DIAMOND OFFSHORE DRILLING INC
Form 11-K
June 16, 2011

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 11-K
ANNUAL REPORT
PURSUANT TO SECTION 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934

(Mark One)

þ **ANNUAL REPORT PURSUANT TO SECTION 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 2010

OR

o **TRANSITION REPORT PURSUANT TO SECTION 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from __________ to __________

Commission file number 1-13926

A. Full title of the plan and the address of the plan, if different from that of the issuer named below:

Diamond Offshore 401(k) Plan

B. Name of issuer of the securities held pursuant to the plan and the address of its principal executive office:

Diamond Offshore Drilling, Inc.
15415 Katy Freeway
Houston, Texas 77094

REQUIRED INFORMATION

Item 4.

The financial statements and schedules of the Diamond Offshore 401(k) Plan for the fiscal year ended December 31, 2010 (attached).

Exhibits

23.1 Consent of Independent Registered Public Accounting Firm

23.2 Consent of Independent Registered Public Accounting Firm

DIAMOND OFFSHORE 401(k) PLAN
Financial Statements as of December 31, 2010 and 2009, and for the Year Ended December 31, 2010,
Supplemental Schedule as of December 31, 2010
and Reports of Independent Registered Public Accounting Firm
3

DIAMOND OFFSHORE 401(k) PLAN

CONTENTS

Note: All other schedules required by Section 2520.103-10 of the Department of Labor s Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974, as amended, have been omitted because they are not applicable.

Report of Independent Registered Public Accounting Firm

Participants and Administrative Committee
Diamond Offshore 401 (k) Plan
Houston, Texas

We have audited the accompanying statement of net assets available for benefits of the Diamond Offshore 401(k) Plan (the Plan) as of December 31, 2010 and the related statement of changes in net assets available for benefits for the year then ended. These financial statements are the responsibility of Plan management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by Plan management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, such financial statements referred to above present fairly, in all material respects, the net assets available for benefits of the Plan as of December 31, 2010 and the changes in net assets available for benefits for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As noted in Note 2 to the financial statements, the Plan retrospectively adopted, Accounting Standards Update ASU No. 2010-25 Reporting Loans to Participants by Defined Contribution Pension Plans issued by the Financial Accounting Standards Board, or FASB. The adoption had no effect on the net assets available for benefits.

Our audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental schedule listed in the table of contents is presented for the purpose of additional analysis and is not a required part of the basic financial statements, but is supplementary information required by the Department of Labor s Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974. This supplemental information is the responsibility of Plan management. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

/s/ McConnell & Jones LLP
Houston, Texas
June 15, 2011

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Participants and Administrative Committee
Diamond Offshore 401(k) Plan
Houston, Texas

We have audited, before the effects of the adjustments to retrospectively apply the change in accounting discussed in Note 2 to the financial statements, the accompanying statement of net assets available for benefits of the Diamond Offshore 401(k) Plan (the Plan) as of December 31, 2009 (the 2009 financial statements before the effects of the adjustments discussed in Note 2 to the financial statements are not presented herein). These financial statements are the responsibility of the Plan s management. Our responsibility is to express an opinion on the statement of net assets available for benefits of the Plan as of December 31, 2009 (financial statement) based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. The Plan is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Plan s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, such financial statement, before the effects of the adjustments to retrospectively apply the change in accounting discussed in Note 2 to the financial statements, present fairly, in all material respects, the net assets available for benefits of the Plan as of December 31, 2009, in conformity with accounting principles generally accepted in the United States of America.

We were not engaged to audit, review, or apply any procedures to the adjustments to retrospectively apply the change in accounting discussed in Note 2 to the financial statements and, accordingly, we do not express an opinion or any other form of assurance about whether such retrospective adjustments are appropriate and have been properly applied. Those retrospective adjustments were audited by other auditors.

/s/ Deloitte & Touche LLP
Houston, Texas
June 29, 2010

Diamond Offshore 401(k) Plan
Statements of Net Assets Available for Benefits

	Years Ended December 31, 2010	2009
Assets:		
Investments at fair value	$ 330,794,954	$ 285,859,534
Receivables:		
Participant contributions	371,861	411,728
Employer contributions	2,611,615	2,976,226
Notes receivable from participants	12,870,250	12,428,083
Total receivables	15,853,726	15,816,037
Net assets, at fair value	346,648,680	301,675,571
Adjustment from fair value to contract value for fully benefit-responsive investment contracts	(831,398)	1,007,343
Net Assets Available for Benefits	$ 345,817,282	$ 302,682,914

See Notes to Financial Statements.

Diamond Offshore 401(k) Plan
Statement of Changes in Net Assets Available for Benefits

	Year Ended December 31, 2010
ADDITIONS:	
Investment income:	
Net appreciation in fair value of investments	$ 19,547,004
Interest income on investments	1,302,331
Dividends	5,600,569
Net investment income	26,449,904
Interest income on notes receivable from participants	686,741
Contributions:	
Employer	23,943,754
Participants	21,605,735
Rollovers	371,217
Total contributions	45,920,706
Total additions	73,057,351
DEDUCTIONS:	
Benefits paid directly to participants	(29,849,785)
Administrative expenses	(73,198)
Total deductions	(29,922,983)
Net Increase	43,134,368
Net Assets Available for benefits, Beginning of Year	302,682,914
Net Assets Available for benefits, End of Year	$ 345,817,282

See Notes to Financial Statements.

Diamond Offshore 401(k) Plan
Notes to Financial Statements
December 31, 2010 and 2009

1. Description of Plan

The Diamond Offshore 401(k) Plan, or the Plan, was established effective July 1, 1989. Diamond Offshore Management Company, which we refer to as we, us or our, is the Plan s sponsor and a wholly-owned subsidiary of Diamond Offshore Drilling, Inc., or Diamond Offshore. The adoption of the Plan in its entirety is intended to comply with the provisions of Sections 401(a), 401(k) and 401(m) of the Internal Revenue Code of 1986, as amended, or the IRC, and applicable regulations thereunder. The Plan is intended to qualify as a profit-sharing plan in accordance with the requirement of Section 401(a) (27) of the IRC.

The following description of the Plan provides only general information. Participants should refer to the Plan agreement for a complete description of the Plan s provisions.

General The Plan is a defined contribution retirement plan for our U.S. employees and other subsidiaries of Diamond Offshore Drilling, Inc., collectively, the Participating Employers, and is subject to the provisions of the Employee Retirement Income Security Act of 1974, or ERISA, and the IRC.

Amendments Effective January 1, 2010, we amended and restated the Plan to incorporate into the Plan document prior amendments made to the Plan since its January 1, 2001 restatement, including the amendments required by the Economic Growth and Tax Relief Reconciliation Act of 2001 and other desired amendments, and to incorporate the amendments required or permitted by the Pension Protection Act of 2006 and the Heroes Earnings Assistance and Relief Tax Act of 2008.

In February and October 2010, participants of the Plan were notified of changes to the investment options available through the Diamond Offshore 401(k) Plan effective February 26, 2010, and December 8, 2010, respectively. We periodically review the options available through the Plan to continue to help participants meet their financial goals and investment objectives.

Effective July 1, 2010, we amended the Plan to prohibit participants working in the United Kingdom, or U.K., from obtaining loans or hardship withdrawals from the Plan while employed by Diamond Offshore Services Limited, an affiliated employer, in the U.K.

Administration The Plan is administered through an administrative committee appointed by our Board of Directors. Fidelity Management Trust Company, or Fidelity, is the Plan s trustee.

Participants Employees of the Participating Employers become participants of the Plan three months from their original hire date.

Contributions

Employee contributions/deferrals Each participant may make voluntary before-tax or Roth contributions of 1% to 50% of his or her qualified yearly earnings as defined by the Plan, subject to a federally mandated limitation of $16,500 for the year ended December 31, 2010. In addition, each participant may make voluntary after-tax contributions in an amount which, when added to the participant s before-tax and/or Roth contributions, does not exceed 50% of his or her qualified yearly earnings as defined by the Plan. Employees at least 50 years of age are permitted to contribute additional amounts, or catch-up contributions, of his or her qualified yearly earnings up to a prescribed maximum in addition to the voluntary before-tax, Roth, and after-tax maximums. The maximum for these catch-up contributions was $5,500 for the year ended December 31, 2010. Participants are also permitted to make a rollover contribution of qualifying amounts distributed to them directly from another qualified retirement plan.

