elixir petroleum limited

2006
ANNUAL REPORT

ANOTHER VERY ACTIVE YEAR FOR ELIXIR

Highlights of our second year...

- drilled Muness farmin well in Central North Sea
- drilled Jaguar exploration well in Northern North Sea
- consolidated UKCS acreage position
- successfully farmed-out Guinea well
- good progress towards other farmouts
- made 24th Round applications with experienced partners

... and looking forward to the coming year...

- Guinea well to be drilled by Nexen in late 2006
- several more farmout wells expected during 2007
- pursue value-adding farmins
- maintain North Sea exploration focus
- but actively pursue diversification opportunities for production.

The *Bredford Dolphin* rig drilled the Marquis and Jaguar exploration wells during the past 15 months (Photo courtesy of the Peak Group)

GS-NOPEC's seismic vessel, *MV Northern Explorer*, acquired long offset 2D seismic lines across the Leopard prospect in Block 211/18b (Photo courtesy of TGS-NOPEC)

CORPORATE DIRECTORY

NON-EXECUTIVE CHAIRMAN

John Robertson

MANAGING DIRECTOR

Russell Langusch

EXECUTIVE DIRECTOR

Iain Knott

NON-EXECUTIVE DIRECTOR

Kent Hunter

COMPANY SECRETARY

Kent Hunter

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West Perth WA 6005

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Lancaster Place
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Facsimile: (08) 9389 7871

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The Pavillions
Bridgwater Road
Bristol BS99 7NH

STOCK EXCHANGE LISTINGS

Australian Stock Exchange
(Home Exchange: Perth, Western Australia)
Code: EXR

AIM Market, London Stock Exchange
Code: ELP

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WEBSITE

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MANAGING DIRECTOR'S REPORT

October 2006

Dear Shareholder

Welcome to your Company's second annual report.

Over the past 12 months Elixir has continued to expand its interests in the UK North Sea and has participated in a number of exploration wells. Whilst this drilling activity failed to find commercial hydrocarbons, we are not discouraged in our quest to pursue company-making opportunities that we believe still exist in this world-class oil and gas province.

We remain as optimistic as ever for your Company's prospects over the coming years and I would like to take this opportunity to share with you some of the reasons for our optimism.

ELIXIR'S BUSINESS MODEL

Elixir was established as a focused North Sea exploration and production company to exploit a number of converging opportunities; the majors were leaving the North Sea, the UK Government was offering incentives to smaller companies and there remain very substantial volumes of oil and gas still to be found.

Our business model is to expose Elixir shareholders to a number of potentially high impact exploration wells where success in any one venture will increase the Company's value many-fold.

We started corporate life with a single exploration licence interest at our IPO in mid-2004 and have since expanded the portfolio to include 14 licences covering 19 North Sea blocks. These licences are spread across the Northern, Central and Southern North Sea basins and offer a diverse array of exploration prospects for both oil and gas.

On an unrisked basis the Company estimates its net share of prospective resources in 17 identified prospects totals an estimated 436 million barrels of oil equivalent under a mid-case scenario, if hydrocarbons are present. Prospective volumes of this size are rare for a junior company such as Elixir and provide a strong inventory of drilling opportunities for the coming years.

THE PAST YEAR'S EXPLORATION

Since our first annual report we have participated in two unsuccessful exploration wells drilled on the Muness and Jaguar prospects.

We farmed-in to the Muness well in Block 21/4b for a 7% working interest in late 2005. The Oilexco-operated Sedco 712 rig drilled the Muness well but encountered only gas shows in the primary objective sands.

Then in February, our farm-in partner, DNO, drilled the large Jaguar prospect in Northern North Sea Block 211/22b using the Bredford Dolphin rig. This well was also unsuccessful in the main Upper Jurassic target, but did encounter residual oil over a 17 metre interval in the underlying Brent sands. We are assessing the remaining prospectivity in the block given that a working hydrocarbon system has been proven by the Jaguar well.

