

**AUSTRALIAN ENERGY COMPANY
LIMITED**

ABN 70 111 848 983

ANNUAL FINANCIAL REPORT

2009

AUSTRALIAN ENERGY COMPANY LIMITED
ABN 70 111 848 983

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AUSTRALIAN ENERGY COMPANY LIMITED
ABN 70 111 848 983

CORPORATE DIRECTORY

Directors: Trevor Allan Blood – Executive Chairman
Dr Michael Dalling
Evan Edwards
Prof. Christopher Fell
George Lavrin
Thomas Todd

Secretary: Evan Edwards

Registered Office: 22 Dalby Road
Hovea, Western Australia, 6071
Telephone: (08) 9298 9588
Facsimile: (08) 9298 9522

Auditors: Ernst & Young
11 Mounts Bay Road
Perth, Western Australia, 6000

Bankers: Commonwealth Bank of Australia
432 Hay Street
Subiaco, Western Australia, 6008

Share Registry: 22 Dalby Road
Hovea, Western Australia, 6071
Telephone: (08) 9298 9588
Facsimile: (08) 9298 9522

Solicitors: Komesaroff Legal
186 Church Street
Brighton, Victoria, 3186

Maddocks Lawyers
140 William Street
Melbourne, Victoria, 3000

**Domicile and Country of
Incorporation:**

Australia

Legal form of Entity:

Unlisted Public Company

Webpages:

www.ausenergyco.com.au
www.manystarsctl.com

AUSTRALIAN ENERGY COMPANY LIMITED
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CHAIRMAN'S REPORT

Dear Shareholder

This is the fifth Annual Chairman's Report of our company, Australian Energy Company Limited (AEC). It is with great pleasure that I am able to summarise the financial year's activities to the end of June 30, 2009, in what has been a most difficult year with the global financial tsunami occurring since our last annual general meeting. I will now provide a project update to the time of writing this report.

As you know, AEC is in company terms, a very young company. It was purpose formed and incorporated on the 17th November 2004 for the specific purpose of developing a major coal to gas to chemicals (fertiliser) project in the Latrobe Valley region of South Eastern Australia. Very specifically, the fertiliser is urea. An adjunct to the proposed new project was the potential for very low (zero) emissions electricity production by utilisation of a very simplistic co-production of gases strategy, developed by AEC's Project Manager – Engineering, Dr David Craze. This took a back row seat last year as economics dictated that any excess gas capacity should be used for the greatest economic gain, which is extra urea tonnage.

AEC initially negotiated a Coal Reservation Agreement over a thirty (30) year period, for 50 million tonnes of brown coal with Loy Yang Power, whose coal mine facility is in very close proximity to our proposed project site. We are currently negotiating with Loy Yang Power to increase this past 75 million tonnes as the planned urea output has now been expanded again to its maximum capacity of 1.4 million tonnes per annum.

The urea component of the project is the main economic driver and the project will begin with this first. AEC completed the first phase engineering and economic studies on the project in October 2005. The base case outcomes for the project were shown to be robust in this first phase economic analysis and this continues to be the case. During the financial year, we also commissioned a further cost review study to give a detailed cost analysis as at December 2008 with likely trends thereafter.

The strategy being employed to bring the project forward to the point where completion will be a reality is to bring in strong specific industry focused players as either potential joint venture partners or major offtakers of the production. The Siemens Group of Germany will be the main technology supplier. AEC also entered into an agreement with a Chinese engineering company, Wuhan Engineering Co. Ltd (WEC), who are based in Wuhan, central China to undertake the specific engineering tasks. WEC are a state owned engineering group formed in 1953 and are charged with engineering a large proportion of China's chemical based industries. They are a significant and very expansive group and have successfully engineered fifteen coal gasification projects, including four specific to urea production.

Under the initial strategy, we raised \$25 million in additional equity to complete the pre-FEED study work in May/June 2008 and then planned to embark on a much larger capital raising to take the project to its next level throughout 2009 through certain of the major institutional funds who became shareholders through that \$25 million equity raising.

Then the world entered a global financial crisis of a scale not seen since 1929 which impacted on commodity prices and the ability to raise capital. Urea prices fell sharply but are holding up well above the viability margin of the project. A strategy of also raising capital from fertiliser operators as potential joint venture partners also had to be abandoned as global capital dried up and as fertiliser operators could not raise trade finance for even their own activities.

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CHAIRMAN'S REPORT

This situation has now improved slightly and potential activity is starting to re-occur, but full confidence and a totally efficient capital market has not yet fully returned.

We have become enthusiastic, albeit cautiously, by the changed market conditions though and have recently recommenced discussions in the equity raising arena.

In this period we were also aware of other energy related opportunities that may be of benefit to shareholders. We registered an entity in the United States called "Australian-American Energy Company LLC". Your company has been offered many opportunities in the United States and the ability to replicate the engineering work done on the Australian project and use it as a standard template, could save many tens of millions of up front costs for a project in the United States.

As reported to shareholders, we concluded a substantial business opportunity in the state of Montana in the United States. This resulted in our American subsidiary securing a 70 year lease agreement over a four (4) billion tonne coal resource owned by the Crow Indian Nation for a coal to liquids project commencing at 50,000 bpd and rising to 125,000 bpd in its final stage.

To maximise value for our shareholders and to create liquidity to support the equity investment of shareholders, a corporate strategy was developed which involved the urea project being demerged out of AEC and into another unlisted public company, called Latrobe Fertiliser Holdings Limited, in which all AEC shareholders have now received an identical shareholding, while retaining their original shareholding in AEC. AEC has now commenced a reverse takeover with a listed Toronto company and shareholders will receive 2.6 shares in this company for every AEC share that they hold. This total transaction should be completed by October this year. The company will then be called Great Western Energy Inc and will be listed on the main board of the Toronto Stock Exchange.

We have also spun out another company called Latrobe Fuels Limited, in which you have already received your share certificate. I am also Chairman of this company and we are now in the process of negotiating ownership of 750 million tonnes of coal, also in the Latrobe Valley, Victoria. We do not yet have a specific usage for this coal but will decide on a value adding course for shareholders in the near future. I will advise further on this.

I would also like to take this opportunity of thanking our loyal and dedicated group of staff and consultants whose involvement and contributions have enabled us to move as far as we have with the minimum of expenditure.

I am hopeful that the coming financial year will enable shareholders to begin to see a substantial fiscal upside in a liquid and marketable form from their investment in our company and the reverse takeover in Toronto is the first stage to realise some of this value.

Yours sincerely



ALLAN BLOOD
Chairman
September 2009

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DIRECTORS' REPORT

The Board of directors of Australian Energy Company Limited has adopted the following set of principles for the corporate governance of the Company. These principles establish the framework of how the Board carries out its duties and obligations on behalf of the shareholders.

Details of the Company's corporate governance practices in the relevant reporting period are set out below.

THE BOARD OF DIRECTORS

Role of the Board

The primary responsibilities of the Board include:

- the establishment of the long term goals of the Company and strategic plans to achieve those goals;
- monitoring the achievement of those goals;
- the review of management accounts and reports to monitor the progress of the Company;
- the review and approval of the annual financial report;
- nominating and monitoring the external auditor;
- approving all significant business transactions;
- appointing and monitoring senior management;
- all remuneration, development and succession issues; and
- ensuring that the Company has implemented adequate systems of risk management and internal control together with appropriate monitoring of compliance activities.

The Board evaluates this policy on an ongoing basis.

Board composition

The Directors' report contains details of the directors' skill, experience and education. The Board seeks to establish a Board that consists of directors with an appropriate range of experience, skill, knowledge and vision to enable it to operate the Company's business with excellence. Therefore the Board has an appropriate mix of commercial and industry experience.

The Board comprises two executive directors and six non-executive directors. Details of the directors are set out in the Directors' Report.

Independent professional advice

With the prior approval of the Chairman, each director has the right to seek independent legal and other professional advice at the Company's expense concerning any aspect of the Company's operations or undertakings in order to fulfil their duties and responsibilities as directors.

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DIRECTORS' REPORT

Board performance review

The performance of all directors is assessed through review by the Board as a whole of a director's attendance at, and involvement in, Board meetings, his/her performance and other matters identified by the Board or other directors. Significant issues are actioned by the Board. Due to the Board's assessment of the effectiveness of these processes, the Board has not otherwise formalised measures of a director's performance.

The Company has not conducted a performance evaluation of the members of the Board during the reporting period, however, the Board conducts a review of the performance of the Company against budgeted targets on an ongoing basis.

Director remuneration

Details of the Company's remuneration policies are included in the "Directors' and executives' remuneration" section of the Directors' Report and in Note 16 in the Notes to the Financial Statements.

Executive directors may be remunerated by both fixed remuneration and equity performance based remuneration and no termination payments will be agreed other than a reasonable period of notice of termination as detailed in the executive's employment contract.

MANAGING BUSINESS RISK

The Company maintains policies and practices designed to identify and manage significant business risks, including:

- regular budgeting and financial reporting;
- procedures and controls to manage financial exposures and operational risks;
- the Company's business plan;
- corporate strategy guidelines and procedures to review and approve the Company's strategic plans; and
- insurance and risk management programmes which are reviewed by the Board.

The Board reviews these systems and the effectiveness of their implementation regularly and considers the management of risk at its meetings. The Company's risk profile is reviewed regularly. The Board may consult with the Company's external auditors on external risk matters or other appropriately qualified external consultants on risk generally, as required.

The Board receives regular reports about the financial condition and operating results of the Company. The Managing Director annually provides a formal statement to the Board that in all material respects and to the best of his knowledge and belief:

- the Company's financial reports present a true and fair view of the Company's financial condition and operational results and are in accordance with relevant accounting standards; and
- the Company's risk management and internal control systems are sound, appropriate and operating efficiently and effectively.

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DIRECTORS' REPORT

Internal controls

Procedures have been established at Board level that are designed to safeguard the assets and interests of the Company, and to ensure the integrity of reporting. These include accounting, financial reporting and internal control policies and procedures. To achieve this, the executive directors perform the following procedures:

- ensure appropriate follow-up of significant audit findings and risk areas identified;
- review the scope of the external audit to align it with Board requirements; and
- conduct a detailed review of published accounts.

AUDIT & RISK MANAGEMENT COMMITTEE

The Company has formed an Audit and Risk Management Committee which is chaired by Professor Christopher Fell.

The Board has not formalised any procedures for the selection, appointment or rotation of its external auditor but reviews this matter on an ongoing basis and implements changes as required.

REMUNERATION COMMITTEE

The Company has formed a Remuneration Committee which is chaired by Mr George Lavrin.

NOMINATION COMMITTEE

The Company has formed a Nomination Committee which is chaired by Dr Michael Dalling.

ETHICAL STANDARDS

The Directors are committed to establishing and maintaining practices throughout to maintain confidence in the Company's integrity. All relevant policies are directed towards fair and ethical dealings with suppliers, customers and other stakeholders. All related party relationships are carefully monitored and disclosed and conflicts of interest dealt with appropriately.

The Board of Directors of Australian Energy Company Limited ("the Company") has pleasure in submitting herewith the Annual Financial Report of the Company for the financial year ended 30 June 2009.

Directors

The names and particulars of the directors of the Company during or since the end of the financial year are:

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DIRECTORS' REPORT

Trevor Allan Blood, Executive Chairman

Mr Blood, aged 55, has over 20 years experience in the administration and management of listed and unlisted public companies. He has extensive experience at board level in the management and formation of public companies in the areas of resource development with the past 11 years in energy projects related to coal gasification.

Mr Blood was the founder and Chairman and was associated with the major shareholding in Australian Power and Energy Limited (now Monash Energy Limited – a wholly owned subsidiary of Anglo-American Group plc). The company won a global tender conducted by the Victorian government in 2001/2 to source clean coal technologies to develop the government's remaining substantial brown coal resource in the Latrobe Valley region of that state.

Mr Blood is Chairman and major shareholder in Australian Energy Company Limited and Chairman of Australian Biofuels Limited. Mr Blood has recently resigned as Chairman of MKY Resources Limited. Mr Blood also currently fulfils the role of Chief Executive.

Mr Blood was appointed a director on 17 November 2004.

Robert Davies, Director

Mr Davies is an experienced executive, having been CFO of Alumina Ltd, General Manager of WMC Ltd and Assistant Treasurer Finance for BHP Ltd. He is a Corporate Finance Executive who has led public debt raisings in the US, UK and Australia, along with multi billion dollar bank financing and he has had extensive project finance experience in Asia, Africa and South America. He has served as a senior management executive with global resource companies in the areas of general corporate finance, statutory reporting, accounting investor relations, information technology, pension plans, risk management and business development. Prior to joining AEC, Mr Davies was the Executive Vice President and CFO of Inco Ltd, the world's largest nickel company.

Mr Davies was appointed a director on 20 August 2008.

Mr Davies resigned as a director on 31 March 2009.

Evan Gwynn Edwards, Financial Director/Company Secretary

Mr Edwards, aged 60, is a Chartered Accountant and has extensive financial and commercial experience gained in a range of senior corporate positions. Prior to joining AEC, Mr. Edwards was a founding Director and CFO of Australian Power & Energy Limited (now Monash Energy Limited), subsequently acquired by Anglo American plc. He served as Commercial Director and CFO for Sanwa Property Group Pty Ltd responsible for residential broad acre development and resort operations in Perth. Prior to that, he immigrated to Australia to take up the position of CFO of Burswood Resort Casino. After qualifying as a Chartered Accountant in South Africa he joined the banking industry with responsibilities in M & A/Corporate Finance and then in the services industry specialising in treasury management.

Mr Edwards was appointed a director on 20 December 2007.

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George Lavrin, Non-Executive Director

Mr. Lavrin, aged 63, is a Chemical Engineer with over thirty years experience with particular emphasis in currency and commodity hedging across a wide range of commodities. Mr. Lavrin was previously CEO and MD of the Australian operations of Pechiney World Trade and then head of Pechiney's global world trade activities based in ZUG, Switzerland. Following the multi billion dollar takeover of Pechiney Aluminium & Trading Group by Alcan, Mr Lavrin returned to Australia to focus on his private interests. Previous to Pechiney, Mr. Lavrin was an executive with Comalco Limited, being Senior Manager of their marketing division. Mr. Lavrin is a graduate of the University of NSW in Sydney - majoring in chemical engineering. He chairs the Remuneration Committee.

Mr Lavrin was appointed a director on 26 February 2008.

Dr Michael John Dalling AM, Non-Executive Director

Dr Dalling, aged 63, is a Biologist with a strong interest in Agro Science and economics. He was formerly Group General Manager of Nufarm Ltd, the listed agricultural chemical group. Prior to joining Nufarm in 1999, Dr Dalling was the Managing Director of the Strategic Industry Research Foundation, a joint initiative of the Victorian Government and the CSIRO. He chairs the Nomination Committee.