Profit sharing contributions A profit sharing contribution, determined annually by our Board of Directors, may be made at our discretion to all participants without regard to employee contributions to the plan. Our profit sharing contribution percentage was 4% of each eligible employee s qualified yearly earnings for the year ended December 31, 2010 as defined by the Plan.

Employer matching contributions The Participating Employers also make matching contributions equal to 100% of the first 6% of each contributing employee s qualified annual compensation on a before-tax and/or Roth elective deferral basis. Contributions to the Plan are invested based on the participant s investment election. If a participant fails to make a designation, his or her contributions shall be invested in the balanced fund then offered by the Plan that would be applicable to the participant assuming an age-65 retirement.

Investment Funds The Plan is intended to be a plan described in Section 404(c) of ERISA and as a result it offers participants a variety of investment options. These options include mutual funds, the Fidelity U.S. Treasury Money Market Fund, the Fidelity Managed Income Portfolio II, or the MIP II Fund, and the Diamond Offshore Drilling, Inc. Common Stock Fund, or the DO Stock Fund. Investment elections to the DO Stock Fund are limited to no more than 25% of a participants total election.

Plan participants, at their sole discretion, may transfer amounts between the various investment options, including the DO Stock Fund. Transfers that would cause the value of the DO Stock Fund account to exceed the 25% limit are disregarded and such amounts remain invested in the original investment fund. Current investment allocations to the DO Stock Fund are not affected by the 25% limitation.

Participant Accounts Individual accounts are maintained for each Plan participant. Each participant s account is credited with the Participating Employers and the participant s contributions, as well as an allocation of the Plan s earnings, and charged with withdrawals and an allocation of Plan losses and administrative expenses. Allocations are based on participant earnings or account balances, as defined. The benefit to which a participant is entitled is the benefit that can be provided from the participant s vested account.

Individual participant accounts invested in the DO Stock Fund and the MIP II Fund are maintained on a unit value basis. Participants do not have beneficial ownership in specific underlying securities or other assets in the funds, but have an interest therein represented by units valued as of the last business day of the period. The funds earn dividends and interest which are automatically reinvested in additional units. Generally, contributions to and withdrawal payments from each fund are converted to units by dividing the amounts of such transactions by the unit values as last determined, and the participants accounts are charged or credited with the number of units properly attributable to each participant.

Vesting Each participant has, at all times, a fully vested and non-forfeitable interest in his or her contributions, earnings and employer contributions made by the Participating Employers (including all employer profit sharing contributions for years prior to January 1, 2007). Employer profit sharing contributions for years beginning on or after January 1, 2007 are fully vested after the lapse of three years from the participant s original hire date.

Forfeitures Forfeitures resulting from the separation of service of participants not fully vested in the Plan can be applied to reduce the Participating Employers contributions to the Plan. During 2010, we used $177,262 from the forfeiture account to reduce profit sharing contributions. As of December 31, 2010 and 2009, forfeiture balances available to reduce future contributions to the Plan and any related earned investment income were $120,391 and $7,353, respectively.

Notes receivable from participants Participants may borrow from his or her account a minimum of $1,000 up to the lesser of:

one-half of the vested value of the account or

$50,000.

The notes receivable are secured by the balance in the participant s account and bear interest at prime + 1.0%, with varying maturity dates, typically not exceeding five years.

Distributions Upon separation of service, each participant may elect to receive their entire account balance in a lump-sum cash payment, except that, to the extent a participant s accounts are invested in the DO Stock Fund, the participant may elect payment of whole shares of such stock with any balance paid in cash. A participant s vested interest in his or her accounts not in excess of $1,000 is paid in one lump-sum payment upon termination of employment.

Plan Termination Although we do not expect to do so, we have the right under the Plan to discontinue contributions by the Participating Employers at any time and to terminate the Plan subject to the provisions of ERISA. Upon our termination of the Plan, participants would become 100% vested in their accounts and the trustee will distribute to each participant the amounts credited to his or her account.

2. Summary of Significant Accounting Policies

Basis of Accounting The accompanying financial statements of the Plan have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America, or GAAP.

Use of Estimates The preparation of financial statements in conformity with GAAP requires Plan management to make estimates and assumptions that affect the reported amounts of assets, liabilities, and changes therein and disclosure of contingent assets and liabilities. Actual results could differ from these estimates.

Investment Valuation and Income Recognition The Plan s investments are stated at fair value or the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. See Note 3 below.

Purchases and sales of securities are recorded on a trade-date basis. Dividends are recorded on the ex-dividend date, and interest is recorded as earned. The net appreciation in fair value of investment securities consists of the net change in unrealized appreciation in fair value and realized gains upon the sale of investments, which are determined using the fair values of the investment securities as of the beginning of the year or the purchase price if acquired since that date.

Management fees and operating expenses charged to the Plan for investments in the mutual funds are deducted from income earned on a daily basis and are not separately reflected. Consequently, management fees and operating expenses are reflected as a reduction of investment return for such investments.

Notes Receivable from Participants Notes receivable from participants are measured at their unpaid principal balance plus any accrued but unpaid interest. Delinquent participant notes receivable are reclassified as distributions based upon the terms of the plan document.

Payment of Benefits Benefit payments are recorded when paid.

Expenses The Plan Sponsor pays certain administrative expenses of the Plan, as provided in the plan document.

Reclassifications Certain reclassifications have been made to the 2009 financial statements to conform to the 2010 financial statement presentation. These reclassifications had no effect on changes in net assets available for benefits.

New Accounting Standards Adopted In January 2010, the Financial Accounting Standards Board, or FASB, issued Accounting Standards Update No. 2010-06, *Fair Value Measurements and Disclosures,* or ASU No. 2010-06, which amends Accounting Standards Codification Subtopic No. 820-10, or ASC 820, relating to fair value measurements, adding new disclosure requirements for Levels 1 and 2, separate disclosures of purchases, sales, issuances, and settlements relating to Level 3 measurements and clarification of existing fair value disclosures. A portion of ASU No. 2010-06 requiring expanded disclosure of activity for Level 3 assets and liabilities will be effective for fiscal years beginning after December 15, 2010.

In September 2010, the FASB issued guidance clarifying the classification and measurement of participant loans by defined contribution pension plans. Participant loans are required to be classified as notes receivable from participants (rather than investments) and measured at their unpaid principal balance, plus any accrued but unpaid interest. The guidance, which must be applied retrospectively, is effective for fiscal years after December 15, 2010 with early adoption permitted. The Plan adopted this guidance and has reclassified participant loans from investments to notes receivable from participants. Net assets available for benefits of the Plan were not affected by the adoption of the new guidance.

3. Fair Value Measurements

The Plan s investments are stated at fair value using a fair value hierarchy prescribed by GAAP that requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. There are three levels of input that may be used to measure fair value:

Level 1 Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities. Level 1 investments include investments in money market and mutual funds.

Level 2 Inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument. Level 2 assets include investments in the DO Stock Fund and the MIP II Fund (a stable value fund).

Level 3 Significant inputs to the valuation methodology are unobservable. Level 3 investments generally include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation or for which there is a lack of transparency as to the inputs used. At December 31, 2010 and 2009, the Plan did not hold any Level 3 investments.

Following is a description of the valuation methodologies used for Plan assets and receivables measured at fair value. The valuation methodologies used in 2010 are consistent with those used in 2009.

Mutual Funds Shares of mutual funds, which are registered securities, are valued at quoted market prices, representing the net asset value, or NAV, of shares held by the Plan at year end.

DO Stock Fund We classify investments in the DO Stock Fund as Level 2 because it is a unitized employer stock fund comprised of underlying common stock of Diamond Offshore and a short-term cash component. A unitized fund is not a registered security. The value of a unit reflects the combined market value of the underlying stock and market value of the short-term cash position. The market value of the common stock portion of the DO Stock Fund is based on the closing market price of Diamond Offshore common stock on the New York Stock Exchange multiplied by the number of shares held in the fund. The net asset value per unit of the Diamond Offshore Stock Fund was $25.62 and $37.09 at December 31, 2010 and 2009, respectively.