Prudently, costs associated with each of these two wells have been written-off in the 2005-06 accounts.

Such failures are not unexpected in the risky exploration business and success rarely occurs in the initial one or two wells. We remain determined to push on aggressively exploring across our licences aiming for at least one major success. We believe that our portfolio of interests spread across several basins and a diverse selection of play types should enhance the chances of eventual success.

EXPLORATION PLANS FOR THE COMING YEAR

Our next well will be drilled on the Guinea prospect in Block 15/13b in late 2006. Guinea has been farmed-out to Nexen, an established North Sea operator, in partnership with an Italian group such that Elixir will be free-carried through the cost of the Guinea well and retain a 13.125% interest.

Guinea lies on-trend with producing oil fields and close to production facilities and several sub-commercial discoveries. Hence in the event of a successful discovery, development would be relatively straightforward.

After an extensive marketing campaign of our 22nd Round Central North Sea Promote licences, we are confident that one or two more blocks will be farmed-out for a free-carry through the initial drilling phase.

On our Northern North Sea acreage, we are moving ahead with the farm-out of the Leopard prospect in Block 211/18b. While Leopard is a similar type of play to Jaguar, there are some important differences. This means that Leopard should not be adversely affected by the disappointing Jaguar result and the prospect has recently been attracting significant farm-in interest.

We have also submitted a number of licence applications in the current 24th UKCS Seaward Licensing Round in a joint venture with two experienced North Sea companies.

THE QUEST FOR PRODUCTION

In parallel with our exploration activities we are actively searching for producing or near-producing assets. However we intend to avoid the very competitive North Sea asset auctions where buyers often over-pay and instead seek to identify projects that can add significant shareholder value. In particular we are considering acquisition and merger opportunities.

Our current search areas of interest include the greater North Sea, Central Europe, North Africa and the Americas.

The successful addition of production would complement Elixir's higher risk exploration activity and reduce our dependence on capital markets to fund ongoing exploration.

INVESTOR CONTACT

I am always eager to maintain close contact with our shareholders. Although our UK-based management team is geographically distant from many of you, we are really only a telephone call or email away.

Our regular shareholder newsletters have been well-received and will continue to provide news commentary on our Company's activities in a more user-friendly fashion than our statutory market announcements.

I am looking forward to another exciting year ahead for Elixir and thank you for your continuing support.

Russell Langusch

Managing Director

ELIXIR'S UKCS LICENCES

Region	Licence	Block(s)	Area (km²)	Elixir Interest	Licensing Round	Licence Type	Grant Date
NNS	P1067	211/22b	50	40.0%	21st	Traditional	01 Oct 03
CNS	P1104	21/4b	150	7.0%	21st	Traditional	01 Oct 03
CNS	P1105	21/6b	133	15.0%	21st	Traditional	01 Oct 03
CNS	P1208	9/22 9/23c	284	33.3%	22nd	Promote	01 Dec 04
CNS	P1209	13/19 13/24c	271	50.0%	22nd	Promote	01 Dec 04
CNS	P1211	14/14b	76	50.0%	22nd	Promote	01 Dec 04
CNS	P1212	15/13b	108	13.125% (1)	22nd	Promote	01 Dec 04
CNS	P1213	9/26 16/1b 16/2c	228	33.3%	22nd	Promote	01 Dec 04
CNS	P1288	14/8a 14/9a	100	50% (2)	23rd	Traditional	22 Dec 05
SNS	P1333	43/7	239	33.3%	23rd	Promote	22 Dec 05
SNS	P1344	44/27b	182	33.3%	23rd	Promote	22 Dec 05
NNS	P1379	211/8b	117	80.0%	23rd	Promote	22 Dec 05
NNS	P1381	211/18b	66	80.0%	23rd	Traditional	22 Dec 05
CNS	P1404	13/25	220	25.0%	23rd	Promote	22 Dec 05