Dr Dalling was appointed a director on 27 March 2008.

Emeritus Professor Christopher Joseph Dalzell Fell AM, Non-Executive Director

Professor Fell, aged 69, is a chemical engineer by training, having commenced his career commissioning plants on the ICI Australia petrochemical complex at Botany. Subsequently an academic, he became Dean of Engineering and Deputy Vice-Chancellor responsible for the University of New South Wales' research and international activities. Research in his laboratory led to the formation of the successful high technology membrane company, Memtec Limited, now part of the Siemens international group. As a member of the Prime-Minister's Science, Engineering and Innovation Council he chaired the Working Party that developed the "Beyond Kyoto" action paper on greenhouse emissions and climate change. He chaired the Government's review of "Knowledge and Innovation Reforms" and was President of the Federation of Australian Scientific and Technological Societies. He has recently completed a Commonwealth-approved Investment Plan for a \$138m network of nanotechnology fabrication facilities and is a Director of the Australian National Fabrication Facility Limited. He holds a BSc (chemical engineering) from UNSW and a PhD from the University of Cambridge and is a Fellow of the Australian Institute of Company Directors and an Honorary Fellow of Engineers, Australia. Professor Fell chairs the Audit and Risk Management Committee.

Professor Fell was appointed a director on 26 February 2008.

Nathan Leslie Tinkler, Non-Executive Director

Mr Tinkler, aged 33, is a company director and was previously Managing Director of Custom Mining Limited. He has extensive experience in the coal industry.

Mr Tinkler was appointed a director on 6 June 2008.

Mr Tinkler resigned as a director on 17 December 2008.

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Thomas Richard Todd, Non-Executive Director

Mr Todd, aged 35, is a Chartered Accountant and holds a Graduate Diploma in Applied Finance and a first class honours degree in Physics. He is a graduate of the Australian Institute of Company Directors.

Mr Todd was previously Chief Financial Officer of Custom Mining Limited and an Executive Director of GE Commercial Finance. Mr Todd started his career in London with PriceWaterhouseCoopers and has extensive experience in finance and investment.

Mr Todd was appointed a director on 06 June 2008.

All directors held their positions as a director throughout the entire financial year and up to the date of this report unless otherwise indicated.

Directorships of listed companies

Directorships of listed companies held by directors in the 3 years immediately before the end of the financial year are as follows:

Name	Company	Period of Directorship
Trevor Allan Blood	MKY Corporation Ltd	2006 - 2008
	IM Medical Ltd	2006 - 2008
Evan Edwards	Nil	
George Lavrin	Nil	
Dr Mike Dalling	Cougar Energy Ltd	2007 - 2009
Emeritus Professor Chris Fell	Nil	
Nathan Tinkler	Nil	
Thomas Todd	Nil	

Directors' interests in equity instruments

Relevant interests of the directors in the shares and options of the Company, as at the date of this report, are:

	Number of unlisted Ordinary Shares	Number of unlisted Options over Ordinary Shares
Trevor Allan Blood ⁽ⁱ⁾	32,562,501	Nil
Evan Edwards	4,000,000	Nil
George Lavrin	200,000	Nil
Dr Mike Dalling	450,000	Nil
Emeritus Professor Chris Fell	100,000	Nil
Thomas Todd	Nil	Nil

(i) Shares held individually as well as by director related entities.

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Share capital

During the financial year, the following shares were issued:

Issue date	Price per share	Number of shares
21/07/2008	50 cents	100,000
23/02/2009 ⁽ⁱ⁾	50 cents	2,250,000

- (i) Shares issued to Great Energy Alliance Corporation Pty Ltd (the holding company of Loy Yang Power Pty Ltd) pursuant to the agreement to reserve coal. The price was set under a 'prior period' formula based on average share prices for the previous twelve months of the reservation renewal anniversary when the average share price was in the range of \$0.50 per share.

Options

Options were granted during the year to key management personnel as part of their remuneration. These options were forfeited upon the resignation of that manager. Following the sale of LFL, the Company entered into an agreement with the current option holders that the strike price for the options on issue be reduced from \$0.50 to \$0.36 as a result of the corporate reorganisation. There was no significant incremental fair value change as a result of the modification.

During the year, no options were exercised.

As at the date of this report, the unissued ordinary shares of Australian Energy Company Limited under options are as follows:

Grant date	Date of expiry	Exercise price	Number
27/06/2008	30/05/2011	36 cents	2,000,000

Since the year end, no ordinary shares of Australian Energy Company Limited have been issued on the exercise of options.

Directors' meetings

The number of directors' meetings (including meetings of committees of directors) and number of meetings attended by each of the directors of the Company during the financial year are:

Director	Board Meetings	
	A	B
Trevor Allan Blood	14	16
Evan Gwynn Edwards	16	16
George Lavrin	16	16
Dr Michael John Dalling	16	16
Robert Davies	12	12
Emeritus Prof Christopher Fell	16	16
Nathan Leslie Tinkler	1	8
Thomas Richard Todd	15	16

A – Number of meetings attended

B – Number of meetings held during the time the director held office during the year

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During the financial year, Messrs Robert Davies and Nathan Tinkler ceased to be directors of the company.

As at the date of this report the Company has an Audit and Risk Management Committee under the chairmanship of Professor Christopher Fell.

Corporate structure

The Company is an Australian unlisted public company.

Principal activities

The principal activity of the Group during the financial year was the engineering, technical and economic development of gasification technology applicable to lignitic coal for the production of a synthesis gas, which in turn, will be converted into urea or liquids.

Employees

The Company had one employee during the year, with most services being provided by consulting firms to minimise costs.

Review and results of operations

The Group continued to develop the two major projects:

- The lignitic coal to urea project in the Latrobe Valley in Victoria ("Urea project"); and
- the coal to liquids Many Stars project in Montana, USA in association with the Crow Indian Nation.

The Group also responded to the global financial crisis by reviewing the operations and where appropriate, curtailing development to maintain shareholder value.

The capital raised during the 2008 financial year has been applied to these projects which are reported on below.

The key strategies of the board were:

- To introduce strategic partners into the Urea project having completed the feasibility study prior to jointly financing the Front End Engineering & Design ("FEED").
- To formalise the arrangements, Project Agreement and related Definitive Agreements with the Crow Indian Nation, prepare for the coal resource delineation and position the project to attract the required capital.
- To create a liquid market for the shareholders.

To this effect, the Group embarked on a significant reorganisation to optimise shareholder value and increase the ability to attract the required capital. Immediately prior to year end, Latrobe Fertiliser Holdings Limited ("LFHL") was registered and all shareholders received an equivalent number of shares in this company to those they held in AEC. The Company then disposed (at an independent valuation) of its interest in the Urea Project held in Latrobe Fertilisers Limited ("LFL") and the Queensland exploration companies, Delminco Pty Ltd and Australian Industrial Minerals Pty Ltd, to LFHL. This transaction is dealt with in further detail in 'Significant Changes in the State of Affairs' below.

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This revised structure left AEC holding only the US coal assets and enabled the commencement, subsequent to year end, of the reverse takeover transaction ("RTO") of Terra Nova Minerals Inc by AEC, which is expected to result in the Company's shares being listed on the Toronto Stock Exchange. This transaction is detailed in Events Subsequent to Balance Date below.

Many Stars Project - Montana

Many Stars is an energy development project led by the Company's 90.91% owned subsidiary Australian-American Energy Company (AAEC) a Delaware LLC, in collaboration with the Crow Indian Nation in Montana. The Many Stars project will use clean-coal technology, including carbon capture and sequestration to produce up to 125,000 barrels per day (BPD) of transport fuels for domestic United States demand.

AEC and the Crow Nation have formed a strategic partnership to develop the plant on Tribal Lands, which include the northern section of the Powder River Basin coal field. The agreement has also now received the approval of the Bureau of Indian Affairs, the USA Federal body that has ultimate jurisdiction. Under the terms of the agreement, the Crow Indian Nation has granted Many Stars an exclusive 70 year coal lease to an area estimated to contain over 3.7 billion tons of coal resource. The initial estimated inferred coal resource totals 849 million tons. It is the intent to progressively increase this towards the higher figure.

This unique agreement with the Crow Nation guarantees Many Stars access to sufficient coal reserves and ancillary resources to support the CTL plant. Two clean coal processes are being studied for use in the plant, both of which will be designed to include CO₂ capture and storage, or for further use in enhanced oil recovery (EOR) operations for oil producers in the region.

During the year, AAEC raised US\$ 1,214,762 (A\$ 1,509,452) by the issue of units to a US investor entity for a 9.09% interest in AAEC.

Key near term objectives during the project development period include coal resource delineation, environmental permitting, CO₂ sequestration planning and engineering studies leading to front end engineering and design (FEED). Subsequent activities include completion of the FEED, selection of a contractor to engineer and construct the CTL plant, completion of environmental impact studies, negotiation of off-take agreements for products and co-ordination with debt and equity investors to finalise capital structure and plan for project financing.

Urea Project

The Urea Project proposes to use lignitic coal from the Latrobe Valley in Victoria and through proven technology produce 1.4 million tonnes per annum of urea. The Company has contracted with Siemens Fuel Gasification Technology GmbH for their leading edge gasification technology.

During the year, the pre FEED feasibility was successfully completed. The Company entered into negotiations with a number of strategic fertiliser industry participants to participate in and fund the project and received a positive response. The global financial crisis interrupted the negotiations and the board of directors resolved to conserve resources and slowed the operations until such time as the financial climate was receptive to green field projects and the recovery of the urea price.

During the year, the Company issued 2.25 million shares at \$0.50 each in payment of a reservation fee in respect of the Coal Reservation Agreement with the holding company for Loy Yang Power. Coal from this is expected to be the feedstock for the Urea Project.

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Subsequent to the sale of the Urea Project to LFHL, the company owned by the identical shareholding as AEC, the financial climate has become more receptive to this development.

Queensland Tenements

The board of directors has resolved to wind up these operations and sold them to LFHL for the net recoverable amount of \$89,916.

Operating results

The consolidated loss of the Company after providing for income tax for the year ended 30 June 2009 was \$24,737,532. Parent company loss was \$22,980,909. (Loss for the year ended 30 June 2008 was \$722,035. Parent company loss was \$596,389).

Dividends

Since the end of the previous financial year no dividends have been paid or declared by the Company, and the directors of the Company recommend that no dividend be provided for the year ended 30 June 2009.

Risk management

Procedures have been established by the Board to ensure the Company's risk management and internal compliance and control system continues to operate efficiently and effectively in all material respects.

Significant changes in the state of affairs

The Company embarked on a significant reorganisation to optimise shareholder value and to enable the efficient raising of capital and management of the operations.

The following transactions were undertaken to put this into effect:

- At the commencement of the year, the Company disposed of its interest in all of the Urea Project assets and liabilities to LFL, a wholly owned subsidiary. The company continued to fund LFL and prior to the balance date, LFL settled the intercompany indebtedness by the issue of 22,432,900 shares.
- Subsequently, the Company disposed of LFL to LFHL for \$5,076,717 in terms of which the payment of the purchase price is contingent on LFHL raising sufficient capital to commence FEED. Prior to the sale, LFL committed to providing bridging finance to AAEC on normal commercial terms, pending a capital raising in AAEC. The purchase price was calculated on the sum of an independent valuation and the cash in LFL. The difference between the fair value of the contingent consideration and the fair value of the assets disposed represents an in substance distribution to the owners of \$5,076,717.
- The investments in Delminco Pty Ltd and Australian Industrial Minerals Pty Ltd were sold to LFHL for \$52,043 and \$37,873 respectively. The sale prices reflected the net asset values after the write off of the exploration expenditure. The purchase price is payable upon the collection of receivables by these entities.

The outcome of this reorganisation is:

- The Company effectively holds the 90.91% interest in the Many Stars Project through its ownership of Australian-American Energy Group LLC.
- Latrobe Fertiliser Holdings Limited is the holding company for the Urea Project held through its 100% interest in Latrobe Fertilisers Limited.

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Environmental regulation

The Company has a policy of complying with its environmental performance obligations. No environmental breaches have been notified by any government agency during the year ended 30 June 2009. The board believes that the Company has adequate systems in place to manage any current and future environmental obligations.

Events subsequent to balance date

The Company has entered into a Support Agreement with Terra Nova Minerals Inc ("TGC"), an entity listed on the Toronto TSX Venture Exchange, in terms of which TGC has undertaken to launch a bid for 100% of the shares in the Company and the board of directors has undertaken to recommend the acceptance of the TGC offer to shareholders, subject to the conditions outlined below being met and subject to not receiving a superior offer. The shares in TGC have been suspended for the duration of the offer period. If this offer is successful it will provide the Company access to the North American and European capital markets and liquidity for shareholders.

The key conditions are:

- Shareholders will receive 2.6 TGC shares for each AEC share.
- Minimum acceptance of 75% by AEC shareholders.
- A capital placement of up to C\$12 million (AUD 13.525 million) at approximately C\$0.10 (AUD 0.11) per share – the capital to be held in escrow at closing until relisting.
- Relisting on the main Toronto Stock Exchange on all conditions being met.
- Majority of the board will be Company nominees.
- A share consolidation of 1 for 10.
- The acquisition by TGC of 9.09% interest in AAEC held by a US investor entity.

The respective shareholding interests at close are expected to be AEC shareholders 67.0% US investor entity 6.7%, new investors 19.9% and TGC shareholders 6.4%. At close, the board will consist of Allan Blood (Chairman), Willie McLucas (President), Dick Lyon (Executive Director and CEO), Evan Edwards, Brian Zarker, Thom Allen and Grant Sawiak.

Future developments

The likely developments in the operations of the Group and the expected results of those operations in future financial years have not been included in this report, as the directors believe, on reasonable grounds, that the inclusion of such information would be likely to result in unreasonable prejudice to the Company.

Key management personnel remuneration

The Company's policy for determining the nature and amount of emoluments of key management personnel of the Company is as follows:

The remuneration structure for executive officers, including executive directors, is based on a number of factors, including length of service, particular experience of the individual concerned, and overall performance of the Company. The contracts for service between the Company and the specified directors and executives are on a continuing basis. Mr Blood's contract is for a period of 3 years from 1 January 2006 with options to renew and is currently being renegotiated.