Stable Value Funds The MIP II Fund is a common/collective trust fund sponsored by Fidelity and is considered to be a stable value fund with underlying investments in investment contracts that carry a benefit responsiveness feature, which among other things, guarantees that participant-initiated withdrawals from the fund will be covered at contract value. The MIP II Fund may invest in fixed interest insurance investment contracts, money market funds, corporate and governmental bonds, mortgage-backed securities, bond funds, and other fixed income securities. The MIP II Fund is valued at fair value and then adjusted by the issuer to contract value. Fair value is equal to the sum of the market value of all the funds underlying investments and contract value is equal to the sum of all of the benefits owed to the participants in the fund (principal plus accrued interest). See Note 5.

In accordance with GAAP, the MIP II Fund is reported at fair value in the statements of net assets available for benefits and an additional line item is presented to adjust from fair value to contract value for fully benefit-responsive investment contracts. The statement of changes in net assets available for benefits is presented on a contract value basis.

The valuation methods as described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Plan believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The table below includes the major categorization for debt and equity securities on the basis of the nature and risk of the investments at December 31, 2010 and 2009.

Plan Investments at Fair Value

	December 31,	
	2010	**2009**
Level 1:		
Money Market funds:	$ 2,021,935	$ 1,602,143
Mutual funds:		
Target date retirement funds	60,392,931	46,646,191
International equity funds	19,957,841	20,300,749
Income funds	23,842,947	21,186,503
Growth funds	86,357,689	64,388,307
Growth and income funds	36,172,221	32,127,516
Level 2:		
Common stock fund (Energy):		
Diamond Offshore Drilling, Inc.	17,851,440	19,431,768
Stable Value Fund	84,197,950	80,176,357
Total investments at fair value	$ 330,794,954	$ 285,859,534

4. Investments

The following is a summary of individual Plan assets in excess of 5% of total Plan assets at December 31, 2010 and 2009:

Description of Investment	**2010**	**2009**
Fidelity Managed Income Portfolio II*	$ 84,197,950	$ 80,176,357
Fidelity Growth Company Fund*	34,286,349	28,063,283
Dodge & Cox Stock Fund	30,005,028	26,156,796
PIMCO Total Return Fund Institutional	23,842,947	21,186,503
American Funds-Euro-Pacific Growth Fund-Class R6	19,957,841	**
Diamond Offshore Drilling, Inc. Common Stock Fund*	17,851,440	19,431,768
Fidelity Dividend Growth Fund-Class K*	17,571,582	**
American Funds-Euro-Pacific Growth Fund-Class R5	**	18,215,927

* Party-in-interest

** Amounts were zero, but presented for comparative purposes

During the year ended December 31, 2010, the Plan s investments (including gains and losses on investments bought and sold, as well as held during the year) appreciated in value as follows:

Mutual funds:	
Growth & income funds	$ 3,823,815
Target date retirement funds	6,811,180
International equity funds	1,354,787
Income funds	22,285
Growth funds	13,925,509
Diamond Offshore Drilling, Inc. common stock	(6,390,572)
Net appreciation of investments	$ 19,547,004

5. Stable Value Fund

During 2010 and 2009, the Plan held an interest in the MIP II Fund. The MIP II Fund invests in investment contracts issued by insurance companies and other financial institutions, or wrap contracts, as well as fixed income securities and money market funds. A wrap contract is an agreement by another party, such as a bank or insurance company to make payments to the MIP II Fund in certain circumstances. Wrap contracts are designed to allow a stable value portfolio to maintain a constant NAV and protect a portfolio in extreme circumstances. In a typical wrap contract, the wrap issuer agrees to pay a portfolio the difference between the contract value and the market value of the underlying assets once the market value has been totally exhausted.

The MIP II Fund imposes certain restrictions on the Plan, and the MIP II Fund itself may be subject to circumstances that impact its ability to transact at contract value. However, Plan management believes that the occurrence of events that would cause the MIP II Fund to transact at less than contract value is not probable.

The average yields earned by all wrap contracts held by the Plan s common/collective trust fund was approximately 2.25% and 2.74% for the years ended December 31, 2010 and 2009, respectively. The average yields earned by the Plan for all wrap contracts held by the Plan s common/collective trust funds based on the actual interest rates credited to participants were approximately 1.82% and 1.53% for the years ended December 31, 2010 and 2009, respectively.

6. Plan Tax Status

The Internal Revenue Service has determined and informed us by a letter dated October 15, 2002 that the Plan and related trust were designed in accordance with the applicable regulations of the IRC. The Plan has been amended since receiving the determination letter, however we believe that the Plan is currently designed and operated in compliance with the applicable requirements of the IRC, and the Plan and related trust continue to be tax-exempt. Therefore, no provision for income taxes has been included in the Plan s financial statements. We applied for a new determination letter on January 25, 2010.

7. Party-in-Interest Transactions

Certain Plan investments are shares of mutual funds managed by the trustee of the Plan. The DO Stock Fund invests in the common stock of Diamond Offshore. Transactions with the trustee, the Participating Employers and Diamond Offshore qualify as party-in-interest transactions. Fees paid by the Plan for investment management services were included as a reduction of the return earned on each fund.

At December 31, 2010 and 2009, the Plan held 257,091 and 187,848 shares, respectively, of common stock of Diamond Offshore, with a cost basis of $18,414,172 and $13,957,820, respectively. During the year ended December 31, 2010 the Plan recorded dividend income of $1,141,392.

8. Risks and Uncertainties

The Plan invests in various investment securities that are exposed to various risks such as interest rates, market and credit risks. Market values of investments may decline for a number of reasons, including changes in prevailing market and interest rates, increases in defaults and credit rating downgrades. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that change in the value of investment securities will occur in the near term and that some changes could materially affect participant account balances and the assets reported in the statement of net assets available for benefits.

9. Reconciliation of Financial Statements to Form 5500

A reconciliation of net assets available for benefits per the financial statements to the total net assets per the Form 5500 as of December 31, 2010 and 2009, and the increase in net assets per the financial statements to the net income per the Form 5500 for the year ended December 31, 2010, is as follows:

	2010	2009
Net assets available for benefits per the financial statements	$ 345,817,282	$ 302,682,914
Adjustment from contract value to fair value for fully benefit-responsive stable value fund	831,398	(1,007,343)
Total net assets per Form 5500	$ 346,648,680	$ 301,675,571
Increase in net assets per the financial statements	$ 43,134,368	
Adjustment from contract value to fair value for fully benefit-responsive stable value fund December 31, 2010	831,398	
Adjustment from contract value to fair value for fully benefit-responsive stable value fund December 31, 2009	1,007,343	
Net income per Form 5500	$ 44,973,109	

DIAMOND OFFSHORE 401(k) PLAN
EIN 13-3560049 PN 001
FORM 5500, SCHEDULE H, PART IV, LINE 4i
SCHEDULE OF ASSETS (HELD AT END OF YEAR)
As of December 31, 2010

