration transferred for the acquisition of a subsidiary comprises the fair value of the assets transferred, the liabilities incurred and the equity interests issued by the group. The consideration transferred also includes the fair value of any contingent consideration arrangement and the fair value of any pre-existing equity interest in the subsidiary. Acquisition-related costs are expenses as incurred. 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 non-controlling 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 statement of comprehensive income, but only after a reassessment of the identification and measurement of the net assets acquired.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

M. 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.

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.

N. 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 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.

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.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

N. SHARE-BASED PAYMENTS (continued)

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.

O. CASH AND CASH EQUIVALENTS

Cash and short-term deposits in the statement of financial position 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 statement of cash flows, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

P. 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.

The Group uses the sales method to account for sales of natural gas revenues. Under this method, revenues are recognised based on volumes of oil and gas sold to purchasers.

The following specific recognition criteria must also be met before revenue is recognised:

Revenue for product sales is brought to account when the product is passed from the Group's physical control under an enforceable contract, when selling prices are known or can be reasonably estimated and the products are in a form that requires no further treatment by the Group.

Interest revenue is recognised as interest accrues using the effective interest method. This is a method of calculating the amortised cost of a financial asset and allocating the interest income over the relevant period using the effective interest rate, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset.

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

Q. ISSUED CAPITAL

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.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

R. SEGMENT REPORTING

An operating segment is a component of an entity that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity), whose operating results are regularly reviewed by the entity's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance and for which discrete financial information is available. This includes start up operations which are yet to earn revenues. Management will also consider other factors in determining operating segments such as the existence of a line manager and the level of segment information presented to the board of directors.

Operating segments have been identified based on the information provided to the chief operating decision makers – being the executive management team.

The group aggregates two or more operating segments when they have similar economic characteristics, and the segments are similar in the nature of the minerals targeted.

Operating segments that meet the quantitative criteria as prescribed by AASB 8 are reported separately. However, an operating segment that does not meet the quantitative criteria is still reported separately where information about the segment would be useful to users of the financial statements.

Information about other business activities and operating segments that are below the quantitative criteria are combined and disclosed in a separate category for "all other segments".

S. EARNINGS PER SHARE

BASIC EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the profit/loss attributable to equity holders of the Group, 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.

T. 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.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

U. 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 ASSETS

Exploration and evaluation assets have 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 statement of comprehensive income.

The carry forward of expenditure in relation to exploration permits in Western Australia and Commonwealth Waters ($228,052) is dependent on the Group meeting work commitments as set out in Note 26.

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 in 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.

V. INVESTMENT IN ASSOCIATED ENTITIES

The Group's investment in its jointly controlled entity is accounted for using the equity method of accounting in the consolidated financial statements, after initially being recognised at cost. The associate is a joint venture entity in which the Group is non-operator, but has significant influence and has chosen to account for its interest using the equity method.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

V. INVESTMENT IN ASSOCIATED ENTITIES (continued)

Under the equity method, the investment in the associate is carried in the consolidated statement of financial position at cost plus post-acquisition changes in the Group's share of net assets of the associate. Goodwill relating to an associate is included in the carrying amount of the investment and is not amortised. After application of the equity method, the Group determines whether it is necessary to recognise any additional impairment loss with respect to the Group's net investment in the associate. Goodwill included in the carrying amount of the investment in an associate is not tested separately, rather the entire carrying amount of the investment is tested for impairment as a single asset. If an impairment is recognised, the amount is not allocated to the goodwill of the associate.

The consolidated statement of comprehensive income reflects the Group's share of the results of operations of the associate, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment.

When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any unsecured long-term receivable and loans, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

The balance date of the associate is 31 December and the associate's accounting policies conform to those used by the Group for like transactions and events in similar circumstances.

W. PARENT ENTITY FINANCIAL INFORMATION

The financial information for the parent entity, Emerald Oil & Gas NL, disclosed in Note 23 has been prepared on the same basis as the consolidated financial statements, except as set out below.

(I) INVESTMENTS IN SUBSIDIARIES, ASSOCIATES AND JOINT VENTURE ENTITIES

Investments in subsidiaries, associates and joint venture entities are accounted for at cost in the financial statements of Emerald Oil and Gas NL. Dividends received from associates are recognised in the parent entity's profit or loss, rather than being deducted from the carrying amount of these investments.

(II) SHARE-BASED PAYMENTS

The grant by the company of options over its equity instruments to the employees of subsidiary undertakings in the group is treated as a capital contribution to that subsidiary undertaking. The fair value of employee services received, measured by reference to the grant date fair value, is recognised over the vesting period as an increase to investment in subsidiary undertakings, with a corresponding credit to equity.

NOTE 2: NEW ACCOUNTING STANDARDS AND INTERPRETATIONS

In the year ended 30 June 2011, 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 the current annual reporting period.

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 year ended 30 June 2011. 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 is necessary to Group accounting policies.

NOTE 3: REVENUE

	Consolidated	
	2011 $	2010 $
Gas sales	108,611	28,554

NOTE 4: OTHER INCOME

Other income	-	143
Total other income	-	143

NOTE 5: LOSS FOR THE YEAR

Loss before income tax has been determined after:		
a) Employee benefits expense		
Wages, salaries and fees[(1)]	575,800	572,324
Defined contribution superannuation expense	30,329	29,247
Share-based payments	-	91,879
Total employee benefits expense	606,129	693,450
b) Other expenses		
Depreciation	141,619	20,357
Financing expenses	1,650	2,450
Loss on sale of plant and equipment	474	-

(1) Amounts are prior to re-charges to exploration and evaluation expenditure or business development. Net wages, salaries and fees are included in consulting expenses in the statement of comprehensive income.

NOTE 6: EARNINGS PER SHARE

	Consolidated	
	2011	2010
Basic earnings per share - cents	(0.998)	(3.866)
Diluted earnings per share - cents	(0.998)	(3.866)

	$	$
Earnings used in the calculation of basic and dilutive EPS	(4,106,282)	(4,616,724)

	No.	No.
Weighted average number of ordinary shares outstanding during the period used in calculation of basic and dilutive EPS.	411,630,936	119,431,383

The total 263,005,683 (2010: 19,322,754) options outstanding at 30 June 2011 are potential ordinary shares but are antidilutive for the periods presented.