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Details of the nature and amount of each element of the compensation of each key management personnel of the Group are shown below:

Directors & Key Management Personnel		Short-term employee benefits		Post-employment benefits	Share-based payment	Total \$
		Salary & fees \$	Bonus \$	Superannuation \$	Equity-settled options \$	
T A Blood ⁽ⁱ⁾ <i>Executive chairman</i>	2009	300,000	-	4,500	-	304,500
	2008	300,000	-	1,125	-	301,125
B Davies <i>CEO & Director</i>	2009	29,166	-	3,375	-	32,541
<i>(resigned)</i>	2008	-	-	-	-	-
E Edwards ⁽ⁱ⁾ <i>CFO & Director</i>	2009	168,855	-	15,875	-	184,730
	2008	124,200	-	13,625	-	137,825
G Lavrin <i>Director</i>	2009	-	-	50,000	-	50,000
	2008	-	-	16,667	-	16,667
M Dalling <i>Director</i>	2009	4,167	-	46,208	-	50,375
	2008	-	-	12,500	-	12,500
C Fell <i>Director</i>	2009	59,091	-	4,500	-	63,591
	2008	16,667	-	1,500	-	18,167
N Tinkler <i>Director</i>	2009	25,000	-	2,250	-	27,250
	2008	4,167	-	375	-	4,542
T Todd <i>Director</i>	2009	50,000	-	4,500	-	54,500
	2008	4,167	-	375	-	4,542
R Lyon <i>CEO AAEC</i>	2009	570,263 (USD425,000)	-	-	-	570,263
	2008	-	-	-	-	-
K Roberts <i>CFO AAEC</i>	2009	536,718 (USD400,000)	-	-	-	536,718
	2008	-	-	-	-	-
TOTALS	2009	1,743,260	-	131,208	-	1,874,468
	2008	449,201	-	46,167	-	495,368

(i) Paid through a director related entity.

Indemnification of officers and auditors

The Group has not otherwise, during or since the financial year, indemnified or agreed to indemnify an officer or auditor of the Group or of any related body corporate against a liability incurred as such an officer or auditor.

Auditors independence declaration

The auditor's independence declaration is included immediately following this Director's Report and forms part of the Director's Report.

Signed in accordance with a resolution of the directors.

For and on behalf of the Board.



EVAN G EDWARDS

Director

Perth, Western Australia

8 September 2009

AUSTRALIAN ENERGY COMPANY LIMITED
ABN 70 111 848 983

AUDITOR'S INDEPENDENCE DECLARATION



Ernst & Young Building
11 Mounts Bay Road
Perth WA 6000 Australia
GPO Box M939 Perth WA 6843
Tel: +61 8 9429 2222
Fax: +61 8 9429 2436
www.ey.com/au

Auditor's Independence Declaration to the Directors of Australian Energy Corporation Limited

In relation to our audit of the financial report of Australian Energy Corporation Limited for the year ended 30 June 2009, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of any applicable code of professional conduct.

Ernst & Young

G H Meyerowitz
Partner
Perth
8 September 2009

AUSTRALIAN ENERGY COMPANY LIMITED
ABN 70 111 848 983

INCOME STATEMENT
AS AT 30 JUNE 2009

		2009	2008	2007	2009	2008	2007
	Notes	Consolidated \$	Consolidated \$	Consolidated \$	Company \$	Company \$	Company \$
Revenue and other income	3	687,852	68,617	64,978	674,690	66,647	64,978
Depreciation and amortisation expense	4(a)	(45,139)	(10,820)	(4,990)	(7,860)	(10,674)	(4,885)
Administration expenses	4(b)	(2,757,706)	(343,401)	(131,367)	(760,245)	(255,074)	(128,964)
Interest expense		-	(9,355)	--	(9,355)	-	
Other expenses from ordinary activities	4(c)	(26,369)	(1,921)	(2,537)	(25,182)	(1,299)	(1,959)
Project research expenditure		(4,542,791)	-	-	(645,688)	-	-
Impairment of investment in controlled entities	20	-	-	-	(17,612,132)	-	-
Loss on sale of subsidiaries		-	-	-	(1,437,861)	-	-
		<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Loss before income tax expense		(6,684,153)	(296,880)	(73,916)	(19,814,278)	(209,755)	(70,830)
Income tax (expense)/benefit	5	(1,674,266)	51,092	(13,832)	(3,166,631)	11,959	(13,832)
		<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Loss from continuing operations after related income tax expense		(8,358,419)	(245,788)	(87,748)	(22,980,909)	(197,796)	(84,662)
Discontinued operations							
Loss from discontinued operations after income tax	23(b)	(16,379,113)	(476,247)	(31,795)	-	(398,593)	-
		<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Profit/(loss) for the period		<u>(24,737,532)</u>	<u>(722,035)</u>	<u>(119,543)</u>	<u>(22,980,909)</u>	<u>(596,389)</u>	<u>(84,662)</u>
Attributable to:							
Minority interests		(502,542)	(6,508)	(2,616)	-	-	-
Members of the parent		(24,234,990)	(715,527)	(116,927)	-	-	-
Basic earnings per share (cents per share)	14	(15.7)	(0.7)	(0.002)	-	-	-
Diluted earnings per share (cents per share)	14	(15.7)	(0.7)	(0.002)	-	-	-
		<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>

The income statement is to be read in conjunction with the notes to the financial statements.

AUSTRALIAN ENERGY COMPANY LIMITED
ABN 70 111 848 983

BALANCE SHEET
AS AT 30 JUNE 2009

	Notes	2009 Consolidated \$	2008 Consolidated \$	2009 Company \$	2008 Company \$
CURRENT ASSETS					
Cash and cash equivalents	7	1,506,687	19,009,169	830,595	18,964,865
Trade and other receivables	8	590,521	874,282	590,521	715,295
Other current assets		10,852	90,959	10,852	83,459
Assets classified as held for sale		-	766,564	-	983,339
TOTAL CURRENT ASSETS		<u>2,108,060</u>	<u>20,740,974</u>	<u>1,431,968</u>	<u>20,746,958</u>
NON-CURRENT ASSETS					
Intangible assets	9	4,139,485	13,576,745	-	11,712,464
Plant and equipment	10	260,006	71,357	22,099	66,505
Investment in subsidiaries	20	-	-	4,849,600	1,708,127
TOTAL NON-CURRENT ASSETS		<u>4,399,491</u>	<u>13,648,102</u>	<u>4,871,699</u>	<u>13,487,096</u>
TOTAL ASSETS		<u>6,507,551</u>	<u>34,389,076</u>	<u>6,303,667</u>	<u>34,234,054</u>
CURRENT LIABILITIES					
Trade and other payables	11	974,279	1,219,217	354,834	1,001,290
Provisions		4,978	30,412	4,978	30,412
Liabilities classified as held for sale		-	81,413	-	-
TOTAL CURRENT LIABILITIES		<u>979,257</u>	<u>1,331,042</u>	<u>359,812</u>	<u>1,031,702</u>
TOTAL LIABILITIES		<u>979,257</u>	<u>1,331,042</u>	<u>359,812</u>	<u>1,031,702</u>
NET ASSETS		<u>5,528,294</u>	<u>33,058,034</u>	<u>5,943,855</u>	<u>33,202,352</u>
EQUITY					
Contributed equity	12	34,648,835	33,486,214	34,648,835	33,486,214
Reserves	13(a)	915,687	363,492	-	363,492
Accumulated profits/(losses)	13(b)	(30,110,464)	(798,757)	(28,704,980)	(647,354)
Minority interests		74,236	7,085	-	-
TOTAL EQUITY		<u>5,528,294</u>	<u>33,058,034</u>	<u>5,943,855</u>	<u>33,202,352</u>

The balance sheet is to be read in conjunction with the notes to the financial statements.

AUSTRALIAN ENERGY COMPANY LIMITED
ABN 70 111 848 983

CASH FLOW STATEMENT
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2009

Notes	2009 Consolidated \$	2008 Consolidated \$	2007 Consolidated \$	2009 Company \$	2008 Company \$	2007 Company \$
Cash flows from operating activities						
Receipts	1,573	267,854	2,985	1,573	2,543	2,985
Payments to suppliers and employees	(4,493,323)	(921,261)	(167,350)	(584,794)	(569,328)	(121,462)
Interest received	686,279	64,305	62,111	673,116	64,103	61,993
Deposits paid	-	(37,500)	(20,000)	-	(37,500)	(20,000)
Interest paid	-	(23,387)	-	-	(23,387)	-
Net cash provided by / (used in) operating activities	17(b) (3,805,471)	(649,989)	(122,254)	89,895	(563,569)	(76,484)
Cash flows from investing activities						
Purchase of plant and equipment	(272,861)	(32,460)	(52,205)	-	(30,135)	(48,846)
Payments for project development	(11,339,458)	(8,086,595)	(2,949,141)	(645,689)	(6,358,687)	(2,169,618)
Cash in subsidiaries disposed of	23(c) (3,624,828)	-	-	-	-	-
Investment in subsidiaries	-	-	-	(17,616,097)	(1,839,190)	(852,376)
Net cash used in investing activities	(15,237,147)	(8,119,055)	(3,001,346)	(18,261,786)	(8,228,012)	(3,070,840)
Cash flows from financing activities						
Proceeds from issue of shares	37,621	26,859,066	3,765,775	37,621	26,859,066	3,765,725
Other	(4,356)	-	-	-	-	-
Proceeds from issue of shares to minority interest	1,504,864	-	-	-	-	-
Net cash provided by / (used in) financing activities	1,538,129	26,859,066	3,765,775	37,621	26,859,066	3,765,725
Net increase/(decrease) in cash and cash equivalents	(17,504,489)	18,090,022	642,175	(18,134,270)	18,067,485	618,401
Net foreign exchange differences	-	83,492	-	-	83,492	-
Cash and cash equivalents at the beginning of the financial year	19,011,176	837,662	195,487	18,964,865	813,888	195,487
Cash and cash equivalents at the end of the period	17(a) 1,506,687	19,011,176	837,662	830,595	18,964,865	813,888

The cash flow statement is to be read in conjunction with the notes to the financial statements.

AUSTRALIAN ENERGY COMPANY LIMITED
ABN 70 111 848 983

STATEMENT OF CHANGES IN EQUITY
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2009

<u>Consolidated</u>	Issued capital \$	Accumulated losses \$	Reserves \$	Minority Interest \$	Total \$
At 1 July 2008	33,486,214	(798,757)	363,492	7,085	33,058,034
Profit/(loss) for period	-	(24,234,990)	-	(502,542)	(24,737,532)
Foreign currency reserves	-	-	(380,479)	-	(380,479)
Total income and expense for the period recognised directly in equity	-	(24,234,990)	(380,479)	(502,542)	(25,118,011)
Issue of share capital to minority interest	-	-	932,674	576,778	1,509,452
Minority interest disposed	-	-	-	(7,085)	(7,085)
Issue of share capital	1,175,000	-	-	-	1,175,000
Distribution to members	-	(5,076,717)	-	-	(5,076,717)
Share issue costs	(12,379)	-	-	-	(12,379)
At 30 June 2009	34,648,835	(30,110,464)	915,687	74,236	5,528,294

<u>Consolidated</u>	Issued capital \$	Accumulated losses \$	Reserves \$	Minority Interest \$	Total \$
At 1 July 2007	6,292,725	(83,230)	-	13,593	6,223,088
Profit/(loss) for period	-	(715,527)	-	(6,508)	(722,035)
Foreign currency reserves	-	-	83,492	-	83,492
Total income and expense for the period recognised directly in equity	-	(715,527)	83,492	(6,508)	(638,543)
Issue of share capital	27,806,000	-	-	-	27,806,000
Exercise of options	820,000	-	-	-	820,000
Equity reserve	-	-	280,000	-	280,000
Share issue costs	(1,432,511)	-	-	-	(1,432,511)
At 30 June 2008	33,486,214	(798,757)	363,492	7,085	33,058,034

AUSTRALIAN ENERGY COMPANY LIMITED
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STATEMENT OF CHANGES IN EQUITY
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2009

<u>Consolidated</u>	Issued capital \$	Accumulated losses \$	Reserves \$	Minority Interest \$	Total \$
At 1 July 2006	2,527,000	33,697	-	-	2,560,697
Profit/(loss) for period	-	(116,927)	-	-	(116,927)
Foreign currency reserves	-	-	-	-	-
Total income and expense for the period recognised directly in equity	-	(116,927)	-	-	(116,927)
Issue of share capital	3,953,500	-	-	-	3,953,500
Exercise of options	-	-	-	-	-
Equity reserve	-	-	-	13,593	13,593
Share issue costs	(187,775)	-	-	-	(187,775)
At 30 June 2007	6,292,725	(83,230)	-	13,593	6,223,088

<u>Parent Company</u>	Issued capital \$	Accumulated losses \$	Reserves \$	Total \$
At 1 July 2008	33,486,214	(647,354)	363,492	33,202,352
Profit/(loss) for period	-	(22,980,909)	-	(22,980,909)
Total income and expense for the period recognised directly in equity	-	(22,980,909)	-	(22,980,909)
Issue of share capital	1,175,000	-	-	1,175,000
Distribution to members	-	(5,076,717)	-	(5,076,717)
Reserves	-	-	(363,492)	(363,492)
Share issue costs	(12,379)	-	-	(12,379)
At 30 June 2009	34,648,835	(28,704,980)	-	5,943,855

AUSTRALIAN ENERGY COMPANY LIMITED
ABN 70 111 848 983

STATEMENT OF CHANGES IN EQUITY
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2009

<u>Parent Company</u>	Issued capital \$	Accumulated losses \$	Reserves \$	Total \$
At 1 July 2007	6,292,725	(50,965)	-	6,241,760
Profit/(loss) for period	-	(596,389)	-	(596,389)
Total income and expense for the period recognised directly in equity	-	(596,389)	-	(596,389)
Issue of share capital	27,806,000	-	-	27,806,000
Exercise of options	820,000	-	-	820,000
Reserves	-	-	363,492	363,492
Share issue costs	(1,432,511)	-	-	(1,432,511)
At 30 June 2008	33,486,214	(647,354)	363,492	33,202,352

<u>Parent Company</u>	Issued capital \$	Accumulated losses \$	Reserves \$	Total \$
At 1 July 2006	2,527,000	33,697	-	2,560,697
Profit/(loss) for period	-	(84,662)	-	(84,662)
Total income and expense for the period recognised directly in equity	-	(84,662)	-	(84,662)
Issue of share capital	3,953,500	-	-	3,953,500
Exercise of options	-	-	-	-
Reserves	-	-	-	-
Share issue costs	(187,775)	-	-	(187,775)
At 30 June 2007	6,292,725	(50,965)	-	6,241,760

**The statement of changes in equity is to be read in
conjunction with the notes to the financial statements.**

AUSTRALIAN ENERGY COMPANY LIMITED
ABN 70 111 848 983

NOTES TO THE FINANCIAL STATEMENTS

1. CORPORATE INFORMATION

The financial report of Australian Energy Company Limited (AEC) for the year ended 30 June 2009 was authorised for issue in accordance with a resolution of the Directors on September 2009.