(a)	(b) Identity of Issuer	(c) Description of Investment	(d) Cost	(e) Current Value
*	Fidelity Managed Income Portfolio II	Stable value fund	**	$ 84,197,950
*	Fidelity Growth Company Fund Class K	Growth fund	**	34,286,349
*	Fidelity Dividend Growth Fund Class K	Growth fund	**	17,571,582
*	Fidelity Low-Priced Stock Fund Class K	Growth fund	**	12,433,395
	Dodge & Cox Stock Fund	Growth & income fund	**	30,005,028
	PIMCO Total Return Fund Institutional	Income fund	**	23,842,947
	PIMCO All Asset Fund Institutional	Growth & income fund	**	198,203
	American Funds Euro-Pacific Growth Fund Class R6	International equity fund	**	19,957,841
	American Funds Growth Fund Class R6	Growth fund	**	4,262,558
	Spartan 500 Index Investor Class Fund	Growth & income fund	**	5,968,990
	Vanguard Extended Market Index Fund	Growth fund	**	6,414,639
	T. Rowe Price Mid-Cap Growth Fund	Growth fund	**	11,389,166
	T. Rowe Price Retirement 2005 Fund	Target date retirement fund	**	307,640
	T. Rowe Price Retirement 2010 Fund	Target date retirement fund	**	3,251,422
	T. Rowe Price Retirement 2015 Fund	Target date retirement fund	**	5,481,523
	T. Rowe Price Retirement 2020 Fund	Target date retirement fund	**	13,571,424
	T. Rowe Price Retirement 2025 Fund	Target date retirement fund	**	5,040,011
	T. Rowe Price Retirement 2030 Fund	Target date retirement fund	**	7,838,307
	T. Rowe Price Retirement 2035 Fund	Target date retirement fund	**	4,488,845
	T. Rowe Price Retirement 2040 Fund	Target date retirement fund	**	8,920,842
	T. Rowe Price Retirement 2045 Fund	Target date retirement fund	**	4,904,461
	T. Rowe Price Retirement 2050 Fund	Target date retirement fund	**	4,619,308
	T. Rowe Price Retirement 2055 Fund	Target date retirement fund	**	65,400
	T. Rowe Price Retirement Income Fund	Target date retirement fund	**	1,903,748
*	Fidelity U.S. Treasury Money Market Fund	Money market fund	**	2,021,935
*	Diamond Offshore Drilling, Inc. Stock Fund	Company stock fund (common stock, par value $0.01)	**	17,851,440
		Total Investments		330,794,954

*	Participant loans	Interest at 4.25% to 10.0%, maturing in years 2011 to 2020	12,870,250
	Total		$ 343,665,204

* Party-in-interest.

** Cost information not provided as investments are participant-directed.

SIGNATURES

The Plan. Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, the Plan administrative committee of the Diamond Offshore 401(k) Plan has caused this annual report to be signed on its behalf by the undersigned.

DIAMOND OFFSHORE 401(k) PLAN

Date: June 16, 2011

By: */s/ Robert L. Charles*
Name: Robert L. Charles
Title: Administrative Committee Member

EXHIBIT INDEX

Exhibit No.	Description
23.1*	Consent of Independent Registered Public Accounting Firm
23.2*	Consent of Independent Registered Public Accounting Firm

* Filed herewith.