NOTE 7: INCOME TAX

	Consolidated	
	2011 $	2010 $
(a) Income tax (benefit)		
The major components of income tax (benefit) are:		
Statement of Comprehensive Income		
Current Income Tax		
Research and development tax refund	(17,968)	(347,585)
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 (benefit) reported in the statement of comprehensive income	(17,968)	(347,585)
(b) Numerical reconciliation between aggregate tax benefit recognised in the statement of comprehensive income and tax benefit calculated per the statutory income tax rate		
Loss before income tax	(4,173,839)	(4,976,747)
At statutory income tax rate of 30% (2010: 30%)	(1,252,151)	(1,493,024)
Non deductible expenses	193,330	953,342
Adjustments in respect of deferred income tax of prior years	913,088	410,447
Current tax losses not recognised as a DTA	313,048	-
Foreign tax rate adjustment	(167,315)	129,205
Tax benefit from offsets received	(17,968)	(347,585)
Income tax benefit	(17,968)	(347,585)

NOTE 7: INCOME TAX (continued)

Consolidated	Assets 2011 $	Assets 2010 $	Liabilities 2011 $	Liabilities 2010 $	Net 2011 $	Net 2010 $
(c) Recognised Deferred Tax Assets and Liabilities						
Deferred tax assets and liabilities are attributable to the following:						
Exploration	-	-	738,595	999,696	738,595	999,696
Accruals	(281,002)	-	-	-	(281,002)	-
Business related costs – carry forward	(36,356)	-	-	-	(36,356)	-
Business related costs – current year	(36,014)	-	-	-	(36,014)	-
Tax losses	(385,223)	(999,696)	-	-	(385,223)	(999,696)
Tax (assets)/liabilities	(738,595)	(999,696)	738,595	999,696	-	-
Set off of tax	738,595	999,696	(738,595)	(999,696)	-	-
Net tax (assets)/liabilities	-	-	-	-	-	-

Consolidated	Balance 1 July 2009 $	Recognised in Income $	Recognised in Equity $	Balance 30 June 2010 $
Movement in temporary differences during the year				
Exploration expenditure	-	999,696	-	999,696
Tax losses	-	(999,696)	-	(999,696)

Consolidated	Balance 1 July 2010 $	Recognised in Income $	Recognised in Equity $	Balance 30 June 2011 $
Movement in temporary differences during the year				
Exploration expenditure	999,696	(261,101)	-	738,595
Accruals	-	(281,002)	-	(281,002)
Business related costs – carry forward	-	(36,356)	-	(36,356)
Business related costs – current year	-	(36,014)	-	(36,014)
Tax losses	(999,696)	614,473	-	(385,223)
	-	-	-	-

	Consolidated 2011 $	Consolidated 2010 $
(d) Unrecognised Deferred Tax Assets and Liabilities		
Deferred tax assets have not been recognised in respect of the following items:		
Business related costs	211,861	-
Accruals	-	65,750
Tax losses	1,565,295	1,337,601
	1,777,156	**1,403,351**

Prior period comparatives have been restated following lodgement of 2010 tax returns. The adjustments made to disclosures have had no impact on the statement of comprehensive income or the statement of financial position for the prior year.

NOTE 7: INCOME TAX (continued)

(e) 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 Group has available Australian tax losses of $4,275,063 (2010: $2,834,046), and available USA tax losses are estimated to be $2,475,470 (2010: $4,248,808).

NOTE 8: KEY MANAGEMENT PERSONNEL DISCLOSURES

	Short-Term Benefits		Share-Based Payments (LTI)	Total	Performance Related
	Salary and Fees $	Non-Monetary $	Options $	$	%
(a) Key Management Personnel Compensation					
2011 Consolidated	515,819	-	-	515,819	-
2010 Consolidated	560,123	-	91,879	652,002	14.1

(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:

2011	Held at Beginning of Year	Movement During Year*	Options Exercised	Held at 30 June 2011
Directors				
J. Shervington	4,250,977	4,080,938	-	8,331,915
M.Krzus	361,850	5,347,376	-	5,709,226
R. Berven	4,189,054	4,021,492	-	8,210,546(1)
J. Hannaford	3,190,928	3,563,293	-	6,754,221
Specified Executives				
M.Barron	-	400,000	-	400,000
Total	**11,992,809**	**17,413,099**	**-**	**21,195,362**

(1) Interest at date of retirement (31 December 2010)
**Movement represents shares purchased via placement, rights issue, or on market during the financial year.*

NOTE 8: KEY MANAGEMENT PERSONNEL DISCLOSURES (continued)

2010	Held at Beginning of Year	Movement During year*	Options Exercised	Held at 30 June 2010
Directors				
J. Shervington	3,250,977	1,000,000	-	4,250,977
M.Krzus	-	361,850	-	361,850
R. Berven	3,189,054	1,000,000	-	4,189,054
J. Hannaford	3,190,928	-	-	3,190,928
Specified Executives				
M.Barron	-	-	-	-
Total	**9,630,959**	**2,361,850**	**-**	**11,992,809**

** Movement represents shares purchased via placement, rights issue, or on market during the financial year.*

(c) Option 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:

2011 Listed Options	Held at Beginning of Year	Movement During Year	Exercised	Held at 30 June 2011	Vested and Exercisable at 30 June 2011
Directors					
J. Shervington	-	2,040,469	-	2,040,469	2,040,469
M. Krzus	-	5,173,688	-	5,173,688	5,173,688
R. Berven	-	2,010,746	-	2,010,746	2,010,746
J. Hannaford	-	1,531,645	-	1,531,645	1,531,645
Specified Executives					
M. Barron	-	-	-	-	-
Total	**-**	**10,756,548**	**-**	**10,756,548**	**10,756,548**

2011 Unlisted Options	Held at Beginning of Year	Movement During Year	Exercised	Held at 30 June 2011	Vested and Exercisable at 30 June 2011
Directors					
J. Shervington	367,577	(367,577)	-	-	-
M. Krzus	5,000,000		-	5,000,000	-
R. Berven	-		-	-	-
J. Hannaford	-		-	-	-
Specified Executives					
M. Barron	200,000	(200,000)	-	-	-
Total	**5,567,577**	**(567,577)**	**-**	**5,000,000**	**-**

NOTE 8: KEY MANAGEMENT PERSONNEL DISCLOSURES (continued)

2010 Unlisted Options	Held at Beginning of Year	Movement During Year	Exercised	Held at 30 June 2010	Vested and Exercisable at 30 June 2010
Directors					
J. Shervington	967,577	(600,000)	-	367,577	367,577
M. Krzus	5,000,000	-	-	5,000,000	-
R. Berven	500,000	(500,000)	-	-	-
J. Hannaford	2,250,000	(2,250,000)	-	-	-
Specified Executives					
M. Barron	200,000	-	-	200,000	200,000
Total	**8,917,577**	**(3,350,000)**	**-**	**5,567,577**	**567,577**

(d) Loans to or from Key Management Personnel

As at 30 June 2011 there were no loans to or from any Directors.