AEC is an unlisted public company, incorporated and domiciled in Australia.

The nature of the operations and principal activities of AEC are the development of gasification projects to produce a synthesis gas from coal, which in turn, will be converted into urea and other liquids.

2. SUMMARY OF ACCOUNTING POLICIES

(a) Basis of preparation

The financial report is a general-purpose financial report, which has been prepared in accordance with Australian Accounting Standards. The financial report has been prepared on a historical cost basis.

The financial report is presented in Australian Dollars.

Going concern

The accompanying financial statements have been prepared in conformity with Australian Accounting Standards which contemplate continuation of the Company and Group as going concerns.

While the Group has a capital plan that provides for operations to continue, the Group does not have adequate financial resources to complete the development of its coal to liquids Many Stars project, and is dependent upon funds from investors and the support of members.

The Company and Group have \$830,595 and \$1,506,687 in cash and cash equivalents respectively to maintain a minimum level of activities over the near term. However, the Group plans to pursue additional financing through the reverse acquisition of Terra Nova Minerals Inc. and related capital raising. There is no assurance that the Group will be successful in raising additional capital. The Company and Group's ability to meet their obligations and commitments is dependent upon their ability to obtain additional financing.

The financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts, or to the amount or classification of liabilities that might be necessary should the Company and Group not be able to raise additional capital and thus be able to continue as going concerns.

(b) Basis of consolidation

The consolidated financial statements comprise the financial statements of Australian Energy Company Limited and its subsidiaries as at 30 June each year (the Group).

Subsidiaries are all those entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies so as to obtain benefits from their activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the group controls another entity.

AUSTRALIAN ENERGY COMPANY LIMITED
ABN 70 111 848 983

NOTES TO THE FINANCIAL STATEMENTS

2. SUMMARY OF ACCOUNTING POLICIES (cont'd)

(b) Basis of consolidation (cont'd)

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

In preparing the consolidated financial statements, all intercompany balances and transactions, income and expenses and profits and losses resulting from intra-group transactions have been eliminated in full.

Subsidiaries are fully consolidated from the date on which control is obtained by the Group and cease to be consolidated from the date on which control is transferred out of the Group.

The acquisition of subsidiaries is accounted for using the purchase method of accounting. The purchase method of accounting involves allocating the cost of the business combination to the fair value of the assets acquired and the liabilities and contingent liabilities assumed at the date of acquisition.

Minority interests not held by the Group are allocated their share of net profit or net loss after tax in the income statement and are presented within equity in the consolidated balance sheet, separately from parent shareholders' equity.

Acquisitions and disposals of minority interests are accounted for using the entity method, whereby, the difference between the consideration paid or received and the carrying value of the share of net assets acquired or disposed of is recognised in equity.

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AUSTRALIAN ENERGY COMPANY LIMITED
ABN 70 111 848 983

NOTES TO THE FINANCIAL STATEMENTS

(c) New accounting standards and interpretations

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet effective have not yet been adopted by the Group for the annual reporting period ending 30 June 2009. These are outlined in the table below

Reference	Title	Summary	Application date of standard	Impact on Group financial report	Application date for Group
AASB 8 and AASB 2007-3	Operating Segments and consequential amendments to other Australian Accounting Standards	New Standard replacing AASB 114 <i>Segment Reporting</i> , which adopts a management reporting approach to segment reporting.	1 January 2009	No impact on accounting policy or amounts recognised in the financial statements.	1 July 2009
AASB 101 (Revised), AASB 2007-8 and AASB 2007-10	Presentation of Financial Statements and consequential amendments to other Australian Accounting Standards	Introduces a statement of comprehensive income. Other revisions include impacts on the presentation of items in the statement of changes in equity, new presentation requirements for restatements or reclassifications of items in the financial statements, changes in the presentation requirements for dividends and changes to the titles of the financial statements.	1 January 2009	No impact on the amounts recognised in the financial statements.	1 July 2009
AASB 2008-1	Amendments to Australian Accounting Standard – Share-based Payments: Vesting Conditions and Cancellations	The amendments clarify the definition of “vesting conditions”, introducing the term “non-vesting conditions” for conditions other than vesting conditions as specifically defined and prescribe the accounting treatment of an award that is effectively cancelled because a non-vesting condition is not satisfied.	1 January 2009	The Group has not yet determined the potential effect of the amending standard on the Group’s financial report.	1 July 2009
AASB 127 (Revised)	Consolidated and Separate Financial Statements	There are a number of changes arising from the revision to AASB 127 relating to changes in ownership interest in a subsidiary without loss of control, allocation of losses of a subsidiary and accounting for the loss of control of a subsidiary. Specifically in relation to a change in the ownership interest of a subsidiary (that does not result in loss of control) – such a transaction will be accounted for as an equity transaction.	1 July 2009	The Group has not yet determined the potential effect of the amending standard on the Group’s financial report.	1 July 2009

AUSTRALIAN ENERGY COMPANY LIMITED
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NOTES TO THE FINANCIAL STATEMENTS

Reference	Title	Summary	Application date of standard	Impact on Group financial report	Application date for Group
AASB 2008-3	Amendments to Australian Accounting Standards arising from AASB 3 and AASB 127	Amending Standard issued as a consequence of revisions to AASB 3 and AASB 127. Refer above.	1 July 2009	The Group has not yet determined the potential effect of the amending standard on the Group's financial report.	1 July 2009
AASB 2008-5 and AASB 2008-6	Amendments to Australian Accounting Standards arising from the Annual Improvements Project and Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project	<p>The improvements project is an annual project that provides a mechanism for making non-urgent, but necessary, amendments to IFRSs. The IASB has separated the amendments into two parts: Part 1 deals with changes the IASB identified resulting in accounting changes; Part II deals with either terminology or editorial amendments that the IASB believes will have minimal impact.</p> <p>AASB 2008-5 was the first omnibus of amendments issued by the IASB arising from the Annual Improvements Project and it is expected that going forward, such improvements will be issued annually to remove inconsistencies and clarify wording in the standards.</p> <p>The AASB issued these amendments in two separate amending standards; one dealing with the accounting changes effective from 1 January 2009 and the other dealing with amendments to AASB 5, which will be applicable from 1 July 2009, AASB 2008-6.</p>	1 January 2009	The Group has not yet determined the potential effect of the amending standard on the Group's financial report.	1 July 2009

AUSTRALIAN ENERGY COMPANY LIMITED
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NOTES TO THE FINANCIAL STATEMENTS

Reference	Title	Summary	Application date of standard	Impact on Group financial report	Application date for Group
AASB 2008-7	Amendments to Australian Accounting Standards – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate	<p>The main amendments of relevance to Australian entities are those made to AASB 127 deleting the “cost method” and requiring all dividends from a subsidiary, jointly controlled entity or associate to be recognised in profit or loss in an entity’s separate financial statements (i.e., parent company accounts). The distinction between pre- and post-acquisition profits is no longer required. However, the payment of such dividends requires the entity to consider whether there is an indicator of impairment.</p> <p>AASB 127 has also been amended to effectively allow the cost of an investment in a subsidiary, in limited reorganisations, to be based on the previous carrying amount of the subsidiary (that is, share of equity) rather than its fair value.</p>	1 January 2009	No impact on the amounts recognised in the financial statements.	1 July 2009
AASB 2009-2	Amendments to Australian Accounting Standards – Improving Disclosures about Financial Instruments [AASB 4, AASB 7, AASB 1023 & AASB 1038]	<p>The main amendment to AASB 7 requires fair value measurements to be disclosed by the source of inputs, using the following three-level hierarchy:</p> <ul style="list-style-type: none"> ▶ quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1); ▶ inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices) (Level 2); and ▶ inputs for the asset or liability that are not based on observable market data (unobservable inputs) (Level 3). <p>These amendments arise from the issuance of <i>Improving Disclosures about Financial Instruments (Amendments to IFRS 7)</i> by the IASB in March 2009.</p> <p>The amendments to AASB 4, AASB 1023 and AASB 1038 comprise editorial changes resulting from the amendments to AASB 7.</p>	Annual reporting periods beginning on or after 1 January 2009 that end on or after 30 April 2009.	No impact on accounting policy or amounts recognised in the financial statements, but will require change to the disclosures relating to financial instruments.	1 July 2009

AUSTRALIAN ENERGY COMPANY LIMITED
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NOTES TO THE FINANCIAL STATEMENTS

Reference	Title	Summary	Application date of standard	Impact on Group financial report	Application date for Group
AASB 2009-7	Amendments to Australian Accounting Standards [AASB 5, 7, 107, 112, 136 & 139 and interpretation 17]	These comprise editorial amendments and are expected to have no major impact on the requirements of the amended pronouncements.	1 July 2009	The Group has not yet determined the potential effect of the amending standard on the Group's financial report.	1 July 2009
Amendments to International Financial Reporting Standards***	Amendments to IFRS 2	<p>The amendments clarify the accounting for group cash-settled share-based payment transactions, in particular:</p> <ul style="list-style-type: none"> ▶ the scope of AASB 2; and ▶ the interaction between IFRS 2 and other standards. <p>An entity that receives goods or services in a share-based payment arrangement must account for those goods or services no matter which entity in the group settles the transaction, and no matter whether the transaction is settled in shares or cash.</p> <p>A “group” has the same meaning as in IAS 27 <i>Consolidated and Separate Financial Statements</i>, that is, it includes only a parent and its subsidiaries.</p> <p>The amendments also incorporate guidance previously included in IFRIC 8 <i>Scope of IFRS 2</i> and IFRIC 11 <i>IFRS 2—Group and Treasury Share Transactions</i>. As a result, IFRIC 8 and IFRIC 11 have been withdrawn.</p>	1 January 2010	The Group has not yet determined the potential effect of the amending standard on the Group's financial report.	1 July 2010

NOTES TO THE FINANCIAL STATEMENTS

2. SUMMARY OF ACCOUNTING POLICIES (cont'd)

(d) Statement of compliance

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

(e) Summary of significant accounting policies

(i) Plant and equipment

Plant and equipment is stated at 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.

Depreciation is calculated in a straight-line basis over the estimated useful life of the asset as follows:

Plant and equipment – over 5 years.

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

(ii) Intangible assets

Intangible assets acquired separately or in a business combination are initially measured at cost. The cost of an intangible asset acquired in a business combination is its fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. Internally generated intangible assets, excluding capitalised development costs, are not capitalised and expenditure is charged against profits in the year in which the expenditure is incurred.

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life is reviewed at least at each financial year-end.

Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortisation period or method, as appropriate, which is a change in accounting estimate. The amortisation expense on intangible assets with finite lives is recognised in profit or loss in the expense category consistent with the function of the intangible asset.

NOTES TO THE FINANCIAL STATEMENTS

2. SUMMARY OF ACCOUNTING POLICIES (cont'd)

(ii) Intangible assets (cont'd)

Intangible assets with indefinite useful lives are tested for impairment annually either individually or at the cash-generating unit level. Such intangibles are not amortised. The useful life of an intangible asset with an indefinite life is reviewed each reporting period to determine whether indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is accounted for as a change in an accounting estimate and is thus accounted for on a prospective basis.

Research and development costs

Research costs are expensed as incurred. An intangible asset arising from development expenditure on an internal project is recognised only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the development and the ability to measure reliably the expenditure attributable to the intangible asset during its development. Following the initial recognition of the development expenditure, the cost model is applied requiring the asset to be carried at cost less an accumulated amortisation and accumulated impairment losses. Any expenditure so capitalised amortised over the period of expected benefits from the related project.

The carrying value of an intangible asset arising from development expenditure is tested for impairment annually when the asset is not yet available for use, or more frequently when an indication of impairment arises during the reporting period.

(iii) Impairment of other assets

Other assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

The Group conducts an annual internal review of asset values, which is used as a source of information to assess for any indicators of impairment. External factors, such as changes in expected future processes, technology and economic conditions, are also monitored to assess for indicators of impairment. If any indication of impairment exists, an estimate of the asset's recoverable amount is calculated.

An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. Recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows that are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are tested for possible reversal of the impairment whenever events or changes in circumstance indicate that the impairment may have reversed.

NOTES TO THE FINANCIAL STATEMENTS

2. SUMMARY OF ACCOUNTING POLICIES (cont'd)

(iv) Trade and other receivables

Trade receivables, which generally have 30-90 day terms, are recognised and carried at original invoice amount, less an allowance for any uncollectible amounts.

An allowance for doubtful debts is made when there is objective evidence that the Group will not be able to collect the debts. Bad debts are written off when identified.

(v) Cash and cash equivalents

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

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

(vi) Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

When the Group expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the income statement net of any reimbursement.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the balance sheet date. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects the time value of money and the risks specific to the liability.

(vii) Employee leave benefits

(i) Wages, salaries, annual leave and sick leave

Liabilities for wages and salaries, including non-monetary benefits and annual leave expected to be settled within twelve months of the reporting date are recognised in respect of employees' services up to the reporting date. They are measured at the amounts expected to be paid and when the liabilities are settled. Expenses for sick leave are recognised when the leave is taken and are measured at the rates paid or payable.

NOTES TO THE FINANCIAL STATEMENTS

2. SUMMARY OF ACCOUNTING POLICIES (cont'd)

(viii) Trade and other payables

Trade payables and other payables are carried at amortised costs and 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.

(ix) Revenue

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

Interest income

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.

(x) Exploration and evaluation expenditure

Exploration and evaluation expenditure is accounted for in accordance with the 'area of interest' method. Exploration and evaluation expenditure is capitalised provided the rights to the tenure of the area of interest is current and either:

- The exploration and evaluation activities are expected to be recouped through successful development and exploitation of the area of interest or, alternatively, by its sale; or
- Exploration and evaluation activities in the area of interest have not at the reporting date reached a stage that permits a reasonable assessment of the existence or otherwise of economically recoverable reserves and active and significant operations in, or relating to, the area of interest are continuing.

If expenditure does not meet either of these tests, they are expensed to the income statement.

When the technical feasibility and commercial viability of extracting a coal resource has been demonstrated, then any capitalised exploration and evaluation expenditure is reclassified as capitalised mine development.

Impairment of capitalised project expenditure

The carrying value of capitalised exploration and evaluation expenditure is assessed for impairment at the cash generating unit level whenever facts and circumstances suggest that the carrying amount of the asset may exceed its recoverable amount.

An impairment exists when the carrying amount of an asset or cash-generating unit exceeds its estimated recoverable amount. The asset or cash-generating unit is then written down to its recoverable amount. Any impairment losses are recognised in the income statement.