19

a shareholder in Auralandia N.L. As a result of incurring expenditures, the predecessor in title to Petrocorp Australia Pty Ltd earned an aggregate 25% interest in each of AC/P33, AC/P35 and AC/P39 (Vulcan Joint Venture), 5% of which was earned from AOGC subsidiary, Alpha (predecessor I title to Vendor). * Browse Joint Venture (Braveheart): With regard to the Browse Joint Venture, Mr. Albers is a director and shareholder in each of Browse Petroleum Pty Ltd, Braveheart Petroleum Pty Ltd and Exoil Limited, the parent of Braveheart Resources Pty Ltd. He is a major shareholder in the parent of Braveheart Energy Pty Ltd. All of these companies are the holders of the Browse (Braveheart) Joint Venture. * Cornea Joint Venture: With regard to the Cornea Joint Venture, Mr. Albers is a director and shareholder in each of Browse Petroleum Pty Ltd, Batavia Oil & Gas Pty Ltd and Exoil Limited, the parent of Hawkestone Oil Pty Ltd. He is a major shareholder in the parent of Goldsborough Energy Pty Ltd. All of these companies are the holders of the Cornea Joint Venture. 40 * National Gas Consortium. With regard to the National Gas Consortium, Mr. Albers is a director and shareholder in each of National Oil & Gas Pty Ltd, Australian Natural Gas Pty Ltd and Natural Gas Australia Pty Ltd. Expenditure incurred by National Gas Australia Pty Ltd has resulted in National Gas Australia Pty Ltd earning an aggregate 30% interest in each of NT/P62, NT/P63, NT/P64, NT/P65, NT/P71 and NT/P72, (National Gas Consortium), of which 9% was earned from Nations. * NT/P70 Joint Venture. With regard to the NT/P70 Joint Venture, Mr Albers is a director and shareholder in National Gas Australia Pty Ltd. Expenditure incurred during a prior period by National Gas Australia Pty Ltd (in which Mr E.G. Albers is the sole shareholder and sole director) in relation to the acquisition of the 795 line km Crocodile 2D Seismic Survey is in the order of $950,000. As a result of this expenditure, National Gas Australia Pty Ltd earned a 20% interest in NT/P70 from AOGC. ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES (a) Audit Fees Our principal accountant, Demetrius & Company L.L.C., billed us aggregate fees in the amounts of approximately $11,100 and $34,000 respectively for the fiscal years ended 2008 and 2007. These amounts were billed for professional services that Demetrius & Company, L.L.C. provided for the audit of our annual financial statements, review of the financial statements included in our report on 10-QSB and other services typically provided by an accountant in connection with statutory and regulatory filings or engagements for those fiscal years. An additional $23,000 was accrued at December 31, 2008 for services relating to the audit of the Form 10-K annual report. (b) Audit - Related Fees There were no fees billed to us for the fiscal year ended December 31, 2008 for assurance and other services related to the performance of the audit or review of our financial statements. (c) Tax Fees We paid $3,800 in tax fees for the fiscal year ended December 31, 2008 for tax compliance, tax advice, and tax planning. For the year ended December 31, 2007, $5,000 was paid for tax compliance, tax advice and tax planning. (d) All Other Fees There were no other fees billed to us for the fiscal year ended December 31, 2008. (e) Audit Committee's Pre-Approval Practice Inasmuch as the Company does not have an audit committee, its Board of Directors performs the functions of its audit committee. Section 10A(i) of the Securities Exchange act of 1934 prohibits our auditors from performing audit services for us as well as any services not considered to be "audit services" unless such services are pre-approved by the board of directors (in lieu of the audit committee) or unless the services meet certain de minimis standards. 41 The board of directors has adopted resolutions that provide that the board must: Preapprove all audit services that the auditor may provide to us or any subsidiary (including, without limitation, providing comfort letters in connection with securities underwritings or statutory audits) as required by Section 10A(i) (1) (A) of the Securities Exchange Act of 1934 (as amended by the Sarbanes-Oxley Act of 2002). Preapprove all non-audit services (other than certain de-minimis services described in Section 10A(i) (1) (B) of the Securities Exchange act of 1934 (as amended by the Sarbanes-Oxley Act of 2002) that the auditors propose to provide to us or any of its subsidiaries. The board of directors considers at each of its meetings whether to approve any audit services or non-audit services. In some cases, management may present the request; in other cases, the auditors may present the request. The board of directors has approved Demetrius & Company LLC performing our audit for the 2007 and 2008 fiscal years. The percentage of the fees for audit, audit-related, tax and other services were as set forth in the following table: Percentage of total fees paid to Demetrius & Company LLC Fiscal Year 2008 Audit fees 90% Audit-related fees Nil Tax fees 10% All other fees Nil 42 PART IV ITEM 15 EXHIBITS, FINANCIAL STATEMENT SCHEDULES a) 1. Index to Consolidated Financial Statements The following Consolidated Financial Statements are filed as part of this annual report on Form 10-K: Report of Independent Registered Public Accounting Firm F1 Consolidated Balance Sheets--December 31, 2008 and 2007 F2 Consolidated Statements of Operations--Years Ended December 31, 2008 and 2007 F4 Consolidated Statements of Stockholders' Equity--From inception (August 6, 2003) through to December 31, 2008 F6 Consolidated Statements of Cash Flows--Years ended December 31, 2008, 2007 and 2006 F7 Notes to Consolidated Financial Statements F8-F14 2. Financial Statement Schedules Financial statement schedules have been omitted because they are either not required, not applicable or the information required to be set forth therein is included in the Consolidated Financial Statements hereto. 3. Exhibits Exhibit Number Description 3.1 Certificate of Incorporation of Australian Oil & Gas Corporation (incorporated by reference from Exhibit 3.1 to the Company's annual report on Form 10-K for the year ended December 31, 2005). 3.2 By-Laws, as amended, of Australian Oil & Gas Corporation (incorporated by reference from Exhibit 3.2 to the Company's annual report on Form 10-K for the year ended December 31, 2005). 10.1 Sale and Purchase of Shares in Alpha Oil & Natural Gas Pty Ltd, dated as of April 12, 2006 (incorporated by reference from Exhibit 10.1 to the Company's current report on Form 8-K dated July 17, 2006). 10.2 Amending Agreement to the Sale and Purchase of Shares in Alpha Oil & Natural Gas Pty Ltd, dated as of June 29, 2006 (incorporated by reference from Exhibit 10.2 to the Company's current report on Form 8-K dated July 17, 2006). 43 10.3 Sale and Purchase of Shares in Nations Natural Gas Pty Ltd, dated as of April 12, 2006 (incorporated by reference from Exhibit 10.3 to the Company's current report on Form 8-K dated July 17, 2006). 10.4 Amending Agreement to the Sale and Purchase of Shares in Nations Natural Gas Pty Ltd, dated as of June 29, 2006 (incorporated by reference from Exhibit 10.4 to the Company's current report on Form 8-K dated July 17, 2006). 10.5 Deed of Appointment between the Company and E.G. Albers, dated May 4, 2005 (incorporated by reference from Exhibit 10.3 to the Company's Annual Report on Form 10-KSB for the year ended December 31, 2005). 10.6 Services Agreement between the Company and Setright Oil & Gas Pty. Ltd., dated as of May 4, 2005 (incorporated by reference from Exhibit 10.4 to the Company's Annual Report on Form 10-KSB for the year ended December 31, 2005). 10.7 Agreement between the Company and E.G. Albers regarding the Issue of 2,000,000 Shares, dated January 31, 2007 (incorporated by reference from Exhibit 10.7 to the Company's annual report on Form 10-K for the year ended December 31, 2006). 10.8 Deed of Re-appointment between the Company and E.G. Albers, dated February 17, 2009 (incorporated by reference from Exhibit 10.8 to the Company's Annual Report on Form 10-K for the year ended December 31, 2008).* 10.9 Agreement between the Company and Great Missenden Holdings Pty Ltd, regarding $250,000 Line of Credit, dated February 17, 2009 (incorporated by reference from Exhibit 10.9 to the Company's Annual Report on Form 10-K for the year ended December 31, 2008).* 10.10 Series III Convertible Unsecured Note held by Great Missenden Holdings Pty Ltd.* 10.11 Agreement between the Company and E.G. Albers regarding the Acquisition of Shares and Compliance with U.S. Securities Law, dated February 17, 2009 (incorporated by reference from Exhibit 10.11 to the Company's annual report on Form 10-K for the year ended December 31, 2008).* 14 Standards of Conduct of Australian Oil & Gas Corporation (incorporated by reference from Exhibit 14 to the Company's annual report on Form 10-K for the year ended December 31, 2006). 21 List of Subsidiaries of Australian Oil & Gas Corporation. * 24.1 Certification of Secretary with respect to power of attorney. * 31 Certification of Chief Executive Officer and Chief Financial Officer pursuant to Rule 13a-14 under the Securities Exchange Act of 1934. * 32 Certification of Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. * * Filed herewith (b) Not applicable. (c) Not applicable. 44 SIGNATURES Pursuant to the requirements of Section 13 or 15(d) of the Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized. AUSTRALIAN OIL & GAS CORPORATION By: /s/ E. Geoffrey Albers ---------------------------- E. Geoffrey Albers, President Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the date indicated. Name Title Date --------------------- ----------------------------- --------------------- /s/ E. Geoffrey Albers President, Treasurer, Chief 30th day of March 2009 --------------------- Financial Officer and Director E. Geoffrey Albers /s/ Mark A Muzzin Director, Vice President 30th day of March 2009 ----------------- Mark A Muzzin /s/ W. Ray Hill Director, Vice President 30th day of March 2009 ----------------- W. Ray Hill 45 FINANCIAL STATEMENTS Table of Contents Audit Report of Independent Registered Accountant Consolidated Balance sheets - as at December 31, 2008 and 2007 Consolidated Statements of Operations for the twelve months ended December 31, 2008 and 2007 and for the period from inception (August 6, 2003) to December 31, 2008. Consolidated Statements of Changes in Stockholders' Equity And Comprehensive Income for the period from inception (August 6, 2003) to December 31, 2008 Consolidated Statements of Cash Flows for the twelve months ended December 31, 2008 and 2007 and for the period from inception (August 6, 2003) to December 31, 2008. Notes to Consolidated Financial Statements F-1 REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM To the Board of Directors and Stockholders of Australian Oil & Gas Corporation (An Exploration Stage Enterprise) We have audited the accompanying consolidated balance sheet of Australian Oil & Gas Corporation and subsidiaries (An Exploration Stage Enterprise) as of December 31, 2008 and 2007 and the related consolidated statements of operations, stockholders' equity and cash flows for each of the two years then ended and the period from inception (August 6, 2003) to December 31, 2008. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion. In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Australian Oil & Gas Corporation and subsidiaries (An Exploration Stage Enterprise) as of December 31, 2008 and 2007, and the results of their operations and their cash flows for each of the two years then ended and for the period from inception (August 6, 2003) to December 31, 2008 in conformity with accounting principles generally accepted in the United States of America. /s/ Demetrius & Company, L.L.C. ------------------------------ Wayne, New Jersey March 30, 2009 F-2 Australian Oil & Gas Corporation (an exploration stage enterprise) CONSOLIDATED BALANCE SHEETS (Dollar amounts in thousands) 12/31/08 12/31/07 ASSETS $ $ Current assets: Cash and cash equivalents 8 484 Receivables 1 -- ------ ------ Total Current Assets 9 484 ------ ------ Total Assets 9 484 ====== ====== LIABILITIES AND STOCKHOLDERS' EQUITY Current liabilities: Accounts payable and accrued expenses 214 574 Accounts payable to director related entities (Note 6) 178 2 Income tax expense payable -- 1 ------ ------ Total Current Liabilities 392 577 ------ ------ Non-Current liabilities: Convertible Notes (Note 5) -- 305 ------ ------ Total Liabilities 392 882 ====== ====== Stockholders' Equity Common stock, $0.001 par value; 75,000,000 shares authorized, Issued shares, 43,450,531 at December 31, 2008 and 37, 400,531 at December 31, 2007; Outstanding shares, 41,050,531 at December 31, 2008 and 37,400,531 December 31, 2007. (Note 8) 33 30 Capital in excess of par value 2,519 2,210 Accumulated other Comprehensive Income 316 224 Deficit accumulated during the exploration stage (3,251) (2,862) ------ ------ Total Stockholders' Equity (383) (398) ------ ------ Total Liabilities and Stockholders' Equity 9 484 ====== ====== The accompanying notes are an integral part of these consolidated financial statements. F-3 Australian Oil & Gas Corporation (an exploration stage enterprise) CONSOLIDATED STATEMENTS OF OPERATIONS For the twelve months ended December 31, 2008 and 2007 and for the period from inception (August 6, 2003) to December 31, 2008 (Dollar amounts in thousands) For the twelve For the twelve From months ended months ended inception to Dec 31, 2008 Dec 31, 2007 Aug 6, 2003 $ $ $ ----------- ----------- ----------- Expenses Exploration 499 652 1,810 General and administrative 191 267 1,029 Merger and reorganization -- -- 249 ----------- ----------- ----------- Total operating expenses 690 919 3,088 ----------- ----------- ----------- Loss before other income and expense (690) (919) (3,088) Other Income and (Expense) Gain on transfer of interest in tenement (Note 12) 389 -- 1, 650 Write down of investments -- --