	Consolidated 2011 $	Consolidated 2010 $
(e) Other Transactions and balances with Key Management Personnel		
Other related parties		
1) Legal	81,757	19,690
2) Serviced office charges	85,500	96,000
3) Bookkeeping, financial accounting, company secretary and admin	116,321	93,603
4) Consulting fees	-	25,499

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 $85,500 (2010: $96,000) (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 $116,321 (2010: $93,603) (excl GST).

4) Payments were made to Berven Consultants Pty Ltd, a company associated with Mr Berven totalling $Nil, (2010: $25,499), for the provision of technical consulting services.

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

NOTE 9: CASH AND CASH EQUIVALENTS

	Consolidated	
	2011 $	2010 $
Cash at bank and on hand [a]	8,385,274	171,789
[a] Cash at bank is bearing floating interest rates at an effective interest rate of:	3.46% per annum	2.27% per annum

NOTE 10: TRADE AND OTHER RECEIVABLES

Current		
Other receivables	154,370	10,793
	154,370	10,793

Other receivables do not bear interest and their carrying amount is equivalent to their fair value. There are no trade and other receivables considered to be impaired at balance date. There are no past due but not impaired trade and other receivables.

NOTE 11: OTHER FINANCIAL ASSETS

Current		
Contributions towards equity investments [i]	-	632,978
Deposits and prepayments	106,655	-
	106,655	632,978

(i) Equity contributions paid to NOXXE Oil & Gas LLC. An amount of US$550,000 (A$512,152) was returned as unsolicited funds which the company currently holds as restricted funds at 30 June 2011.

NOTE 12: INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

	Consolidated	
	2011 $	2010 $
Investments in jointly controlled entities	2,744,806	-
	2,744,806	
Reconciliation of movements in investments accounted for using the equity method:		
Balance at 1 July	-	-
Share of profit for the year	-	-
Distributions	-	-
Additions	2,744,806	-
Balance at 30 June	2,744,806	-

Name of Entity	Principal Activity	Country of Incorporation	Ownership Interest 2011 %	Ownership Interest 2010 %	Published Fair Value 2011 %	Published Fair Value 2010 %
Jointly controlled entities						
Slater Dome Gathering LLLP	Holder of pipeline assets	USA	45%*	-	2,744,806	-

** As at 30 June 2011, Emerald held 100% of the issued capital of Slater Dome Gathering LLLP and Entek Energy Ltd had earned 55% of Slater Dome Gathering LLLP under contractual arrangements at balance date, with assignment of interest occurring subsequent to balance date. As a result, Emerald has only accounted for its 45% share at balance date.*

	Consolidated	
	2011 $	2010 $
Summarised financial information of jointly controlled entities:		
Financial position		
Total assets	2,328,335	-
Total liabilities	(37,740)	-
Net assets	2,290,595	-
Group's share of associates' net assets	1,030,768	-
Financial performance		
Total revenue	-	-
Total profit for the year	-	-
Group's share of associate's profit/(loss)	-	-
Capital commitments and contingent liabilities of associate:		
Share of capital commitments incurred jointly with other investors	-	-
Share of contingent liabilities incurred jointly with other investors	-	-

(i) The investment in Slater Dome Gathering LLLP is recorded at the fair value of the consideration provided by Emerald. This value is higher than Emerald's share of the book values of Slater Dome Gathering LLLP's net assets at balance date as these book values do not reflect Emerald's assessment of the recoverable value of Slater Dome's assets through potential future revenues.

NOTE 13: PLANT AND EQUIPMENT

	Capital Work in Progress $	Plant and Equipment $	Total $
Year ended 30 June 2011			
At 1 July 2009 net of accumulated depreciation and impairment	157,264	8,436	165,700
Additions	-	18,229	18,229
Depreciation	-	(157)	(157)
Provision for impairment	(157,264)	-	(157,264)
At 30 June 2010 net of accumulated depreciation and impairment	-	22,676	22,676
Additions	-	285,236	285,236
Disposals	-	(5,674)	(5,674)
Depreciation	-	(55,671)	(55,671)
Effect of foreign exchange	-	(36,319)	(36,319)
At 30 June 2011 net of accumulated depreciation and impairment	-	210,248	210,248
At 30 June 2011			
Cost	-	266,372	266,372
Accumulated depreciation	-	(56,124)	(56,124)
Net carrying amount	-	210,248	210,248
At 30 June 2010			
Cost	157,264	26,821	184,085
Accumulated depreciation	-	(4,145)	(4,145)
Accumulated impairment provision	(157,264)	-	(157,264)
Net carrying amount	-	22,676	22,676

Capital work in progress represents payment made in relation to an amine plant which is under construction. The counterparty to the construction contract has been liquidated during the period, and consequently Emerald has written off these assets.

NOTE 14: EXPLORATION & EVALUATION ASSETS

	Consolidated	
	2011 $	2010 $
Exploration and evaluation costs carried forward in respect of exploration areas of interest in the USA and Australia	17,893,489	2,795,342

(a) Reconciled as follows:		
Balance at the beginning of the year	2,795,342	5,053,839
Capitalised during the year	17,545,339	1,342,774
Written off	(600,000)	(40,886)
Refunds of expenditure	(70,352)	-
Impairment of exploration and evaluation expenses*	(1,500,000)	(3,085,925)
Transfer to oil and gas assets	-	(474,460)
Depreciation/amortisation	(145,806)	-
Effect of foreign exchange	(131,034)	-
Balance at the end of the year	17,893,489	2,795,342

** Throughout the financial year the Board of Directors reviewed exploration and evaluation 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 written off during the year relates to exploration assets of Emerald Gas Developments in Kentucky, USA.