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NOTES TO THE FINANCIAL STATEMENTS

2. SUMMARY OF ACCOUNTING POLICIES (cont'd)

(xi) Foreign currency translation

Functional and presentation currency

Both the functional and presentation currency of Australian Energy Company Limited and its Australian subsidiaries is Australian dollars (\$). Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

Transactions and balances

Transactions in foreign currencies are initially recorded in the functional currency by applying the exchange rates ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date. All exchange differences arising from the above policy are recognised in the income statement.

Translation of group companies functional currency to presentation currency

The results of the United States subsidiaries are translated into Australian Dollars as at the date of each transaction. Assets and liabilities are translated at exchange rates prevailing at balance date.

Exchange variations resulting from the translation are recognised in the foreign currency translation reserve in equity.

(xii) 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. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the balance sheet date.

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

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 taxable profit or loss; or

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NOTES TO THE FINANCIAL STATEMENTS

2. SUMMARY OF ACCOUNTING POLICIES (cont'd)

(xii) Income tax (cont'd)

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

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax assets 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 taxable profit or loss; or
- When the deductible temporary difference is associated with investments in subsidiaries, associates or interests in joint ventures, in which case a deferred tax asset is only recognised to the extent that it is probable that the temporary difference will reverse in the foreseeable future and taxable profit will be available against which the temporary difference can be utilised.

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

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

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

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

Deferred tax assets and deferred tax liabilities are offset only if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to the same taxable entity and the same taxation authority.

Tax consolidation

The Company and its 100% owned Australian resident subsidiaries formed a tax consolidated group with effect from 1 July 2007. The Company is the head entity of the tax consolidated group.

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NOTES TO THE FINANCIAL STATEMENTS

2. SUMMARY OF ACCOUNTING POLICIES (cont'd)

(xiii) Other taxes

Revenues, expenses and assets are recognised net of the amount of GST except:

- When the GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable, and
- Receivables and payables, which are stated with the amount of GST included.

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

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

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

(xiv) Contributed equity

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

(xv) Earnings per share

Basic earnings per share is calculated as net profit attributable to members of the Group, adjusted to exclude any costs of servicing equity (other than dividends) and preference share dividends, divided by the weighted average number of ordinary shares, adjusted for any bonus element.

Diluted earnings per share is calculated as net profit attributable to members of the parent, adjusted for:

- costs of servicing equity (other than dividends) and preference share dividends;
- the after tax effect of dividends and interest associated with dilutive potential ordinary share that have been recognised as expenses; and
- other non-discretionary changes in revenues or expenses during the period that would result from the dilution of potential ordinary shares,

divided by the weighted average number of ordinary shares and dilutive potential ordinary shares, adjusted for any bonus element.

NOTES TO THE FINANCIAL STATEMENTS

2. SUMMARY OF ACCOUNTING POLICIES (cont'd)

(xvi) Share-based payment transactions

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

The cost of these equity-settled transactions with Directors, employees and consultants is measured by reference to the fair value at the date at which they are granted. The fair value is determined using the Black-Scholes model, further details of which are given in note 24.

In valuing equity-settled transactions, no account is taken to any vesting conditions, other than conditions linked to the price of the shares of the Company if applicable.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity on the date the equity right is granted.

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. An additional expense is recognised for any modification that increases the total fair value of the share based arrangement, or is otherwise beneficial to the employee, 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 are treated as if they 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 loss per share (see note 10).

(xvii) Significant accounting judgements, estimates and assumptions

In applying the Group's accounting policies management continually evaluates judgements, estimates and assumptions based on experience and other factors, including expectations of future events that may have an impact on the Group. All judgements, estimates and assumptions made are believed to be reasonable based on the most current set of circumstances available to management. Actual results may differ from the judgements, estimates and assumptions. Significant judgements, estimates and assumptions made by management in the preparation of these financial statements are outlined below:

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NOTES TO THE FINANCIAL STATEMENTS

2. SUMMARY OF ACCOUNTING POLICIES (cont'd)

(xvii) Significant accounting judgements, estimates and assumptions (cont'd)

Recovery of deferred tax assets

Deferred tax assets are only recognised for deductible temporary differences when management considers that it is probable that future taxable profits will be available to utilise those temporary differences.

This involves value in use calculations, which incorporate a number of key estimates and assumptions.

Share-based payment transactions

The Group measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined by an external valuer using a binomial model. The accounting estimates and assumptions relating to equity-settled share-based payments would have no impact on the carrying amounts of assets and liabilities within the next annual reporting period, but may impact expenses and equity.

Impairment of other assets

The Group assesses impairment of all assets at each reporting date by evaluating conditions specific to the Group and to the particular asset that may lead to impairment. These include product and manufacturing performance, technology, economic and political environments and future product expectations. If an impairment trigger exists, the recoverable amount of the asset is determined. This involves value in use calculations, which incorporate a number of key estimates and assumptions.

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NOTES TO THE FINANCIAL STATEMENTS

	2009 Consolidated \$	2008 Consolidated \$	2007 Consolidated \$	2009 Company \$	2008 Company \$	2007 Company \$
3. REVENUE AND OTHER INCOME						
Interest revenue	686,279	64,148	61,993	673,117	64,104	61,993
Other	1,573	4,469	2,985	1,573	2,543	2,985
Total revenue	687,852	68,617	64,978	674,690	66,647	64,978
4. LOSS FROM ORDINARY ACTIVITIES						
Loss from ordinary activities before income tax has been determined after:						
(a) Expenses						
Depreciation and amortisation of non-current assets - plant and equipment reflected in the income statement pertaining to:						
Continuing operations	45,139	10,820	4,990	7,860	10,674	4,885
Discontinuing operations	9,825	-	-	-	-	-
Total depreciation and amortisation	54,964	10,820	4,990	7,860	10,674	4,885
(b) Administration expenses						
Legal expenses	1,083,713	33,813	11,330	50,103	8,103	8,750
Accounting, audit and secretarial	398,851	54,020	49,183	191,462	54,020	49,183
Directors fees and benefits	377,041	33,467	-	377,041	33,467	-
Marketing costs	164,907	18,620	1,520	139	18,557	1,520
Travel expenses	141,702	4,498	883	11,393	2,738	883
Other	591,492	198,983	68,451	130,107	138,189	68,628
Total administration expenses	2,757,706	343,401	131,367	760,245	255,074	128,964
(c) Other expenses from ordinary operations						
Other expenses from ordinary activities	4,482	1,921	2,537	3,295	1,299	1,959
Bad & doubtful debts	21,887	-	-	21,887	-	-
Total other expenses from ordinary operations	26,369	1,921	2,537	25,182	1,299	1,959
(d) Employee benefits expense						
Wages and salaries	289,270	132,877	6,433	1,443	132,877	6,433

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NOTES TO THE FINANCIAL STATEMENTS

	2009 Consolidated \$	2008 Consolidated \$	2007 Consolidated \$	2009 Company \$	2008 Company \$	2007 Company \$
5. INCOME TAX						
The major components of income tax expense are:						
Income statement						
<i>Current income tax</i>						
Current income tax charge	-	(2,969,322)	(863,008)	-	(2,868,045)	(688,379)
Prior year adjustment in respect of tax losses	-	238,863	338,387	-	238,863	348,851
R & D tax offset taken	-	(309,245)	(303,305)	-	(309,245)	(303,305)
<i>Deferred income tax</i>						
Deferred income tax charge	1,979,592	2,981,042	-	1,979,592	2,920,663	-
Adjustment in respect of prior years	407,324	7,570	821,454	407,324	5,805	656,665
Deferred tax balances no longer recognised	831,078	-	20,304	779,715	-	-
Income tax expense/(benefit) reported in the income statement	<u>3,217,994</u>	<u>(51,092)</u>	<u>13,832</u>	<u>3,166,631</u>	<u>(11,959)</u>	<u>13,832</u>
Income tax expense/(benefit) reported in the income statement pertaining to:						
Continuing operations	1,674,266	(51,092)	13,832	1,666,631	(11,959)	13,832
Discontinued operations	1,543,728	-	-	-	-	-
Income tax expense/(benefit)	<u>3,217,994</u>	<u>(51,092)</u>	<u>13,832</u>	<u>3,166,631</u>	<u>(11,959)</u>	<u>13,832</u>

A reconciliation between tax expense and the product of accounting loss before income tax multiplied by the Group's applicable income tax rate is as follows:

Accounting loss before tax from continuing operations	(6,684,153)	(296,880)	(73,916)	(19,814,278)	(209,755)	(70,830)
Accounting loss before tax from discontinued operations	(14,835,385)	(476,247)	(31,795)	-	(398,593)	-
	<u>(21,519,538)</u>	<u>(773,127)</u>	<u>(105,711)</u>	<u>(19,814,278)</u>	<u>(608,348)</u>	<u>(70,830)</u>
At the parent entity's statutory income tax rate of 30% (2008: 30%) (2007: 30%)	(6,455,861)	(231,938)	(31,713)	(5,944,283)	(182,504)	(21,249)
Increase/(decrease) in income tax expense due to:						
Unders/overs – prior year	407,324	234,828	25,543	407,324	234,828	35,081
R & D offset taken – prior year	-	(309,245)	-	-	(309,245)	-
R & D claim for the current year	-	(412,500)	-	-	(412,500)	-
Deferred tax balances no longer recognised	831,078	668,388	20,002	779,715	657,462	-
Non deductible expenditure and net unrecognised temporary differences relating to discontinued operations	6,761,187	-	-	-	-	-
Non deductible expenditure	-	-	-	7,923,875	-	-
Addback of US losses not recognised	1,674,266	(625)	-	-	-	-
Aggregate income tax expense/(benefit)	<u>3,217,994</u>	<u>(51,092)</u>	<u>13,832</u>	<u>3,166,631</u>	<u>(11,959)</u>	<u>13,832</u>

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NOTES TO THE FINANCIAL STATEMENTS

	2008	Income tax	Disposal/ other	2009
	\$	expense	\$	\$
	\$	\$	\$	\$
5. INCOME TAX (cont'd)				
Deferred taxes				
<i>Consolidated</i>				
<i>Deferred tax liabilities</i>				
Project expenditure	(3,786,469)	272,730	3,513,739	-
Accrued interest income	(11,249)	11,249	-	-
<i>Deferred tax assets</i>				
Audit fee accrual	7,500	3,000	-	10,500
Accrued directors fees	2,500	(2,500)	-	-
Provision for employee entitlement	7,402	(7,402)	-	-
Provision for superannuation	1,722	(260)	-	1,462
S40-880-P&L	1,682	1,016	-	2,698
S40-880-Equity	484,798	(204,413)	-	280,385
Tax losses	3,959,036	(3,322,496)	(347,108)	289,432
Tax losses not recognised	(615,559)	31,082	-	(584,477)
	<u>51,363</u>	<u>(3,217,994)</u>	<u>3,166,631</u>	<u>-</u>
Deferred taxes reported in the Balance sheet pertaining to				
Continuing operations	51,363	(3,217,994)	(3,166,631)	-
Discontinuing operations	-	-	-	-
	<u>51,363</u>	<u>(3,217,994)</u>	<u>(3,166,631)</u>	<u>-</u>
<i>Parent</i>				
<i>Deferred tax liabilities</i>				
Project expenditure	(3,513,739)	-	3,513,739	-
Accrued interest income	(11,249)	11,249	-	-
<i>Deferred tax assets</i>				
Audit fee accrual	7,500	3,000	-	10,500
Accrued directors fees	2,500	(2,500)	-	-
Provision for employee entitlements	7,402	(7,402)	-	-
Provision for superannuation	1,722	(260)	-	1,462
S40-880-P&L	1,682	1,016	-	2,698
S40-880-Equity	484,798	(204,413)	-	280,385
Tax losses	3,672,665	(3,036,125)	(347,108)	289,432
Tax losses not recognised	(653,281)	68,804	-	(584,477)
	<u>-</u>	<u>(3,166,631)</u>	<u>3,166,631</u>	<u>-</u>

The United States subsidiaries are treated as partnerships for income tax purposes. The most recent tax assessment that had been calculated was for the year ended 30 June 2008. At this time there were accumulated tax losses of \$60,142. These tax losses have not been recognised as a deferred income tax asset as it is not considered probable that taxable profit will be available against which the unused tax losses can be utilised.

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NOTES TO THE FINANCIAL STATEMENTS

	2009	2008	2009	2008
	Consolidated	Consolidated	Company	Company
	\$	\$	\$	\$
6. AUDITORS' REMUNERATION				
Amounts received, or due and receivable by, Ernst & Young (Australia) for:				
Auditing or reviewing the financial report	54,733	88,828	54,733	88,828
Other services	113,502	66,991	113,502	14,935
	<u>113,502</u>	<u>66,991</u>	<u>113,502</u>	<u>14,935</u>
Amounts received, or due and receivable by, related practices of Ernst & Young (Australia) for:				
Auditing or reviewing the financial report	67,090	-	-	-
Other services	-	-	-	-
	<u>67,090</u>	<u>-</u>	<u>-</u>	<u>-</u>
7. CASH AND CASH EQUIVALENTS				
Cash on hand	1,100	1,003	1,000	1,000
Cash at bank	1,505,587	19,008,166	829,595	18,963,865
	<u>1,506,687</u>	<u>19,009,169</u>	<u>830,595</u>	<u>18,964,865</u>
8. TRADE AND OTHER RECEIVABLES				
Current				
Other receivables	590,521	874,282	590,521	715,295
	<u>590,521</u>	<u>874,282</u>	<u>590,521</u>	<u>715,295</u>
9. INTANGIBLE ASSETS				
Non-current				
Project development	-	11,713,315	-	11,712,464
Exploration and evaluation expenditure	4,139,485	1,863,430	-	-
Total	<u>4,139,485</u>	<u>13,576,745</u>	<u>-</u>	<u>11,712,464</u>

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NOTES TO THE FINANCIAL STATEMENTS

	2009 Consolidated \$	2008 Consolidated \$	2009 Company \$	2008 Company \$
9. INTANGIBLE ASSETS (cont'd)				
Movements in carrying amounts				
Movements in carrying amounts for each class of intangible from the beginning to the end of the current financial year:				
Project development				
- balance at the beginning of year	11,712,464	5,162,497	11,712,464	4,535,401
- additions	371,958	7,063,011	371,958	7,206,507
- assets held for sale	-	(483,600)	-	-
- costs recovered	-	(29,444)	-	(29,444)
Project costs expensed	(645,688)	-	(645,688)	-
Disposal of projects	(11,438,734)	-	(11,438,734)	-
	<u>-</u>	<u>11,712,464</u>	<u>-</u>	<u>11,712,464</u>
Carrying amount at end of year	<u>-</u>	<u>11,712,464</u>	<u>-</u>	<u>11,712,464</u>
Exploration and evaluation expenditure				
- balance at the beginning of year	1,863,430	-	-	-
- additions and translation differences	2,276,055	1,864,281	-	-
	<u>4,139,485</u>	<u>1,864,281</u>	<u>-</u>	<u>-</u>
Carrying amount at end of year	<u>4,139,485</u>	<u>1,864,281</u>	<u>-</u>	<u>-</u>
Total carrying amount at end of year	<u>4,139,485</u>	<u>13,576,745</u>	<u>-</u>	<u>11,712,464</u>

The recoverability of the carrying amount of the expenditures are dependent on the successful development and exploitation, or, alternatively the sale, of the respective areas of interest.