(1,759) Currency exchange gain/(loss) (78) 106 8 Interest income 7 27 63 Interest expense (17) (29) (101) ---------- ----------- ----------- Profit/ (loss) before income tax (389) (815) (3,227) Income tax provision -- -- 24 ----------- ----------- ----------- Net Profit/(loss) (389) (815) (3,251) =========== =========== =========== Profit/(loss) per Common Share: Net profit/(loss) $ (0.01) $ (0.02) $ (0.10) Weighted average common share used in calculation 40,052,317 36,467,152 32,370,752 =========== =========== =========== The accompanying notes are an integral part of these consolidated financial statements. F-4 Australian Oil & Gas Corporation (an exploration stage enterprise) CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY AND COMPREHENSIVE INCOME For the period from inception (August 6, 2003) to December 31, 2008 (Dollar amounts in thousands) Deficit Accumulated Accumulated Common stock Capital in Other during excess of Comprehensive exploration Total Shares Amount par value Income stage Equity $ $ $ $ $ ----------- -------- ----------- ----------- ----------- -------- Issuance of common stock: Combination of Controlled Entities -- 1,560 -- -- -- 1,560 To holders of unsecured claims against Synergy Technology Corporation 3,000,000 -- -- -- -- -- To equity holders of Synergy Technology Corporation 4,800,528 -- -- -- -- -- To the Plan Funder to fund the Plan of Reorganization 19,500,000 20 55 -- -- 75 Loss from operations -- -- -- -- (184) (184) ---------- -------- ----------- ----------- ----------- -------- Balance, December 31, 2003 27,300,528 1,580 55 -- (184) 1,451 Loss from operations -- -- -- -- (1,849) (1,849) Foreign currency translation adjustment -- -- -- 195 -- 195 ---------- -------- ----------- ----------- ----------- -------- Balance, December 31, 2004 27,300,528 1,580 55 195 (2,033) (203) To the Chairman as compensation 2,500,000 2 248 -- -- 250 Shares issued external to combined group previously held within the combined group -- 65 -- -- -- 65 Loss from operations (606) (606) Foreign currency translation adjustment -- -- -- 48 -- 48 ----------- -------- ----------- ----------- ----------- -------- Balance, December 31, 2005 29,800,528 1,647 303 243 (2,639) (446) To the Chairman as compensation 2,000,000 2 198 -- -- 200 Profit from operations -- -- -- -- 592 592 Acquisition of entities subject to common control -- (1,621) 1,621 -- -- Foreign currency translation adjustment -- -- -- 17 -- 17 ----------- -------- ----------- ----------- ----------- -------- Balance , December 31, 2006 35,900,531 28 2,122 260 (2,047) 363 To the Chairman as compensation (Note 8) 1,500,000 2 88 -- -- 90 Loss from operations -- -- -- -- (815) (815) Foreign currency translation adjustment -- -- -- (36) -- (36) ---------- -------- ----------- ----------- ----------- -------- Balance, December 31, 2007 37,400,531 30 2,210 224 (2,862) (398) The accompanying notes are an integral part of these consolidated financial statements. F-5 Australian Oil & Gas Corporation (an exploration stage enterprise) CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY AND COMPREHENSIVE INCOME (Continued) For the period from inception (August 6, 2003) to December 31, 2008 Conversion of Notes (Note 5) 3,650,000 3 309 -- -- 312 Loss from operations -- -- -- -- (389) (389) Foreign currency translation adjustment -- -- -- 92 -- 92 ---------- -------- ----------- ----------- ----------- -------- Balance, December 31, 2008 41,050,531 33 2,519 316 (3,251) (383) =========== ======== =========== =========== =========== ======== The accompanying notes are an integral part of these consolidated financial statements. F-6 Australian Oil & Gas Corporation (an exploration stage enterprise) CONSOLIDATED STATEMENTS OF CASH FLOWS For the twelve months ended December 31, 2008 and 2007 and Cumulative from inception (August 6, 2003) to December 31, 2008 (Dollar amounts in thousands) Dec 31, Dec 31, From 2008 2007 inception $ $ $ ------ ------ --------- Cash flows from operating activities: Net profit/(loss) (389) (815) (3,251) Adjustments to reconcile net profit/(loss) to net cash used in operating activities: Adjustments for non-cash items: Compensation expense 127 90 667 Currency exchange (gain)/loss 171 (116) 75 Write down of investment -- -- 1,759 Issuance of Convertible Note in lieu of repayment of advances from director related entity 7 29 100 Gain on transfer of interest in tenement (Note 12) (389) -- (1,650) Change in assets and liabilities Increase (decrease) in accounts payable (60) 512 506 Increase (decrease) in tax payable (1) (34) (9) (Increase) decrease in accounts receivable (1) 2 82 Decrease in exploration assets -- -- -- ------ ------ ------ Net cash used in operating activities (535) (332) (1,721) ------ ------ ------ Cash flows from financing activities: Proceeds from the sale of Common stock - net -- -- 75 Proceeds from advance from director-related entities 59 -- 384 Repayment of advance from director-related entities -- -- (73) ------ ------ ------ Net cash (used in) provided by financing activities 59 -- 386 ------ ------ ------ Cash flows from investing activities: Proceeds from sale of tenement -- -- 1,261 ------ ------ ------ Net cash provided investing activities -- -- 1,261 ------ ------ ------ Increase (decrease) in cash (476) (332) (74) Cash and cash equivalents at beginning of period 484 734 -- Effect of currency exchange rate fluctuations on cash held -- 82 82 ------ ------ ------ Cash and cash equivalents at end of period 8 484 8 ====== ====== ====== Supplementary disclosure of non-cash financing activities. - Issuance of Stock for compensation and settlement of advances 312 90 852 - Administration Fees charged by Setright Oil & Gas Pty Ltd (Note 5) 55 66 218 -

Interest charged by Great Missenden Holdings Pty Ltd (Note 5) 17 29 105 - Gain on transfer of interest in tenement (Note 12) 389 -- 1,650 The accompanying notes are an integral part of these consolidated financial statements. F-7 Australian Oil & Gas Corporation (an exploration stage enterprise) NOTES TO CONSOLIDATED FINANCIAL STATEMENTS December 31, 2008 NOTE 1: ORGANIZATION Australian Oil & Gas Corporation (the Company or AOGC) was incorporated on August 6, 2003, and began operations on August 11, 2003 pursuant to the terms of a Plan of Reorganization (Plan) of Synergy Technologies Corporation ("Synergy") and is considered to be a crude petroleum and natural gas company in the exploratory stage company as defined by SFAS No. 7, and since inception, has been engaged in the assessment of oil and gas exploration properties. The authorized capital stock of the AOGC consists of 75,000,000 shares of common stock (AOG Common Stock), $0.001 par value. The Company has two wholly owned, Delaware-incorporated US subsidiaries; Gascorp, Inc. and Nations LNG, Inc. and two wholly owned Australian subsidiaries; Alpha Oil & Natural Gas Pty Ltd and Nations Natural Gas Pty Ltd. Per Note 12, Alpha Oil & Natural Gas Pty Ltd itself now has two wholly owned Australian subsidiaries, Vulcan Australia Pty Ltd (which now holds the joint venture interest in the Vulcan Joint Ventures) and Braveheart Oil & Gas Pty Ltd (which now holds the joint venture interest in the Browse Joint Venture). NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES The Company has adopted Fresh Start Accounting. All dollar amounts used herein refer to U.S. dollars unless otherwise indicated. These statements are prepared using Generally Accepted Accounting Principles of the Unites States of America. All significant transactions between the parent and consolidated affiliates have been eliminated. Basis of consolidation The consolidated financial statements include all majority-owned subsidiaries over which we exercise control. Investments where we exercise significant influence but do not control (generally a 20% to 50% ownership interest), are accounted for under the equity method of accounting. All material intercompany transactions and balances have been eliminated. Use of estimates The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and footnotes thereto. Actual results could differ from those estimates. Undeveloped mineral interests and oil and gas properties The Company follows the successful efforts method of accounting for its oil and natural gas exploration activities, as follows: o Geological and geophysical costs and costs of retaining unproved properties and undeveloped properties are charged to expense as incurred and are included as a reduction of operating cash flow in the consolidated statements of cash flow. o Costs of exploratory wells are capitalized pending determination of whether they have discovered proved reserves. F-8 * The costs of exploratory wells that have found oil and natural gas reserves that cannot be classified as proved when drilling is completed continue to be capitalized as long as the well has found a sufficient quantity of reserves to justify its completion as a producing well and sufficient progress is being made in assessing the proved reserves and the economic and operating viability of the project. Management evaluates progress on such wells on an on-going basis. * If proved reserves are not discovered the related drilling costs are charged to exploration expense. o Acquisition costs of permits, leases and development activities are capitalized. o Other exploration costs are charged to expense as incurred. o Gains or losses from disposition of the Company's interests in oil and gas properties are included in earnings under the following conditions: * All or part of an interest owned is sold to an unrelated third party; if only part of an interest is sold, there is no substantial uncertainty about the recoverability of cost applicable to the interest retained; and * The Company has no substantial obligation for future performance (e.g. drilling a well(s) or operating the property without proportional reimbursement of costs relating to the interest sold). o Interest expense allocable to significant unproved leasehold costs and in progress exploration and development projects is capitalized until the assets are ready for their intended use. There was no interest expense capitalized by the Company in 2007 or in the prior three years. Asset Impairment. Costs of unproved oil and gas properties are assessed periodically and a loss is recognized if the properties are deemed impaired. When events or circumstances indicate that unproved oil and gas property carrying amounts might not be recoverable from estimated future undiscounted cash flows from the property, a reduction of the carrying amount to fair value is required. Measurement of the impairment loss is based on the estimated fair value of the asset, which the Company would determine using estimated undiscounted future cash flows from the property, adjusted to present value using an interest rate considered appropriate for the asset. Income taxes The Company will provide for income taxes utilizing the liability approach under which deferred income taxes are provided based upon enacted tax laws and rates applicable to the periods in which the taxes became payable. The Company adopted the provisions of FASB issued Interpretation No.48, "Accounting for Uncertainty in Income Taxes - an Interpretation of FASB Statement 109" ("FIN 48") effective January 1, 2007. As a result of the implementation of