Exploration and evaluation expenditure impaired during the year relates to the North West Alice prospect in Texas USA (2010: the Crum and Chiaranzelli wells and the Ferguson well location in West Virginia and 8 wells in Kentucky). After assessing the potential of each project, the Directors impaired amounts associated with the dry hole well costs.

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 15: OIL AND GAS ASSETS

	Consolidated	
	2011 $	2010 $
Costs carried forward in respect of:		
Oil and gas assets, at cost	-	185,205
Reconciliation:		
A reconciliation of the carrying amounts of oil and gas assets is set out below:		
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)
Written off	(185,205)	-
Carrying amount at end of period	-	185,205

During the year the assets held by Emerald Gas Developments were written off as the Company's operating partner was liquidated.

NOTE 16: TRADE AND OTHER PAYABLES

Trade Creditors	749,715	67,429
Accruals	1,223,147	65,750
	1,972,862	133,179

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

NOTE 17: ISSUED CAPITAL

	Number of Shares	$
(a) Issued and Paid Up Capital		
Fully paid ordinary shares	785,309,196	42,497,549
(b) Movements in fully paid shares on issue		
Opening balance as at 1 July 2009	115,481,534	14,991,022
Issue of shares		
Issued for cash on 8 April 2010	17,322,230	606,278
Share issue costs	-	(37,286)
Options exercised during the period	-	(13,515)
Total fully paid shares on issue at 30 June 2010	132,803,764	15,546,499
Issue of shares		
Issued for cash on 18 Aug 2010	5,000,000	100,000
Issued for cash on 26 Aug 2010	5,000,000	100,000
Issued for cash on 17 Sep 2010 - rights issue	127,500,000	2,550,000
Issued for cash on 20 April 2011	289,100,000	14,455,000
Issued on 31 May 2011 as consideration for acquisition of assets and jointly controlled entity	125,000,000	6,250,000
Issued for cash on 31 May 2011	52,000,000	2,600,000
Issued for cash on 28 June 2011	33,900,000	1,695,000
Issued on 28 June 2011 as consideration for transaction costs associated with acquisitions	15,000,000	750,000
Share issue costs	-	(1,549,222)
Options exercised during the period	5,432	272
Total fully paid shares on issue at 30 June 2011	785,309,196	42,497,549

CONSOLIDATED ENTITY

The issued capital of the Group comprises the issued capital 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 issued capital

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.

NOTE 17: ISSUED CAPITAL (continued)

(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 and Group	2011 No.	2010 No.
Balance at beginning of the year	19,322,753	11,486,638
Issued during the year	246,350,000	11,661,115
Exercised during the year	(5,432)	-
Expired during the year	(2,661,638)	(3,825,000)
Balance at the end of the year	263,005,683	19,322,753

(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 Group's development there are no formal targets set for return on capital. Capital consists of issued capital as disclosed in the statement of financial position. There were no changes to the Group's approach to capital management during the year. The Group is not subject to externally imposed capital requirements.

NOTE 18: RESERVES

Nature and purpose of reserves

1) Options reserve - The options reserve is used to record the value of options issued for the services provided by employees and consultants.

2) Foreign exchange translation reserve – the foreign currency translation reserve comprises all foreign currency differences arising from the translation of the financial statements of foreign operations.

3) Non-controlling shareholders premium reserve – arises as a result of the adjustment made to the interest of non-controlling shareholders in the equity of Kentucky Energy Partners LLC.

Refer to the statement of changes in equity for movements in reserves for the year.

NOTE 19: SEGMENT REPORTING

IDENTIFICATION OF REPORTABLE SEGMENTS

The group has identified its operating segments based on the internal reports that are reviewed and used by the Board of Directors (the chief operating decision maker) in assessing performance and in determining the allocation of resources.

The operating segments are identified by management based on the location of activity. Discrete financial information about each of these locations is reported to the Board of Directors on at least a monthly basis.

Reportable segments requiring disclosure are operating segments that meet any of the following thresholds:

- Segment 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.

In accordance with AASB 8, the reportable segments are based on aggregated operating segments determined by the similarity of the locations, as these are the sources of the Group's major risks and have the most effect on the rates of return.

Once reportable segments have been identified, all remaining segments that do not satisfy the thresholds are to be aggregated together to form an all other segments reporting segment. In accordance with AASB 8 Segment Reporting corporate and administration activities are included in the 'all other segments' reporting segment.

The Group operates in one business segment, being the exploration of oil and gas, and two geographical segments, being Australia and USA.

DESCRIPTION OF OPERATING SEGMENTS

APPALACHIAN (USA)

Emerald's subsidiaries Emerald Gas USA Holdings LLC, Emerald Gas Developments LLC. Emerald Kentucky Gas Ventures LLC and Kentucky Energy Partners LLC undertake onshore oil and gas exploration activities in the USA. The combined operations of these entities represent a single reportable segment.

TEXAS (USA)

Emerald's subsidiary Emerald Gas USA LLC undertakes onshore oil and gas exploration activities in the USA. This entity's activities form both an operating and reportable segment.

GREEN RIVER BASIN (USA)

Emeralds subsidiaries Emerald Oil and Gas USA Holdings LLC, and Emerald GRB LLC undertake onshore oil and gas exploration activities in the Green River Basin area of USA. The combined operations of these entities represent a single reportable segment.

ALL OTHER SEGMENTS (AUSTRALIA)

Emerald Gas Pty Ltd, a wholly owned subsidiary of the Company, is the holder of onshore and offshore leases in the north west of Western Australia which are prospective for hydrocarbons. The Australian oil and gas exploration operating segment does not meet the thresholds for reportable segments and have been included in all other segments for reporting purposes, which includes the administrative costs of the Company.

ACCOUNTING POLICIES AND INTER-SEGMENT TRANSACTIONS

The accounting policies used by the Group in reporting segments internally are the same as those contained in Note 1 to the accounts.