Impairment

There has been no impairment during the year.

10. PLANT AND EQUIPMENT

Plant and equipment				
- at cost	313,060	87,148	40,630	82,190
- accumulated depreciation	(53,054)	(15,791)	(18,531)	(15,685)
	<u>260,006</u>	<u>71,357</u>	<u>22,099</u>	<u>66,505</u>

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	2009 Consolidated Notes	2008 Consolidated	2009 Company	2008 Company
	\$	\$	\$	\$
10. PLANT AND EQUIPMENT (cont'd)				
Movements in carrying amounts				
Movements in carrying amounts for each class of plant and equipment from the beginning to the end of the current financial year:				
Plant and equipment				
- balance at the beginning of year	71,357	50,265	66,505	47,044
- additions	270,334	32,460	-	30,135
- depreciation expense	(45,139)	(10,820)	(7,860)	(10,674)
- transfer to assets classified as held for sale	-	(548)	-	-
- Discontinued operations of plant & equipment	(36,546)	-	(36,546)	-
	<u>260,006</u>	<u>71,357</u>	<u>22,099</u>	<u>66,505</u>
Carrying amount at end of year	<u>260,006</u>	<u>71,357</u>	<u>22,099</u>	<u>66,505</u>
11. TRADE AND OTHER PAYABLES				
Current				
Trade payables	906,637	1,168,496	287,192	888,569
Other payables	32,642	16,945	32,642	16,945
Accrued expenses	35,000	33,776	35,000	95,776
	<u>974,279</u>	<u>1,219,217</u>	<u>354,834</u>	<u>1,001,290</u>
12. ISSUED CAPITAL				
Issued and paid-up capital				
155,926,516 (2008: 153,576,516)				
ordinary fully paid shares (number)	<u>155,926,516</u>	<u>153,576,516</u>	<u>155,926,516</u>	<u>153,576,516</u>
Ordinary shares (\$)				
At the beginning of reporting period	33,486,214	6,292,725	33,486,214	6,292,725
Shares issued during the year				
- share placements	1,175,000	27,806,000	1,175,000	27,806,000
- conversion of options	-	820,000	-	820,000
Transaction costs relating to share issues	(12,379)	(1,432,511)	(12,379)	(1,432,511)
	<u>34,648,835</u>	<u>33,486,214</u>	<u>34,648,835</u>	<u>33,486,214</u>
At reporting date	<u>34,648,835</u>	<u>33,486,214</u>	<u>34,648,835</u>	<u>33,486,214</u>

Fully paid ordinary shares carry one vote per share and carry the right to dividends.

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	Notes	2009 Consolidated	2008 Consolidated	2009 Company	2008 Company
12. ISSUED CAPITAL (cont'd)					
Ordinary shares (number)					
At the beginning of reporting period		153,576,516	82,967,502	153,576,516	82,967,502
Shares issued during the year					
- share placements	(i)	2,350,000	61,209,014	2,350,000	61,209,014
- conversion of options	(ii)	-	9,400,000	-	9,400,000
		155,926,516	153,576,516	155,926,516	153,576,516
At reporting date		155,926,516	153,576,516	155,926,516	153,576,516

- (i) During the year 2,350,000 shares were issued through private placements. During the 2008 year, 61,209,014 shares were issued through private placements.
- (ii) During the year nil options were converted and 5,000,000 options were issued and were forfeited. During the 2008 year, 9,400,000 options were converted at varying exercise prices.

2,250,000 shares were issued to Great Energy Alliance Corporation Pty Ltd (the holding company of Loy Yang Power Pty Ltd) pursuant to the agreement to reserve coal. The value of the shares issued was measured based on the invoiced value of the coal reservation fee. The price was set under a 'prior period' formula based on average share prices for the previous twelve months of the reservation renewal anniversary when the average share price was in the range of \$0.50 per share.

Options

During the year there were 5,000,000 (2008 – 2,000,000) options issued over un-issued ordinary shares. The options were issued to the Chief Executive Officer who subsequently resigned and accordingly the options were forfeited. The options hold a strike price of \$0.36 and with a maturity date of 30 May 2011 (See note 24). Following the sale of LFL, the Company entered into an agreement with the current option holders that the strike price for the options on issue be reduced from \$0.50 to \$0.36 as a result of the corporate reorganisation. There was no significant incremental fair value change as a result of the modification.

At 30 June 2009, there were 2,000,000 (2008: 2,000,000) un-issued ordinary shares for which options were outstanding.

Grant date	Date of expiry	Exercise price	Number
27/06/08	30/05/11	36 cents	2,000,000

Capital management policy

The Group has adopted a capital management policy to ensure the Group continues as a going concern as well as optimising the return to shareholders which includes accessing the lowest cost of capital to fund the ongoing projects. There has been no change to the policy. The Group does not have any borrowings.

Management monitors capital requirements through cash flow forecasting. Capital is defined as issued share capital. Management may seek further capital if required through the issue of capital or changes in the capital structure.

The Group has no externally imposed capital requirements.

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NOTES TO THE FINANCIAL STATEMENTS

	2009 Consolidated Notes	2008 Consolidated	2009 Company	2008 Company
	\$	\$	\$	\$
13. RESERVES AND ACCUMULATED LOSSES				
(a) Reserves				
Balance at beginning of financial year	363,492	-	363,492	-
Foreign currency translation	(380,479)	83,492	(363,492)	83,492
Share based payment	-	280,000	-	280,000
Equity reserve	932,674	-	-	-
	<u>915,687</u>	<u>363,492</u>	<u>-</u>	<u>363,492</u>
Balance at end of financial year	<u><u>915,687</u></u>	<u><u>363,492</u></u>	<u><u>-</u></u>	<u><u>363,492</u></u>

Equity reserve

The equity reserve is used to record the value of share based payments provided to employees as part of their remuneration as well as gains and losses associated with equity transactions with minority shareholders where the Group maintains control of the subsidiary.

Foreign currency translation reserve

The foreign currency translation reserve is used to record exchange differences arising from the translation of the financial statements of foreign subsidiaries.

(b) Accumulated losses				
Balance at beginning of financial year	(798,757)	(83,230)	(647,354)	(50,965)
Distribution to members (refer to Note 21)	(5,076,717)	-	(5,076,717)	-
Net loss attributable to Members of the parent	(24,234,990)	(715,527)	(22,980,909)	(596,389)
	<u>(30,110,464)</u>	<u>(798,757)</u>	<u>(28,704,980)</u>	<u>(647,354)</u>
Balance at end of financial year	<u><u>(30,110,464)</u></u>	<u><u>(798,757)</u></u>	<u><u>(28,704,980)</u></u>	<u><u>(647,354)</u></u>

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NOTES TO THE FINANCIAL STATEMENTS

	2009 Consolidated Cents per share	2008 Consolidated Cents per share	2007 Consolidated Cents per share
14. EARNINGS PER SHARE			
Basic profit/(loss) per share	(15.7)	(0.7)	(0.002)
Diluted profit/(loss) per share	(15.7)	(0.7)	(0.002)
	<u> </u>	<u> </u>	<u> </u>
Continuing operations			
Basic profit/(loss) per share	(5.1)	(0.2)	(0.002)
Diluted profit/(loss) per share	(5.1)	(0.2)	(0.002)
	<u> </u>	<u> </u>	<u> </u>
Basic profit/(loss) per share			
The earnings and weighted average number of ordinary shares used in the calculation of basic earnings per share are as follows:			
	\$	\$	\$
Net loss attributable to ordinary equity holders of the parent	(24,234,990)	(715,527)	(116,927)
	<u> </u>	<u> </u>	<u> </u>
Earnings used in the calculation of dilutive EPS	(24,234,990)	(715,527)	(116,927)
	<u> </u>	<u> </u>	<u> </u>
	Number	Number	Number
Weighted average number of ordinary shares	154,460,078	99,285,267	75,357,886
	<u> </u>	<u> </u>	<u> </u>
	2009 Consolidated Cents per share	2008 Consolidated Cents per share	2007 Consolidated Cents per share
Diluted profit/(loss) per share			
The earnings and weighted average number of ordinary and potential ordinary shares used in the calculation of diluted earnings per share are as follows:			
	\$	\$	\$
Net loss attributable to ordinary equity holders of the parent	(24,234,990)	(715,527)	(116,927)
	<u> </u>	<u> </u>	<u> </u>
Earnings used in the calculation of dilutive EPS	(24,234,990)	(715,527)	(116,927)
	<u> </u>	<u> </u>	<u> </u>
	Number	Number	Number
Weighted average number of ordinary shares	154,460,078	99,285,267	75,357,886
	<u> </u>	<u> </u>	<u> </u>

The options currently outstanding, which are not dilutive for this period are 2,000,000 unlisted options exercisable at 36 cents expiring 30 May 2011.

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NOTES TO THE FINANCIAL STATEMENTS

15. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

(a) Significant accounting policies

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which revenues and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed in Note 2 to the financial statements.

The Group did not enter into or trade in financial instruments, including derivative instruments, for trading or speculative purposes. Any use of financial instruments is governed by policies approved by the Board of directors.

Exposure to credit, interest rate and currency risks arises in the normal course of the Group's business.

(b) Interest rate risk

The Group is exposed to interest rate risk to the extent that funds are held in current and short term deposits prior to expenditure on project development. The Group currently analyses its interest rate opportunities and exposure.

At 30 June, if interest rates had moved, as illustrated below, with all other variables held constant, post tax losses and equity would have been affected as follows:

	2009	2008	2009	2008
	Consolidated	Consolidated	Company	Company
	\$	\$	\$	\$
+1% (100 basis points)				
Decrease in post tax loss	15,067	133,064	8,306	132,754
Increase in equity	15,067	133,064	8,306	132,754
- 1% (100 basis points)				
Increase in post tax loss	(15,067)	(133,064)	(8,306)	(132,754)
Decrease in equity	(15,067)	(133,064)	(8,306)	(132,754)

The movement in income is due to higher or lower interest received.

(c) Credit risk

The Group's maximum exposures to credit risk is the carrying value of those assets net of any provisions for doubtful debts as disclosed in the balance sheet and notes to the financial statements.

The credit risk arises from cash, deposits held with banks as well as credit exposures to counterparties. The Group minimises credit risk in relation to trade and other receivables by undertaking transactions with organisations such as government instrumentalities which have good credit ratings

Management has a credit policy in place that the exposure to credit risk is constantly monitored.

At the balance sheet date there were no significant concentrations of credit risk other than cash and deposits with a major Australian bank. No assets are pledged or encumbered.

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NOTES TO THE FINANCIAL STATEMENTS

15. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (cont'd)

(d) Liquidity risk

The Group manages liquidity risk by maintaining adequate cash reserves by continuously monitoring forecast and actual cash flows. These forecast cash flows are monitored by management against the availability of funds.

(e) Foreign currency risk

As a result of the operating entity in the United States of America, the Group's balance sheet can be affected by movements in the US\$/ A\$ exchange rates. It is the Group's policy not to enter into forward contracts until a firm commitment is in place and the foreign liability payment date is known. All funds for the Company are held in Australian Dollars and all funds of the United States Subsidiary are held in United States Dollars.

The Group has not instituted a formal policy or strategy to mitigate the effects of foreign currency exposure as the timing of the commitments is uncertain at this early stage of the project.

(f) Net fair value

The carrying amount of financial assets and financial liabilities recorded in the financial statements represents their respective net fair values, determined in accordance with the accounting policies disclosed in Note 1 to the financial statements.

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NOTES TO THE FINANCIAL STATEMENTS

16. KEY MANAGEMENT PERSONNEL DISCLOSURES

(a) Remuneration of key management personnel by the consolidated entity

The Group's policy for determining the nature and amount of emoluments of board members and senior executives of the Group is as follows:

The remuneration structure for executive officers, including executive directors, is based on a number of factors, including length of service, particular experience of the individual concerned, and overall performance of the Group. The contracts for service between the Group and the specified directors and executives are on a continuing basis.

Details of the nature and amount of each element of compensation of each key management personnel of the Group are shown as follows:

Directors & key Management Personnel		Short-term employee benefits		Post-employment benefits	Share-based payment	Total \$
		Salary & fees \$	Bonus \$	Superannuation \$	Equity-settled options \$	
T A Blood <i>Executive chairman</i>	2009	300,000	-	4,500	-	304,500
	2008	300,000	-	1,125	-	301,125
R Davies <i>CEO & Director (resigned)</i>	2009	29,166	-	3,375	-	32,541
	2008	-	-	-	-	-
E Edwards <i>CFO & Director</i>	2009	168,855	-	15,875	-	184,730
	2008	124,200	-	13,625	-	137,825
G Lavrin <i>Director</i>	2009	-	-	50,000	-	50,000
	2008	-	-	16,667	-	16,667
M Dalling <i>Director</i>	2009	4,167	-	46,208	-	50,375
	2008	-	-	12,500	-	12,500
C Fell <i>Director</i>	2009	59,091	-	4,500	-	63,591
	2008	16,667	-	1,500	-	18,167
N Tinkler <i>Director</i>	2009	25,000	-	2,250	-	27,250
	2008	4,167	-	375	-	4,542
T Todd <i>Director</i>	2009	50,000	-	4,500	-	54,500
	2008	4,167	-	375	-	4,542
R Lyon <i>CEO AAEC</i>	2009	570,263 (USD425,000)	-	-	-	570,263
	2008	-	-	-	-	-
K Roberts <i>CFO AAEC</i>	2009	536,718 (USD400,000)	-	-	-	536,718
	2008	-	-	-	-	-
TOTALS	2009	1,743,260	-	131,208	-	1,874,468
	2008	449,201	-	46,167	-	495,368

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NOTES TO THE FINANCIAL STATEMENTS

16. KEY MANAGEMENT PERSONNEL DISCLOSURES (cont'd)

(b) Share and option holdings of key management personnel

	Held at 1 Jul 2008	Granted as remuneration	Other changes	Held at 30 Jun 2009
<i>Shareholdings</i>				
T A Blood	61,000,002	-	(28,437,501)	32,562,501
R Davies	-	-	-	-
E Edwards	4,000,000	-	-	4,000,000
G Lavrin	100,000	-	100,000	200,000
M Dalling	450,000	-	-	450,000
C Fell	100,000	-	-	100,000
T Todd	-	-	-	-
N Tinkler (resigned 17 December 2008)	15,000,000	-	(15,000,000)	-

Options and rights holdings

	Held at 1 Jul 2007	Granted as remuneration	Other changes	Held at 30 Jun 2008
<i>Shareholdings</i>				
T A Blood	53,950,002	-	7,050,000	61,000,002
D Wood	125,000	-	-	125,000
E Edwards	4,000,000	-	-	4,000,000
G Lavrin	100,000	-	-	100,000
M Dalling	250,000	-	200,000	450,000
C Fell	-	-	100,000	100,000
N Tinkler	-	-	15,000,000	15,000,000
R Davies	-	-	-	-

Options and rights holdings

T A Blood	7,400,000	-	(7,400,000)	-
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	2009 Consolidated \$	2008 Consolidated \$	2009 Company \$	2008 Company \$
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(c) Related party transactions

Transactions between related parties are on normal commercial terms and conditions no more favourable than those available to other parties unless otherwise stated.