FIN 48, no adjustment in the liability for unrecognized income tax benefits relating to uncertain tax provisions was necessary. Cash equivalents For purposes of the statements of cash flows, the Company will consider all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents. Concentrations of credit risk Financial instruments which potentially subject the Company to concentrations of credit risk consist principally of cash and cash equivalents. The Company will place its cash with high quality financial institutions. The Company maintains the primary amount of cash in Australian Banks. These accounts are not insured. F-9 Recently issued Accounting Standards not adopted as of December 31, 2008 In December 2007, the Financial Accounting Standards Board (FASB) issued SFAS No. 141(R), "Business Combinations" and No. 160 "Non controlling Interests in Consolidated Financial Statements". These statements provide new accounting guidance and disclosure requirements for business combinations, and is effective for business combinations which occur starting with the first fiscal year beginning on or after December 15, 2008. In management's opinion, the adoption of SFAS 141(R) and 160 are not expected to have a significant impact on the Company's results of operations, cashflows or financial position. NOTE 3: INCOME TAXES As of December 31, 2008 and December 31, 2007 respectively, the Company had a U.S. Federal net operating loss carryforward of approximately $846,000 and $856,000 which will expire commencing 2017 through 2025, if not utilized. Management of the Company has decided to fully reserve for its deferred tax asset, as it is more likely than not that the Company will not be able to utilize these deferred tax assets against future income, coupled with the possible limitations of the net operating losses due to various changes in ownership over the past years. $ ---------- Operating loss carried 287,640 forwards Less : Valuation Allowance (287,640) ---------- Net Deferred Tax Assets -- ========== As described in Note 2, the Company adopted FIN 48 on January 1, 2007, which prescribes treatment of "unrecognized tax positions", and requires measurement and disclosure of such amounts. At both January 1, 2008 and December 31, 2008, the Company had no material unrecognized tax benefits. NOTE 4: BASIC LOSS PER COMMON SHARE Basic loss per common share is based on the weighted average number of shares of common stock issued from inception to December 31, 2008. NOTE 5 RELATED PARTY TRANSACTIONS Mr. E Geoffrey Albers, the Chairman and President of AOGC, is a director and shareholder of each of Great Missenden Holdings Pty Ltd and of Setright Oil & Gas Pty Ltd. Effective from April 4, 2005, in return for the previous advances of $212,000, the Company issued to Great Missenden Holdings Pty Ltd 212 Series I Convertible Notes of $1,000 each, with an interest coupon of 10% per annum, convertible into shares of Common Stock, originally at any time on or before December 31, 2007 but these were converted on June 24, 2008, on the basis of 12,500 shares of Common Stock for every $1,000 Convertible Note or part thereof. Effective from April 26, 2005, Great Missenden Holdings Pty Ltd approved a further $100,000 Line of Credit to the Company in return for the issue to Great Missenden Holdings of 100 Series II Convertible Notes of $1,000 each with an interest rate of 10% per annum, convertible into shares of Common Stock at any time on or before 31 December, 2008 on the basis of 10,000 shares of Common Stock for every $1,000 Series II Convertible Notes or part thereof. As of March 30, 2008, the $100,000 Line of Credit, which had been fully drawn down, was converted into these Series II Convertible Notes. On June 24, 2008, 2,650,000 shares of Common Stock were issued to Great Missenden Holdings Pty Ltd to settle the Series I Convertible Notes. On the same date 1,000,000 of Common Stock were issued to Great Missenden Holdings Pty Ltd to settle the Series II Convertible Notes. For the year ended December 31, 2008, and the year ended December 31, 2007, respectively Great Missenden Holdings Pty Ltd charged $17,067 and $28,722 for interest on all advances during the year We also have the use of premises in Australia at Level 21, 500 Collins Street, Melbourne, Victoria. The office space is taken on a nonexclusive basis, with no rent payable, but the usage of the premises is included in the charges Setright Oil & Gas Pty Ltd makes in respect to the administration of the Company. F-10 Mr. Albers is a director and shareholder in the joint venture participants with Alpha Oil & Natural Gas Pty Ltd (Alpha) with regard to exploration permits ACP/33, ACP/35 and AC/P39; namely National Gas Australia Pty Ltd, Natural Gas Corporation Pty Ltd and Auralandia N.L. Mr Muzzin is a shareholder in Auralandia N.L. As a result of incurring expenditures, National Gas Australia Pty Ltd has earned an aggregate 25% interest in each of AC/P33, AC/P35 and AC/P39 (Vulcan Joint Venture), 5% of which was earned from AOGC subsidiary, Alpha. With regard to the Browse Joint Venture, Mr. Albers is a director and shareholder in each of Batavia Oil & Gas Pty Ltd and Exoil Limited, the parent of Hawkestone Oil Pty Ltd. He is a major shareholder in the parent of Goldsborough Energy Pty Ltd. All of these companies are the holders of the Browse Joint Venture. Mr. Mark A Muzzin, a director and Vice-President of AOGC, is a director of Goldsborough Energy Pty Ltd, a subsidiary of Goldsborough Limited and is a shareholder in Exoil Limited, the parent of Hawkestone Oil Pty Ltd. With regard to the National Gas Consortium, Mr. Albers is a director and shareholder in each of National Oil & Gas Pty Ltd, Australian Natural Gas Pty Ltd and Natural Gas Australia Pty Ltd. Expenditure incurred by National Gas Australia Pty Ltd has resulted in National Gas Australia Pty Ltd earning an aggregate 30% interest in each of NT/P62, NT/P63, NT/P64, NT/P65, NT/P71 and NT/P72, (National Gas Consortium), of which 9% was earned from Nations. Mr Albers is a director and shareholder of Setright Oil & Gas Pty Ltd. For the year ended December 31, 2008, and the year ended December 31, 2007, respectively, Setright Oil & Gas Pty Ltd charged the Company $54,951 and $65,625 for the provision of accounting and administrative services rendered by third parties for the benefit of the Company, but not including services rendered by Mr. E Geoffrey Albers, who is remunerated separately by way of the issue of shares of common stock. AOGC's subsidiaries have the use of premises in Australia at Level 21, 500 Collins Street, Melbourne, Victoria. The office space is taken on a nonexclusive basis, with no rent payable, but the usage of the premises is included in the charges Setright Oil & Gas Pty Ltd makes in respect to the administration of the Company. NOTE 6: LIABILITIES TO DIRECTOR RELATED ENTITIES At December 31, 2008, the Company recorded a liability to Setright Oil & Gas Pty Ltd of $2,390. In anticipation of a line of credit agreement being signed between Great Missenden Holdings Pty Ltd and AOGC funds of $58,875 were advanced to AOGC in October 2008. From a balance remaining payable to Great Missenden Holdings after the issue of shares on the convertible notes, the advance made on October 2008 and interest payable on these two items the liability to Great Missenden Holdings at December 31, 2008 is $87,140 At December 31, 2008, the Company recorded a liability to National Gas Australia Pty Ltd of $88,903. NOTE 7: COMMON STOCK On the effective date of the Plan the following changes in common stock were effected: o the issuance of 19,500,000 shares of AOGC Common Stock to the nominees of Great Missenden Holdings Pty Ltd in consideration of supplying funding for the Plan (herein referred to as the "Plan Funder") and its agreement to contribute up to $150,000 in loan funds to AOGC during the two-year period after the effective date of the Plan. o the issuance of 4,800,550 shares of AOGC Common Stock on the basis of (1) share of AOG Common Stock for every ten (10) shares of common stock of Synergy; o the issuance of an aggregate of 3,000,000 shares of AOGC Common Stock to all holders of Synergy general unsecured claims on the basis of .86299 of one share for each dollar of the amount of allowed unsecured claims. F-11 o On December 22, 2005, 2,500,000 shares of Common stock were issued to EG Albers under the terms of his employment contract, filed as an exhibit to the 2005 Form 10-KSB. o On April 12, 2006, 4,100,003 shares of Common stock were issued to acquire all the shares of Nations Natural Gas Pty Ltd and the remaining shares of Alpha Natural Oil & Gas Pty Ltd. (Filed as an exhibit to the 2005 Form 10-KSB). o On January 31, 2007, 2,000,000 shares of Common stock were issued to EG Albers under the terms of his employment contract, filed as an exhibit to the 2005 Form 10-KSB. o On January 18, 2008, 1,500,000 shares of Common stock were issued to EG Albers under the terms of his employment contract, filed as an exhibit to the 2005 Form 10-KSB. o On June 24, 2008, 3,650,000 shares of Common Stock were issued to Great Missenden Holdings Pty Ltd to settle the Series I and Series II Convertible (See Note 5). o On March 26, 2009, 2,400,000 shares of Common stock were issued to EG Albers under the terms of his employment contract, filed as an exhibit to this 2008 Form 10-K. (See Note 13) NOTE 8: COMMON STOCK ISSUED TO EG ALBERS At December 31, 2008, 2,400,000 shares included in issued and outstanding shares of 43,450,531 disclosed in the balance sheet and used for the earnings per common share calculation were reserved but not yet issued. These shares were used to compensate Mr Albers and were issued on March 26, 2009. (See Note 13) NOTE 9: COMPREHENSIVE INCOME Comprehensive income is the change in equity during a period from transactions and other events from non-owner sources. The Company is required to classify items of other comprehensive income in financial statements and to display the accumulated balance of other comprehensive income separately in the equity section of the Consolidated Balance Sheet. The functional currency of Australian Oil & Gas Corporation's Australian subsidiaries is Australian dollars. The comprehensive income of $315,475 disclosed in the consolidated balance sheet is the foreign currency exchange gain on converting the subsidiaries' balance sheets and income statements to US dollars for consolidation purposes. NOTE 10: COMMITMENTS AND CONTINGENCIES The Company is without insurance pertaining to various potential risks with respect to its properties, including general liability, because it is presently not able to obtain insurance for such risks at rates and on terms, which it considers reasonable. The financial position of the Company in future periods will be adversely affected if uninsured losses were to be incurred. NOTE 11: GAIN ON TRANSFER OF INTEREST IN EXPLORATION TENEMENT Through its subsidiary, Nations Natural Gas Pty Ltd and its interest in the National Gas Consortium Joint Venture tenements, AOGC recorded exploration expense of $353,272 in the month of December 2007. This was on the basis of December 2007 invoices from National Gas Australia Pty Ltd (`NGA") for additional costs incurred on behalf of the Joint