NOTE 19: SEGMENT REPORTING (continued)

2011 Geographical Segment	USA Appalachian $	USA Texas $	USA Green River Basin $	Australia All other Segments $	Consolidated $
Segment revenues	79,182	-	29,429	76,436	185,047
Segment result	(1,162,209)	(2,048,237)	4,643	(950,068)	(4,155,871)
Segment assets	1,455,347	558,720	19,667,730	7,813,045	29,494,842
Segment liabilities	(17,042)	-	(1,725,285)	(230,535)	(1,972,862)
Included in segment result:					
Interest revenue	-	-	-	76,436	76,436
Net impairment (losses)/reversals:					
Exploration properties	(600,000)	(1,500,000)	-	-	(2,100,000)
Oil and gas assets	(185,205)	-	-	-	(185,205)
Share-based payments	-	-	-	-	-
Depreciation	(137,549)	-	-	(4,070)	(141,619)
Acquisition of non current assets	(587,013)	(727,373)	(16,442,872)	(73,316)	(17,830,574)

2010 Geographical Segment	USA Appalachian $	USA Texas $	Australia All other Segments $	Consolidated $
Segment revenues	28,554	143	44,454	73,151
Segment result	(3,806,251)	(181,522)	(641,389)	(4,629,162)
Segment assets	1,529,258	1,962,223	327,302	3,818,783
Segment liabilities	-	(16,373)	(116,806)	(133,179)
Included in segment result:				
Interest revenue	-	-	44,454	44,454
Net impairment (losses)/reversals:				
Exploration properties	(3,085,925)	-	-	(3,085,925)
Oil and gas assets	(273,915)	-	-	(273,915)
Capital works in progress	(157,264)	-	-	(157,264)
Share-based payments	-	-	(91,879)	(91,879)
Depreciation	(16,368)	-	(3,989)	(20,357)
Acquisition of non current assets	775,671	460,156	126,205	1,362,032

NOTE 20: CASH FLOW INFORMATION

	Consolidated 2011 $	Consolidated 2010 $
(a) Reconciliation of cash flow from operations with loss after income tax:		
Cash flows from operating activities		
Loss for the year	(4,155,871)	(4,629,162)
Non cash items:		
Depreciation	141,619	20,357
Share-based payments	-	91,879
Impairment of non-current assets	2,285,205	3,517,105
Exploration write offs	-	40,886
Effect of exchange rates	(89,982)	699
Loss on sale of equipment	474	-
Changes in assets and liabilities		
Change in trade creditors and accruals	667,773	(61,958)
Change in other debtors	(143,576)	13,511
Change in other assets	(106,654)	-
Change in deferred tax balances	-	-
Cash flows used in operations	(1,401,012)	(1,006,683)

(b) Non-cash financing and investing activities

The Company issued 140,000,000 shares and 50,000,000 options in relation to the acquisition of its Green River Basin assets and the Slater Dome Gathering LLLP joint venture entity during the period.

(c) Cash balances not available for use

The Group has set aside funds of $512,152 (US$550,000) in relation to the unsolicited return of funds from its equity investment in NOXXE LLC. Subsequent to balance date, the Group has settled its litigation against NOXXE (refer Note 31).

NOTE 21: INTERESTS IN CONTROLLED ENTITIES

The Company has the following subsidiaries:

Name of Subsidiary	Country of Incorporation	Class of Shares	Percentage Held	
			2011	2010
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(2)	USA	Ordinary	-	100%
Emerald Gas West Virginia Processing LLC(2)	USA	Ordinary	-	100%
Emerald Gas Development West Virginia LLC(2)	USA	Ordinary	-	100%
Emerald Gas Kentucky Ventures LLC	USA	Ordinary	100%	100%
Kentucky Energy Partners LLC	USA	Ordinary	75%	75%
Emerald Oil and Gas USA Holdings LLC(1)	USA	Ordinary	100%	-
Emerald GRB LLC(1)	USA	Ordinary	100%	-

(1) Entity incorporated/formed during the year.
(2) Entity dissolved during the year.

NOTE 22: 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 21.

(c) Key Management personnel

Disclosures relating to key management personnel are set out in Note 8.

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.

NOTE 23: PARENT ENTITY DISCLOSURES

	2011 $	2010 $
Financial Position		
Assets		
Current assets	7,562,442	145,272
Non-current assets	20,224,162	3,613,467
Total assets	27,786,604	3,758,739
Liabilities		
Current liabilities	228,537	114,806
Total liabilities	228,537	114,806
Equity		
Issued capital	122,860,207	95,909,156
Accumulated losses	(96,666,511)	(92,474,396)
Reserves		
Options reserve	1,369,373	209,173
Total Equity	27,563,069	3,643,933
Financial Performance		
Loss for the year	(4,021,734)	(3,542,084)
Other comprehensive loss	-	-
Total comprehensive loss	(4,021,734)	(3,542,084)

Refer to Note 26 for expenditure commitments.

NOTE 24: AUDITOR'S REMUNERATION

	Consolidated	
	2011 $	2010 $
Amounts received or due and receivable by HLB Mann Judd:		
Audit of the financial report of the entity and any other entity in the Group	23,500	25,000

NOTE 25: SHARE-BASED PAYMENTS

SHARE-BASED PAYMENT TRANSACTIONS

The Group completed the following share based payment transactions during the year that have been recognised in the Consolidated Statement of Financial Position:

	Shares 2011 $	Shares 2010 $
140,000,000 Ordinary Shares issued as part consideration for acquisition of Green River Basin Joint Venture[a]	7,000,000	-
50,000,000 Unlisted Options issued as part consideration for acquisition of Green River Basin Joint Venture[a]	-	1,225,000
5,000,000 Listed free attaching options issued as consideration for underwriting capital raising	-	-
10,000,000 Listed free attaching options issued as consideration for capital raising	-	-
117,600,000 Unlisted free attaching options issued as consideration for underwriting capital raising	-	-
	7,000,000	1,225,000

(a) The transaction has been accounted for as an acquisition of an interest in joint venture assets and a joint venture entity. The Company has elected to account for the interest in the joint venture entity using the equity method.