(i) Director-related entities

Ferrara Holdings Pty Ltd a company of which Mr TA Blood is a director and over which he has significant influence:				
- management fees	97,917	287,500	97,917	287,500
Gameday Enterprises Pty Ltd a company of which Mr TA Blood is a director and over which he has significant influence:				
- office expenses	45,250	81,500	45,250	81,500
- interest paid on loan funds	-	23,388	-	23,388
Onslow Financial Services Pty Ltd a company of which Mr E Edwards is a director and over which he has significant influence:				
- financial services fees	21,035	124,200	21,035	124,200

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16. KEY MANAGEMENT PERSONNEL DISCLOSURES (cont'd)

(ii) Share transactions of directors

Directors and director-related entities hold directorship, indirectly or beneficially as at the reporting date the following equity interest in members of the consolidated entity:

	Number 2009	Number 2008
Australian Energy Company Limited		
- ordinary shares	37,312,501	82,650,002
- options over ordinary shares	-	-
	-	-

	2009	2008	2007	2009	2008	2007
	Consolidated	Consolidated	Consolidated	Company	Company	Company
	\$	\$	\$	\$	\$	\$

17. NOTES TO THE CASH FLOW STATEMENT

(a) Reconciliation of cash and cash equivalents

For the purposes of the Cash Flow Statement, cash and cash equivalents includes cash on hand and in banks and investments in money market instruments, net of outstanding bank overdrafts.

Cash and cash equivalents at the end of the financial year as shown in the cash flow statement is reconciled to the related items in the balance sheet:

Cash and cash equivalents	1,506,687	19,009,169	813,891	830,595	18,964,865	813,888
Cash in operations held for sale	-	2,007	23,771	-	-	-
	1,506,687	19,011,176	837,662	830,595	18,964,865	813,888

(b) Reconciliation of net cash provided by operating activities to profit/(loss) after income tax

Loss from ordinary activities after income tax	(24,737,532)	(722,035)	(119,543)	(22,980,909)	(596,389)	(84,662)
Provision for employee benefits	(25,434)	28,962	1,450	(25,434)	28,962	1,450
Depreciation expense	45,139	10,820	4,990	7,860	10,674	4,805
Loss on sale of subsidiaries	-	-	-	1,437,861	-	-
Loss from discontinued operations	16,379,113	-	-	-	-	-
Impairment of investment in subsidiaries	-	-	-	17,612,132	-	-
Previously recognised tax losses	3,535,328	-	-	3,483,965	-	-
Other	(148,657)	(146)	(5,686)	(121,506)	27,000	-

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	2009	2008	2007	2009	2008	2007
	Consolidated	Consolidated	Consolidated	Company	Company	Company
	\$	\$	\$	\$	\$	\$
17. NOTES TO THE CASH FLOW STATEMENT (cont'd)						
(b) Reconciliation of net cash provided by operating activities to profit/(loss) after income tax (cont'd)						
Changes in assets and liabilities adjusted for the effects of purchase and discontinued operations of controlled entities during the year:						
- (Increase) in receivables	283,761	(175,750)	(536,236)	124,774	(276,767)	(276,333)
- (Increase)/decrease in other assets	1,189,161	(492,524)	90,933	1,197,607	(280,069)	(52,580)
- Increase/(decrease) in payables	(244,937)	936,408	124,701	(646,455)	840,157	13,699
- Increase/(decrease) in deferred tax liabilities	-	(317,137)	317,137	-	(317,137)	317,137
- Increase in other liabilities	(81,413)	81,413	-	-	-	-
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Net cash provided by/(used in) operating activities	(3,805,471)	(649,989)	(122,254)	89,895	(563,569)	(76,484)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>

18. SEGMENT INFORMATION

The Group operates in one business segment, being the development of gasification of coal projects.

The Group operated in two geographical locations during the year with operations in Australia (urea and exploration projects) and in the United States of America (Many Stars Project). Neither of these locations generated segment revenue and accordingly no geographic segments are reportable.

19. EVENTS SUBSEQUENT TO BALANCE DATE

The Company has entered into a Support Agreement with Terra Nova Minerals Inc, an entity listed on the Toronto Venture Exchange, in terms of which the board of directors committed to support a conditional bid by that entity to acquire all the shares in the Company (AEC). Key conditions include a capital raising of up to Canadian \$12 million (AUD 13.525 million), acceptance by 75% of AEC shareholders and the entity's (Terra Nova Minerals Inc.) shareholder approval.

Other than the above, there has not been any matter or circumstance that has arisen since the end of the financial year that has significantly affected, or may significantly affect, the operations of the Group, the results of those operations, or the state of affairs of the Group in future financial years.

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NOTES TO THE FINANCIAL STATEMENTS

20. INVESTMENTS IN SUBSIDIARIES

	2009	2008	2009	2008
	Consolidated	Consolidated	Company	Company
	\$	\$	\$	\$
Investments in controlled entities (note 21) – at cost less impairment	-	-	4,849,600	1,708,127
Investment in controlled entities				
- balance at the beginning of the year	-	-	1,708,127	200,037
- investment through capital contribution	-	-	7,162,447	1,442,542
- investment by way of loan or advance	-	-	18,933,360	265,548
- investment classified as held for sale	-	-	-	(200,000)
- impairment of investment	-	-	(17,612,132)	-
- disposal of subsidiaries	-	-	(265,485)	-
- distribution to owners	-	-	(5,076,717)	-
	-	-	4,849,600	1,708,127

During the year the Company continued to invest in the 100% owned Australian-American Energy Group LLC (AAEG), the holding company of the Groups operations in the United States of America.

Since establishment, the Company has contributed US\$6,865,478 (A\$8,530,982) (2008: US\$1,385,561; A\$1,442,542) to the equity in AAEG.

21. RELATED PARTY DISCLOSURE

(a) Subsidiaries

The consolidated financial statements include the financial statements of Australian Energy Company Limited and the subsidiaries listed in the following table:

Name	Country of Incorporation	% Equity interest		Investment (\$)	
		2009	2008	2009	2008
Australian-American Energy Group LLC	USA	100.00	100.00	8,530,982	1,442,542
Australian-American Energy Company LLC	USA	90.91	100.00	-	-
Australian-American Energy Services LLC	USA	90.91	100.00	-	-
AAEC Many Stars Investment Group, LLC	USA	(i)	-	-	-
Many Stars CTL, LLC	USA	(i)	-	-	-
Many Stars Mining, LLC	USA	(i)	-	-	-
Many Stars Land, LLC	USA	(i)	-	-	-
Delminco Pty Ltd	Australia	-	92.50	-	-
Australian Industrial Minerals Pty Ltd	Australia	-	100.00	-	265,485
Latrobe Fertilisers Limited	Australia	-	100.00	-	100

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NOTES TO THE FINANCIAL STATEMENTS

21. RELATED PARTY DISCLOSURE (cont'd)

- (i) There are three 'membership interest' categories in each of the Many Stars Project Companies: Class A, which is beneficially owned by the Crow Tribe; Class B, which is beneficially owned by the Australian-American Energy Company ("AAEC"); and, Class C, which will be purchased by the future equity investors in the project (which may include the Crow Tribe, AAEC and/or other third-party investors).

Holders of Class A (Crow Tribe through Apsáalooke Energy) and Class B (AAEC through AAEC Many Stars Investment Group) membership interests in Many Stars Land each have a 50% interest in payments of "participation rent" from the lessee of the coal-to-liquids plant site, Many Stars CTL. This participation rent is US\$10 per barrel for each barrel of liquid products produced and 16% of the gross revenues received by Many Stars CTL for all other products, adjusted upward as noted further below and subject to certain limitations and other adjustments per the Project Agreement.

Investors in Class C membership interests of Many Stars CTL will receive an agreed investment return targeted at 15% per year. After holders of the Class C membership interests receive their agreed investment return, holders of Class A (Crow Tribe through Apsáalooke Energy) receive 50% of the net profits of Many Stars CTL (in addition to the aforementioned 50% interest in participation rent paid to Many Stars Land), holders of Class C receive 49% of the net profits of Many Stars CTL, and holders of Class B (AAEC through AAEC Many Stars Investment Group) receive 1% of the net profits of Many Stars CTL (in addition to the aforementioned 50% interest in participation rent paid to Many Stars Land).

AAEC has the power to govern the financial reporting and operating policies so as to obtain benefits from the Many Stars group of companies through the majority representation on the Board of Advisors through the constitutions of the respective companies.

(b) Ultimate parent

Australian Energy Company Limited is the ultimate Australian parent entity and the ultimate parent of the Group.

(c) Key management personnel

Details relating to key management personnel, including remuneration paid, are included in Note 16.

(d) Transactions with related parties

During the period ended 30 June 2009, the group disposed of Latrobe Fertilisers Limited for \$5,076,717 to Latrobe Fertilisers Holdings Limited ("LFHL"). This consideration is contingent on LFHL raising capital of \$100,000,000 or payment is at the discretion of the directors of LFHL deeming there is sufficient working capital to pay the consideration. The difference between the fair value of the contingent consideration receivable, considered to be nil, and the fair value of the assets disposed of, represents an in substance distribution to the owners of \$5,076,717.

There is an amount owing by Latrobe Fertilisers Limited of \$142,294 in respect of expenses incurred on behalf of that company on normal commercial terms.

AUSTRALIAN ENERGY COMPANY LIMITED
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NOTES TO THE FINANCIAL STATEMENTS

There is an amount owing by Latrobe Fuels Limited of \$19,274 in respect of expenses incurred on behalf of that company on normal commercial terms. The Company has provided for this amount in full as the recoverability may be doubtful.

AUSTRALIAN ENERGY COMPANY LIMITED
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NOTES TO THE FINANCIAL STATEMENTS

22. COMMITMENTS AND CONTINGENCIES

(a) Capital commitments

The Company has no commitments other than capital calls to fund the Many Stars Project.

Under the terms of the Project Agreement with the Crow Tribe of Indians, the Group has committed to invest a minimum of US\$5 million per year to advance the project and to reimburse the Crow Tribe for up to US\$2 million annually for expenses prior to financial close of the project development. In addition, a US\$10 million payment for water fees due to the Crow Tribe is conditional on the financial close of the project development.

As of June 30, 2009, the Group had no material operating leasing commitments. The only lease commitment of over 30 days is the Houston office lease which is currently at 3 months at approximately US\$4,000 per month.

(b) Contingencies

The Company has guaranteed the services agreement of Kenneth J Roberts with Australian American Energy Company LLC. The remaining commitment is US\$600,000 and reduces proportionately until the expiry of the warranty on 31 December 2010.

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NOTES TO THE FINANCIAL STATEMENTS

23. DISCONTINUED OPERATIONS

(a) Details of discontinued operation

During the financial year, the Board of Directors undertook a reorganisation of the Company to optimise the ability to raise capital by geographic region. The Company's assets were located in Australia (urea and exploration projects) and the United States of America (Many Stars Project) and the decision was taken that the Company would retain the operations in the United States and dispose of the Australian assets to a newly formed entity, Latrobe Fertiliser Holdings Limited which had issued shares on a pari passu basis to the shareholders of the Company.

On the 1st July 2008, the Company disposed of the Urea Project to Latrobe Fertilisers Limited (LFL) its wholly owned subsidiary. On the 30th June 2009, the board of directors entered into a sale agreement to dispose of LFL on that date to LFHL for \$5,076,717. The sale price, which was by independent valuation, is payable upon LFHL raising sufficient capital to fund FEED or at the LFHL director's discretion if they deem there is sufficient working capital to pay the consideration. The difference between the fair value of the contingent consideration receivable and the fair value of the assets disposed represents an in substance distribution to the owners of \$5,076,717.

On the 30th June 2009 the board of directors entered into a sale agreement to dispose of Delminco Pty Ltd and Australian Industrial Minerals Pty Ltd to Latrobe Fertiliser Holdings Limited for the net recoverable assets which amounted to \$52,043 and \$37,873 respectively.