Notes:

NNS = Northern North Sea

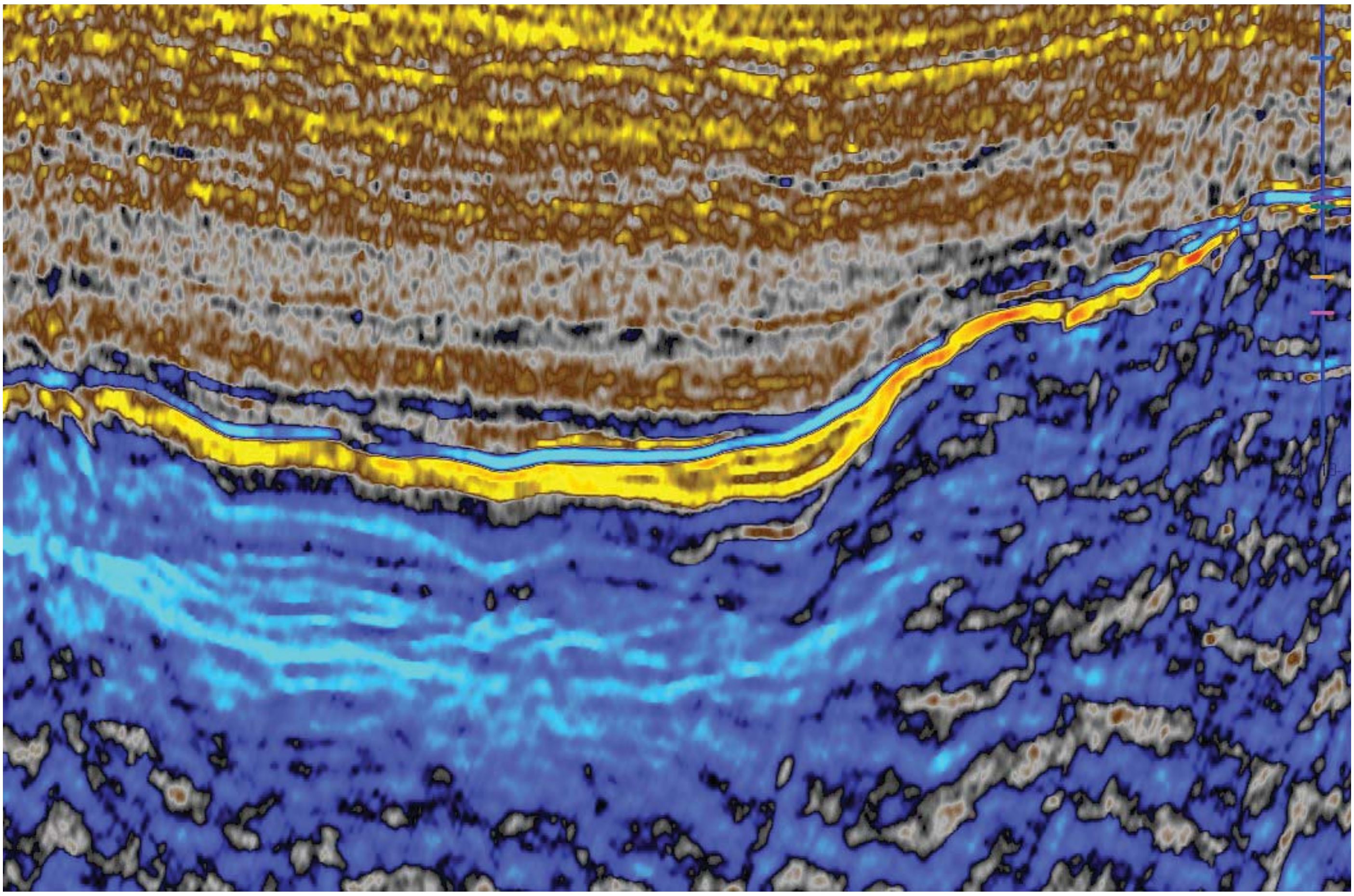
CNS = Central North Sea

SNS = Southern North Sea