The options detailed above were issued on the following terms and conditions:

Date Granted	Expiry Date	Exercise Price	Issued During the Period
18 August 2010	31 August 2012	$0.05	2,500,000
26 August 2010	31 August 2012	$0.05	2,500,000
17 September 2010	31 August 2012	$0.05	10,000,000
29 April 2011	30 April 2014	$0.05	75,800,000
28 June 2011	30 April 2014	$0.05	41,800,000
28 June 2011	28 June 2014	$0.05	50,000,000
			182,600,000

EXPENSES ARISING FROM SHARE-BASED PAYMENT TRANSACTIONS

Total expenses arising from share-based payment transactions recognised during the period were as follows:

	Consolidated 2011 $	Consolidated 2010 $
Options issued to Key Management Personnel[1]	-	91,879
Options issued to other parties[2]	-	13,515
	-	105,394

The above expenses are represented by the following:

(1) During the year, no options were issued to executives (2010: Nil). Options issued in previous years resulted in an expense of $91,879 in the prior year.

NOTE 25: SHARE-BASED PAYMENTS (continued)

SHARE-BASED PAYMENT PLANS (continued)

The Company does not have a current shareholder approved Employee Share Option Plan (ESOP) in place for senior executives.

OPTIONS ISSUED UNDER ESOP ARRANGEMENTS

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

	2011		2010	
	No.	WAEP	No.	WAEP
Outstanding at the beginning of the year	-	-	325,000	$0.25
Expired during the year	-	-	(325,000)	$0.25
Outstanding and exercisable at the end of the year	-	-	-	-

FAIR VALUE OF OPTIONS GRANTED

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 tradeable or 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.

2011	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.	%
50,000,000(1)	28/6/11	$0.0245	$0.05	28/6/14	28/6/11	28/6/14	50,000,000	100

2010	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.	%
3,000,000(2)	25/6/10	$0.0045	$0.10	30/6/12	25/06/10	30/6/12	3,000,000	100

(1) Options issued as part consideration for acquisition of Green River Basin joint venture interests.
(2) Options issued to unrelated parties in consideration for capital raising.

The weighted average remaining contractual life of all 263,005,683 options outstanding as at 30 June 2011 is 2.3 years (2010: 3.1 years) at a weighted average exercise price of 5.3 cents (2010: 11.8 cents).

NOTE 25: SHARE-BASED PAYMENTS (continued)

FAIR VALUE OF OPTIONS GRANTED (continued)

The table below summaries the model inputs for options granted during 2011 that were valued using the Black & Scholes option pricing model:

Model Inputs	Transaction Options
1. Options granted for no consideration:	50,000,000
2. Exercise price (cents):	5
3. Issue date:	28 June 2011
4. Assumed exercise date:	28 June 201
5. Underlying security spot price at grant date (cents):	4.0
6. Expected price volatility of the company's shares:	103%
7. Expected dividend yield:	0%
8. Risk-free interest rate	4.58%
Black & Scholes Valuation per Option	0.0245

NOTE 26: EXPENDITURE COMMITMENTS

	Consolidated	
	2011 $	2010 $
Expenditure commitments		
At 30 June 2011 the Group has commitments being minimum work requirements under exploration permits for petroleum as follows:	59,250,000	39,050,000
Less than one year*	850,000	50,000
Within one to five years*	58,400,000	39,000,000
Greater than five years	-	-
Total	59,250,000	39,050,000

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

Exploration permits in Western Australia and Commonwealth Waters are granted on the basis of Work Commitments. These Work Commitments are an undertaking to perform certain exploration activities in certain permit years to maintain the permits in good standing. Indicative costs for the Work Commitments are required on application for the permits, however the commitment involves activities rather than a defined expenditure. Further, Work Commitments are only obligatory for the first 2 or 3 years of each Exploration Permit and can be varied by negotiation with the Regulator.

NOTE 27: CONTINGENCIES

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 28.

NOTE 28: JOINT VENTURE ASSETS

The capitalised exploration expenditure in the statement of financial position includes the costs incurred on the following non-operated exploration joint venture assets:

GREEN RIVER BASIN (USA)

Leasehold interests in over 80,000 acres of leases located in north western Colorado and south western Wyoming overlying the highly prospective Niobrara Shale formation, a partially developed Coal Bed Methane field and associated equipment and property located on these leases used for production, partnership interests in a company which owns and operates an 18 mile, 6" gas export pipeline with associated access rights connected to the greater Rocky Mountain natural gas pipeline grid, and legal claims in ongoing litigation against certain parties to recover monies from previous joint venture dealings.

Carrying value of joint venture assets at 30 June 2011: $16,122,872 (2010: $Nil). Carrying value of joint venture entities at 30 June 2011: $2,744,806 (2010: $Nil).

KENTUCKY (USA) – APPALACHIAN BASIN

100% working interest (87.5% NRI) in 8 wells located in Kentucky, USA. Carrying value at 30 June 2011: $Nil (2010: $785,205).

KEP Projects – 75% equity interest in Kentucky Energy Partners LLC, which is progressing 3 gas projects located in Kentucky, USA. Carrying value of exploration assets at 30 June 2011: $726,927 (2010: $700,199).

North West Alice (USA) - 35% working interest (2010: 35%) in the North West Alice gas exploration project located in Texas. Carrying value at 30 June 2011: $482,458 (2010: $1,325,438).

EP104/Retention Lease R1 – Canning Basin (Western Australia) - 12.75% working interest in the EP104 and R1 oil and gas joint ventures with projects located in the Canning basin in Western Australia. Carrying value at 30 June 2011: $13,180 (2010: $13,180).

JOINT VENTURE COMMITMENTS AND CONTINGENCIES

As part of the joint venture agreements, Emerald may be required to incur plugging and abandonment costs for certain wells in Wyoming. The anticipated costs of these activities are estimated at a maximum of US$70,000.

The Directors are not aware of any other contingent liabilities or commitments arising from the Joint Venture operations.

NOTE 29: 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 2011, the Group had the following exposures to US$ foreign currency risk that is not designated in cash flow hedges:

	Consolidated	
	2011 $	2010 $
Financial assets		
Cash and cash equivalents	1,016,303	32,470
Deposits and prepayments	-	-
Other financial assets	-	632,978
Total financial assets	1,016,303	665,448
Financial liabilities	(1,742,326)	-
Net exposure	(726,023)	665,448

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 statement of financial position either as available for sale or at fair value through profit or loss.