(b) Financial performance of discontinued operations

The results of the discontinued operations for the year until disposal are presented below:

	2009		Consolidated			
	Latrobe Fertilisers Limited	Other	Total	Latrobe Fertilisers Limited	Other	Total
Revenue	3,681	-	3,681	-	-	-
Expenses	(550,982)	(15,000)	(565,982)	(398,447)	(77,800)	(476,247)
Impairment loss on net assets	(13,516,606)	-	(13,516,606)	-	-	-
	(14,063,907)	(15,000)	(14,078,907)	(398,447)	(77,800)	(476,247)
Loss on disposal	-	(756,478)	(756,478)	-	-	-
Loss before tax	(14,063,907)	(771,478)	(14,835,385)	(398,447)	(77,800)	(476,247)
Income tax	(1,543,728)	-	(1,543,728)	-	-	-
Loss for the year from discontinued operations	(15,607,635)	(771,478)	(16,379,113)	(398,447)	(77,800)	(476,247)

AUSTRALIAN ENERGY COMPANY LIMITED
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NOTES TO THE FINANCIAL STATEMENTS

23. DISCONTINUED OPERATIONS (cont'd)

(c) Assets and liabilities and cash flow information of discontinued operations

	Latrobe Fertilisers Limited 2009	Other 2009
The major classes of assets and liabilities of the discontinued operations at 30 June 2009 are as follows:		
Assets		
Project development	4,751,595	-
Tenement expenditure	-	1,104,941
Plant and equipment	42,863	-
Receivables	198,173	33,791
Cash and cash equivalents	3,576,717	48,111
	<u>8,569,348</u>	<u>1,186,843</u>
Liabilities		
Trade & other liabilities	3,492,631	272,730
	<u>3,492,631</u>	<u>272,730</u>
Liabilities directly associated with asset disposal	3,492,631	272,730
Less minority interests	-	67,719
	<u>5,076,717</u>	<u>846,394</u>
Net assets attributable to discontinued operations	<u>5,076,717</u>	<u>846,394</u>

AUSTRALIAN ENERGY COMPANY LIMITED
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NOTES TO THE FINANCIAL STATEMENTS

23. DISCONTINUED OPERATIONS (cont'd)

	Latrobe Fertilisers Limited 2009	Other 2009
(d) The net cash flows of the discontinued operations are as follows:		
Investing activities		
Project development	6,555,738	195,853
	<hr/>	<hr/>
Net cash flow	6,555,738	195,853
	<hr/>	<hr/>
Net cash flow on disposal		
Cash & cash equivalents disposed of	3,576,717	48,111
	<hr/> <hr/>	<hr/> <hr/>
Consideration receivable		
Sale price		89,916
Less net assets disposed before tax		(846,394)
		<hr/>
Loss on disposal		(756,478)
		<hr/>
Loss on disposal before tax		(756,478)
		<hr/>
Loss on discontinued operations after tax		(756,478)
		<hr/> <hr/>
	Consolidated	
Earnings per share – cents per share	2009	2008
Basic from discontinued operations	(10.6)	(0.5)
Diluted from discontinued operations	(10.6)	(0.5)

AUSTRALIAN ENERGY COMPANY LIMITED
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NOTES TO THE FINANCIAL STATEMENTS

24. SHARE BASED PAYMENT PLANS

During the year the Company did not enter into any share based payment plans. In 2008, the Company entered into an agreement with Bell Potter Securities Limited and Patersons Securities Limited to raise \$25 million of equity. The success fee for these services included the granting of 2,000,000 options. The options were issued on the 30th May 2008, had a strike price of \$0.50 (subsequently amended to \$0.36) and mature on 30th May 2011. The options were independently valued at \$280,000. The terms of the options have been varied – refer Note 19.

Option pricing model	2008
Dividend yield	Nil
Expected volatility ¹	45%
Option exercise price	\$0.50
Current price of underlying security	\$0.50
Maturity date	30 May 2011

¹The volatility was estimated utilising a major fertiliser group volatility as a guide.

The expense recognised for the capital raising is shown in the table below:

	2009	2008	2009	2008
	Consolidated	Consolidated	Company	Company
	\$	\$	\$	\$
Expense arising from equity-settled share-based payment transactions	-	280,000	-	280,000
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

25. RECONCILIATION FROM THE ADOPTION OF AUSTRALIAN EQUIVALENTS TO IFRS TO THE ADOPTION OF CANADIAN GENERALLY ACCEPTED ACCOUNTING PRINCIPLES

The differences between Canadian GAAP and the Australian Equivalents to IFRS (A-IFRS) discussed below reflect the company's determination that it will adopt early the requirements of CICA 1582 *Business Combinations*, CICA 1601 *Consolidated Financial Statements* and CICA 1602 *Non-Controlling Interests* as of the beginning of its current fiscal year which commenced on July 1, 2008. The adoption of CICA 1582 and CICA 1601 had no impact on the company's Canadian GAAP balance sheet. CICA 1602 is adopted retrospectively with certain exceptions. On adoption of CICA 1602, non-controlling interest is recorded within equity, separately from the parent, similar to the related requirements under A-IFRS. Additionally, the adoption of CICA 1602 resulted in a dilution gain on partial disposal of a subsidiary of \$932,674 or 0.60 cents per share, being recorded within equity. Prior to the adoption of CICA 1602 this would have been recognised as net income.

The Company's consolidated financial statements have been prepared in accordance with A-IFRS. In certain respects, AIFRS differs from Canadian GAAP. The effects of significant differences are as follows:

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NOTES TO THE FINANCIAL STATEMENTS

25. RECONCILIATION FROM THE ADOPTION OF AUSTRALIAN EQUIVALENTS TO IFRS TO THE ADOPTION OF CANADIAN GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (cont'd)

(a) Income Statement

INCOME STATEMENT FOR THE YEAR ENDED 30 JUNE 2009			
		IFRS Year ended	Impact CGAAP
	Notes	A-IFRS \$	Impact Canadian GAAP \$
Revenue and other income		687,852	687,852
Depreciation and amortisation expense		(45,139)	(45,139)
Administration expenses		(2,757,706)	(2,757,706)
Other expenses ordinary activities		(26,369)	(26,369)
Project research expenditure		(4,542,791)	(4,542,791)
		(6,684,153)	(6,684,153)
Income tax benefit/ (expense)	(i)	<u>(1,674,266)</u>	<u>(1,543,728)</u> (3,217,994)
Profit / (loss) from continuing operations after related tax expense		(8,358,419)	(9,902,147)
Discontinued operations – loss	(i)	(16,379,113)	1,543,728 (14,835,385)
Profit/ (loss) for the period		<u><u>(24,737,532)</u></u>	<u><u>(24,737,532)</u></u>
Attributable to:			
Minority interests		(502,542)	(502,542)
Members of the parent		(24,234,990)	(24,234,990)
Basic EPS		(15.7)	(15.7)
Diluted EPS		<u>(15.7)</u>	<u>(15.7)</u>
Basic EPS from continuing operations		(5.1)	(6.4)
Diluted EPS from continuing operations		<u>(5.1)</u>	<u>(6.4)</u>

AUSTRALIAN ENERGY COMPANY LIMITED
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NOTES TO THE FINANCIAL STATEMENTS

25. RECONCILIATION FROM THE ADOPTION OF AUSTRALIAN EQUIVALENTS TO IFRS TO THE ADOPTION OF CANADIAN GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (cont'd)

(b) Income statement (cont'd)

- (i) The differences between Canadian GAAP and A-IFRS for the year ended 30 June 2009 arose as under A-IFRS, tax allocated to discontinued operations includes the impact of derecognition of certain previously recognized tax loss carryforwards. Under Canadian GAAP Handbook Section 3465 *Income Taxes*, the impact of derecognition would be recorded as part of the loss from continuing operations. Accordingly, the net loss under Canadian GAAP for the year ended 30 June 2009 is \$1,543,728 higher than net loss under IFRS as a result of this difference.
- (ii) Under Canadian GAAP Handbook Section 1530 *Comprehensive Income*, the company would be required to present comprehensive loss and its components within its financial statements. Comprehensive loss for the years ended 30 June 2009, 2008 and 2007 would have been \$24,357,053, \$638,543, and \$73,916 respectively, reflecting the net income/loss under Canadian GAAP plus the impact of the translation of self-sustaining foreign operations.

There was no difference between Canadian GAAP and A-IFRS in relation to the income statement for the years ended 30 June 2008 and 30 June 2007.

(c) Balance Sheet

BALANCE SHEET AS AT 30 JUNE 2009

	Notes	Consolidated A-IFRS \$	Impact	Consolidated Canadian GAAP \$
Current assets				
Cash and cash equivalents		1,506,687		1,506,687
Trade and other receivables		590,521		590,521
Other current assets		10,852		10,852
		2,108,060		2,108,060
Intangible assets		4,139,485		4,139,485
Plant and equipment		260,006		260,006
Total Assets		6,507,551		6,507,551

AUSTRALIAN ENERGY COMPANY LIMITED
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NOTES TO THE FINANCIAL STATEMENTS

25. RECONCILIATION FROM THE ADOPTION OF AUSTRALIAN EQUIVALENTS TO IFRS TO THE ADOPTION OF CANADIAN GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (cont'd)

(d) Balance Sheet (cont'd)

BALANCE SHEET AS AT 30 JUNE 2009				
	Notes	Consolidated A-IFRS \$	Impact	Consolidated Canadian GAAP \$
Liabilities and shareholders' equity				
Current Liabilities				
Trade and other payables		979,257		979,257
Shareholders' Equity				
Contributed equity (share capital)		34,648,835		34,648,835
Minority interests		74,236		74,236
Contributed surplus	(i)	-	1,212,674	1,212,674
Accumulated other comprehensive loss	(ii)		(296,987)	(296,987)
Reserves	(i), (ii)	915,687	(915,687)	-
Deficit		(30,110,464)		(30,110,464)
Total shareholders equity		5,528,294		5,528,294
Total Liabilities, minority interests and shareholders' equity		6,507,551		6,507,551

BALANCE SHEET AS AT 30 JUNE 2008				
	Notes	Consolidated A-IFRS \$	Impact	Consolidated Canadian GAAP \$
Current assets				
Cash and cash equivalents		19,009,169		19,009,169
Trade and other receivables		874,282		874,282
Other current assets		90,959		90,959
Assets classified as held for sale		766,564		766,564
		20,740,974		20,740,974
Intangible Assets		13,576,745		13,576,745
Plant and equipment		71,357		71,357
Total Assets		34,389,076		34,389,076

AUSTRALIAN ENERGY COMPANY LIMITED
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NOTES TO THE FINANCIAL STATEMENTS

25. RECONCILIATION FROM THE ADOPTION OF AUSTRALIAN EQUIVALENTS TO IFRS TO THE ADOPTION OF CANADIAN GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (cont'd)

(b) Balance Sheet (cont'd)

BALANCE SHEET AS AT 30 JUNE 2008

	Notes	Consolidated A-IFRS \$	Impact	Consolidated Canadian GAAP \$
Liabilities and shareholders' equity				
Current Liabilities				
Trade and other payables		1,249,629		1,249,629
Liabilities classified as held for sale		81,413		81,413
Shareholders' Equity				
Contributed equity (share capital)		33,486,214		33,486,214
Minority interests		7,085		7,085
Contributed surplus	(i)		280,000	280,000
Accumulated other comprehensive loss	(ii)		83,492	83,492
Reserves	(i), (ii)	363,492	(363,492)	-
Deficit		<u>(798,757)</u>		<u>(798,757)</u>
Total shareholders equity		33,058,034		33,058,034
Total Liabilities, minority interests and shareholders' equity		<u>34,389,076</u>		<u>34,389,076</u>

- (i) Under A-IFRS reserves may sometimes be required relating to equity and are classified as equity reserves. Under Canadian GAAP Handbook Section 3251 *Equity*, equity reserve would be referred to as contributed surplus. Amounts of \$1,212,674 and \$280,000 were reclassified at June 30, 2009 and 2008 respectively.
- (ii) Under IFRS, the impact of the translation of foreign subsidiaries is recorded within reserves. Under Canadian GAAP Handbook Section 1530 *Comprehensive Income*, the impact of the translation of self-sustaining foreign operations is recorded within accumulated other comprehensive income (loss). A loss of \$380,479 and a gain of \$83,492 were reclassified at 30 June 2009 and 30 June 2008 respectively.

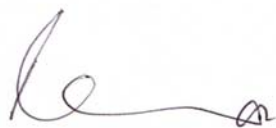
AUSTRALIAN ENERGY COMPANY LIMITED
ABN 70 111 848 983

DIRECTORS' DECLARATION

In accordance with a resolution of the directors of Australian Energy Company Limited and its subsidiaries, I state that:

1. In the opinion of the directors:
 - (a) The financial statements, notes and the additional disclosures included in the directors' report designated as audited, of the Company and of the consolidated entity are:
 - (i) Giving a true and fair view of the Company's and consolidated entity's financial position as at 30 June 2009 and 30 June 2008 and of their performance for the years ended 30 June 2009, 30 June 2008 and 30 June 2007.
 - (ii) Complying with Accounting Standards.
 - (b) Subject to the information in note 2, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

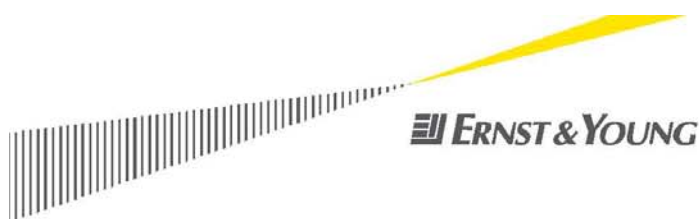
On behalf of the Board



EVAN G EDWARDS
Director
Perth, Western Australia
8 September 2009

AUSTRALIAN ENERGY COMPANY LIMITED
ABN 70 111 848 983

INDEPENDENT AUDIT REPORT



Ernst & Young Building
11 Mounts Bay Road
Perth WA 6000 Australia
GPO Box M939 Perth WA 6843
Tel: +61 8 9429 2222
Fax: +61 8 9429 2436
www.ey.com/au

Independent auditor's report to the Directors of Australian Energy Corporation Limited

We have audited the accompanying financial report of Australian Energy Corporation Limited, which comprises the balance sheet as at 30 June 2009 and 30 June 2008 and the income statement, statement of changes in equity and cash flow statement for the years ended 30 June 2009, 30 June 2008 and 30 June 2007, a summary of significant accounting policies, other explanatory notes and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with the Australian Accounting Standards (including the Australian Accounting Interpretations). This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 2(d), the directors also state that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Auditor's Responsibility

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

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

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

Independence

In conducting our audit we have met the independence requirements of the Australian professional accounting bodies. We have given to the directors of the company a written Auditor's Independence Declaration, a copy of which is included in the directors' report. In addition to our audit of the financial report, we were engaged to undertake the services disclosed in the notes to the financial statements. The provision of these services has not impaired our independence.

AUSTRALIAN ENERGY COMPANY LIMITED
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INDEPENDENT AUDIT REPORT



Auditor's Opinion

In our opinion:

1. the financial report of Australian Energy Company Limited presents fairly, in all material respects, the financial position of Australian Energy Company Limited and the consolidated entity at 30 June 2009 and 30 June 2008 and of their performance for the years ended 30 June 2009, 30 June 2008 and 30 June 2007; and
2. the financial report also complies with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Material Uncertainty Regarding Continuation as a Going Concern

Without qualification to the opinion expressed above, we draw attention to the following matter. As a result of the matters described in Note 2(a) to the financial report, there is significant uncertainty whether the company and the consolidated entity will be able to continue as going concerns and therefore whether they will be able to pay their debts as and when they fall due and realise their assets and extinguish their liabilities in the normal course of business at the amounts stated in the financial report. The financial report does not include any adjustments relating to the recoverability and classification of recorded asset amounts or to the amounts and classification of liabilities that might be necessary should the company and the consolidated entity not continue as going concerns.

Ernst & Young

G H Meyerowitz
Partner
Perth
8 September 2009