Venture by NGA in the 2D Seismic Sunshine and Kurrajong Surveys. F-12 Subsequent to the invoices being booked into the Joint Venture accounts and the exploration expense being recognized it was decided by the participant companies to the Joint Venture that rather than pay the invoices from NGA an additional farmout of a 10% interest in all tenements would be offered to NGA to settle the debt. On June 16, 2008, farmout agreements were signed between the Joint Venture participant companies, including Nations Natural Gas. The financial impact of these agreements was the payable to NGA was settled, a gain on the transfer of the tenement interest was recognized and a non-cash contribution to the Joint Venture in the form of NGA's farmin contribution was recognized in the Joint Venture accounts. In the AOGC Consolidated Balance Sheet for June 30, 2008, this resulted in a decrease in accounts payable of $389,529 and in the AOGC Consolidated Statement of Operations a $389,529 gain on the transfer of tenement interests. The difference between the original Dec 2007 invoiced amount and the amount reversed in June 2008 is due to an increase in the value of Australian Dollar against the US Dollar. NOTE 12: REARRANGEMENT OF JOINT VENTURES Vulcan Joint Venture -------------------- AOGC's wholly owned subsidiary, Alpha Oil & Natural Gas Pty Ltd, has formed a wholly owned subsidiary named Vulcan Australia Pty Ltd (Vulcan) and has transferred its 15% interests in each of AC/P33, AC/P35 and AC/P39 to Vulcan. In addition, the Vulcan Joint Venture Operating Agreement, which previously governed joint venture operations in the three permits, has been replaced by separate joint venture Agreements for each permit. The new joint ventures are known as Oliver Joint Venture (AC/P33), Vulcan Joint Venture (AC/P35) and NOME Joint Venture (AC/P39). Following these rearrangements of interests, the participants in the newly constituted Oliver Joint Venture have entered into a farmout agreement with South Australian based oil explorer and producer, Stuart Petroleum Limited ("Stuart"), who is now the Operator and 50% interest holder in permit AC/P33, host to the Oliver oil and gas accumulation. Our interest will, as a result, reduce to 7.5%. Permit AC/P33 is located approximately 700 kilometres west of Darwin in the Australian-administered section of the Timor Sea. The transaction was approved by the Designated Authority (Commonwealth of Australia) October 9, 2008. Browse Joint Venture -------------------- AOGC's wholly owned subsidiary, Alpha Oil & Natural Gas Pty Ltd ("Alpha") together with its joint venturers, has entered into a farmout agreement with respect to WA-332-P, WA-333-P and WA-342-P ("Permits") with Gascorp Australia Pty Ltd ("Gascorp") whereby Gascorp has agreed to earn a 15% interest in each of the Permits in return for the obligation of Gascorp to expend $1,120,000 in acquiring approximately 490 line kilometres of new 2D seismic data in the Permits and in acquiring a drill site survey over a possible location to test the Braveheart prospect. The seismic survey is planned to provide coverage of leads within WA-332-P as well as assist in the determination of the location of a Braveheart 1 well, which is expected to be drilled in WA-333-P in late 2009. As a result of this farmout, Alpha's interest in each of the three permits has reduced from 20% to 17%. In addition to this farmout, the participants in each of the Permits have elected to form new 100% owned subsidiary companies and have agreed to transfer their respective interests to such wholly owned subsidiaries. Alpha has incorporated Braveheart Oil & Gas Pty Ltd as a wholly owned subsidiary to which it has assigned its residual 17% interest in each of the Permits. These transactions have been submitted to the Designated Authority (Commonwealth of Australia) for approval. The participants in the Browse Joint Venture have contracted to engage the services of Australian Drilling Associates Pty Ltd to provide project management services to support the conduct of drilling operations and to gain access to one drilling slot in a group sponsored multi-well program utilising the semi-submersible drilling rig, the Songa Venus. The drilling slot, in late 2009, is to be used for the drilling of the Braveheart 1. F-13 NOTE 12: SUBSEQUENT EVENTS On February 17, 2009, the Company signed an agreement with Great Missenden Holdings Pty Ltd for a $250,000 Line of Credit. If utilized, settlement will be by way of Series III Convertible Unsecured Notes of $1,000 each with an interest of 12% per annum and shall be repayable by the Company by December 31, 2012. On March 26, 2009, 2,400,000 shares of Common stock were issued to EG Albers under the terms of his employment contract, filed as an exhibit to this 2008 Form 10-K. F-14