The Group is exposed to commodity price risk through the future sales of oil and gas. During the current year, a total of $108,611 (2010: $28,554) was received or receivable from gas sales. This amount is considered immaterial and therefore a sensitivity analysis has not been included in the financial statements.

NOTE 29: FINANCIAL RISK MANAGEMENT (continued)

c) Credit Risk

The maximum exposure of the Group and the Company to credit risk at balance date in relation to each class of recognised financial asset is limited to the carrying amounts of the financial assets as indicated in the statement of financial position. The credit risk relates to trade and other receivables and deposits. At balance date there are no receivables past due. The Group 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.

Emerald has no significant concentration of credit risk at 30 June 2011.

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 Group'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 30 for interest rate risk exposure and sensitivity analysis.

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

NOTE 30: FAIR VALUE AND INTEREST RATE RISK

(a) Fair value

All financial assets and financial liabilities recognised in the statement of financial position, 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.

(b) Interest rate risk

Emerald's exposure to interest rate risk is set out below:

	Weighted Average Effective Interest Rate %	Floating Interest Rate $	Non-Interest Bearing $	Total $
2011 Consolidated				
Financial assets				
Cash and cash equivalents	3.46%	8,385,274	-	8,385,274
Trade and other receivables		-	261,024	261,024
Deposits		-	-	-
Total Financial Assets		8,385,274	261,024	8,646,298
Financial Liabilities				
Trade and other payables		-	1,972,862	1,972,862
Total Financial Liabilities		-	1,972,862	1,972,862
2010 Consolidated				
Financial assets				
Cash and cash equivalents	2.27%	171,789	-	171,789
Trade and other receivables		-	10,794	10,794
Deposits		-	632,978	632,978
Total Financial Assets		171,789	643,772	815,561
Financial Liabilities				
Trade and other payables		-	(133,179)	(133,179)
Total Financial Liabilities		-	(133,179)	(133,179)

NOTE 30: FAIR VALUE AND INTEREST RATE RISK (continued)

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 results 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***	**Results 2011 $**	**Equity 2011 $**	**Results 2010 $**	**Equity 2010 $**
Interest Rate	+ 1.50%	125,097	125,097	1,749	1,749
	- 1.50%	(125,097)	(125,097)	(1,749)	(1,749)
AUD:USD rate	+ 10.0%	101,630	101,630	66,545	66,545
	- 10.0%	(101,630)	(101,630)	(66,545)	(66,545)

** 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 an average interest rate change of between 0 to 150 basis points. It is considered that 150 basis points is a 'reasonably possible' estimate as it accommodates for the average variations inherent in the interest rate movement over the past five years.*

The possible fluctuation in exchange rates between the Australian and US dollar of +/- 10% (2010: 5%) has been determined by the Board of Directors as being a 'reasonably possible' estimate of possible movement.

NOTE 31: EVENTS SUBSEQUENT TO BALANCE DATE

GRBJV ASSET ASSIGNMENTS

A number of acreage and asset cross assignments were effected after 30 June 2011 to complete ETE's previously commenced farm-in for its 55% of the GRBJV with NFEI and new GRBJV agreements were executed between EMR and ETE.

NOXXE LITIGATION SETTLEMENT

On 11 March 2010, Emerald announced execution of a Memorandum of Understanding securing an option to acquire 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 Harris and Galveston counties, Texas USA. Subsequently, Emerald filed suit in the District Court of Harris County, Texas, asserting that NOXXE had breached its obligations to Emerald under various agreements. Emerald sought appropriate remedies for such breaches. After Emerald filed suit, NOXXE unconditionally tendered funds to Emerald totalling US$550,000. Emerald has now settled its litigation against NOXXE for a cash consideration of US$400,000 relinquishing any on-going interest in NOXXE.

Apart from those matters listed above, the Group 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.

DIRECTORS' DECLARATION

In the Directors' opinion:

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

   i. giving a true and fair view of the Group's financial position as at 30 June 2011 and of its performance, as represented by the results of its operations, changes in equity and its 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 Group will be able to pay its debts as and when they become due and payable;

c) the attached financial statements are in compliance with International Financial Reporting Standards, as stated in Note 1(b) to the financial statements; and

d) 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 2011.

This declaration is made in accordance with a resolution of the Directors pursuant to s.295(5) of the *Corporations Act 2001*.

On behalf of the Board

M. Krzus
Managing Director

Perth
30 September 2011

INDEPENDENT AUDITOR'S REPORT

HLB Mann Judd

Accountants | Business and Financial Advisers

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 ("the company"), which comprises the statement of financial position as at 30 June 2011, the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration for the consolidated entity. The consolidated entity comprises the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' responsibility for the financial report

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

In Note 1(B), the directors also state, in accordance with Accounting Standard AASB 101: *Presentation of Financial Statements*, that the consolidated financial report complies with International Financial Reporting Standards.

Auditor's responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the company'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 company's internal control. 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.

Our audit did not involve an analysis of the prudence of business decisions made by directors or management.

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

Matters relating to the electronic presentation of the audited financial report

This auditor's report relates to the financial report and remuneration report of Emerald Oil & Gas NL for the financial year ended 30 June 2011 included on Emerald Oil & Gas NL's website. The company's directors are responsible for the integrity of the Emerald Oil & Gas NL website. We have not been engaged to report on the

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HLB Mann Judd

Accountants | Business and Financial Advisers

INDEPENDENT AUDITOR'S REPORT (continued)

integrity of this website. The auditor's report refers only to the financial report and remuneration report identified in this report. It does not provide an opinion on any other information which may have been hyperlinked to/from the financial report. If users of the financial report are concerned with the inherent risks arising from publication on a website, they are advised to refer to the hard copy of the audited financial report and remuneration report to confirm the information contained in this website version of the financial report.

Independence

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

Auditor's opinion

In our opinion:

(a) 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 consolidated entity's financial position as at 30 June 2011 and of its performance for the year ended on that date; and

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

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

Report on the Remuneration Report

We have audited the Remuneration Report included in the directors' report for the year ended 30 June 2011. 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 2011 complies with section 300A of the *Corporations Act 2001*.

HLB Mann Judd

HLB MANN JUDD
Chartered Accountants

Giallonardo.

Perth, Western Australia
30 September 2011

L DI GIALLONARDO
Partner

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 20 September 2011 is 785,309,196 ordinary fully paid shares. All ordinary shares carry one vote per share.

TOP 20 SHAREHOLDERS AS AT 20 SEPTEMBER 2011

		No. of Shares Held	% Held
1	CITICORP NOM PL	135,329,220	17.23%
2	NEW FRONTIER ENERGY INC	125,000,000	15.92%
3	NATIONAL NOM LTD	50,957,846	6.49%
4	HSBC CUSTODY NOM AUST LTD	39,463,816	5.03%
5	ALBA CAP PL	16,500,000	2.10%
6	JEMAYA PL < FEATHERBY FAM A/C >	10,300,000	1.31%
7	SOARING HLDGS PL < ENERGY MAD UNIT A/C >	10,200,000	1.30%
8	FLUE HLDGS PL	9,018,389	1.15%
9	LAWRENCE CHRIS PAUL	9,000,000	1.15%
10	UBS NOM PL < TP00014 15 A/C >	8,500,000	1.08%
11	WISE DANIEL PAUL < ARK INV A/C >	8,436,596	1.07%
12	MLEQ NOM PL < UNPAID1 A/C >	8,000,000	1.02%
13	CS FOURTH NOM PL	8,000,000	1.02%
14	ZADAR HLDGS PL	7,896,946	1.01%
15	KINGSLANE PL < CRANSTON SUPER A/C >	7,500,000	.96%
16	TRANQUILO INV LTD	7,400,000	.94%
17	DRUM GAGHAN PL	6,175,915	.79%
18	FOPAR NOM PL	6,000,000	.76%
19	BAHEN MARK JOHN + M P < SUPER ACCOUNT >	5,500,000	.70%
20	AUST EXECUTOR TTEES NSW L < TEA CUSTS LTD >	5,237,636	.67%
		484,416,364	61.70%

Shares Range	No. of Holders	No. of Shares
1 – 1,000	289	48,574
1,001 – 5,000	96	316,738
5,001 – 10,000	243	1,784,601
10,001 – 100,000	614	23,632,151
100,001 and over	386	759,527,132
	1628	785,309,196
Number holding less than a marketable parcel size of 13,513 shares at $0.037 per share	748	3,537,243

Shareholders by Location	No. of Holders	No. of Shares
Australian holders	1,581	762,184,352
Overseas holders	47	23,124,844

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 20 SEPTEMBER 2011

		No. of Shares Held	% Held
1	CITICORP NOM PL	135,329,220	17.23%
2	NEW FRONTIER ENERGY INC	125,000,000	15.92%
3	NATIONAL NOM LTD	50,957,846	6.49%
4	HSBC CUSTODY NOM AUST LTD	39,463,816	5.03%

LISTED OPTIONS

Shares Range	No. of Holders	No. of Shares
1 – 1,000	57	7,593
1,001 – 5,000	60	198,387
5,001 – 10,000	61	451,594
10,001 – 100,000	53	1,703,923
100,001 and over	56	76,383,071
	287	78,744,568
Number holding less than a marketable parcel size of 62,500 options at $0.008 per option	226	1,959,097

ASX ADDITIONAL INFORMATION (continued)

TOP 20 LISTED OPTION HOLDERS

EMRO listed options are exercisable at 5 cents per share and expire on 31 August 2012.

		No. of Shares Held	% Held
1	CITICORP NOM PL	12,519,413	15.90%
2	HSBC CUSTODY NOM AUST LTD	6,298,180	8.00%
3	ALBA CAP PL	6,250,000	7.94%
4	SEASPIN PL < APHRODITE A/C >	5,000,000	6.35%
5	KRZUS MICHAEL	2,500,000	3.17%
6	INVERMAY NOM PL < INVERMAY NOM A/C >	2,500,000	3.17%
7	KRZUS JUDITH LORRAINE < KRZUS FAM A/C >	2,500,000	3.17%
8	PARABOLICA CAP PL < TABAC A/C >	2,000,000	2.54%
9	ZENITH PACIFIC LTD	2,000,000	2.54%
10	ZADAR HLDGS PL	1,933,946	2.46%
11	ABN AMRO CLEARING SYDNEY < CUST A/C >	1,550,000	1.97%
12	DRUM GAGHAN PL	1,512,469	1.92%
13	CHARNCHAYASUK JIRACHAYA	1,500,000	1.90%
14	KLIP PL < BEIRNE S/F A/C >	1,412,159	1.79%
15	GREATCITY CORP PL < RICHARD MONTI A/C >	1,326,240	1.68%
16	FLUE HLDGS PL	1,250,000	1.59%
17	BRIMAGE REUBEN KANE	1,250,000	1.59%
18	MITCHELL BRETT + M < MITCHELL SPRING FA >	1,250,000	1.59%
19	WISE DANIEL PAUL < ARK INV A/C >	1,250,000	1.59%
20	KINGSLANE PL < CRANSTON SUPER A/C >	1,250,000	1.59%
		57,052,407	72.45%

UNQUOTED SECURITIES

At 20 September 2011, the Company has a total of 184,261,115 unlisted options as follows:

Number of Options	Number of Holders	Exercise Price	Expiry Date
11,661,115	24	$0.10	30 June 2012
5,000,000	1	$0.10	31 March 2013
117,600,000	10	$0.05	30 April 2014
50,000,000	24	$0.05	28 June 2014
184,261,115	59		

ASX ADDITIONAL INFORMATION (continued)

UNLISTED OPTION HOLDERS HOLDING GREATER THAN 20% OF A CLASS OF UNLISTED OPTION

	No. of Options Held	% Held
Unlisted options exercisable at $0.10 expiring on 30 June 2012		
KLIP PL	3,500,000	30%
Unlisted options exercisable at $0.10 expiring on 31 March 2012		
PBTL LIFETIME SUPERANNUATION	5,000,000	100%
Unlisted options exercisable at $0.05 expiring on 30 April 2014		
HSBC CUSTODY NOMINEES	31,347,011	27%
HSBC CUSTODY NOMINEES	24,652,989	21%
Unlisted options exercisable at $0.05 expiring on 28 June 2014		
PELAGIC CAPITAL INVESTMENTS	25,000,000	50%

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