(1) Post Guinea well farmout

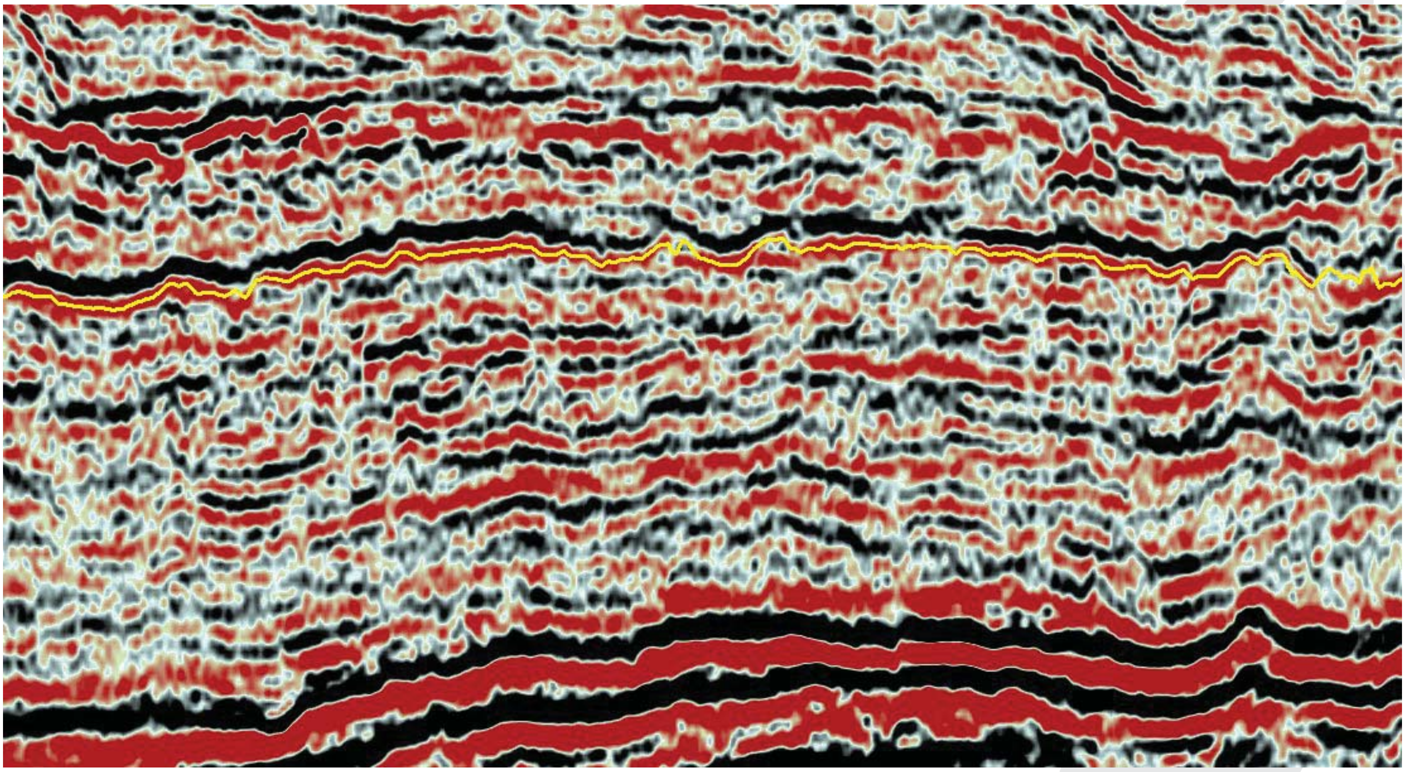
(2) Beneficial interest, to be assigned from Granby Oil & Gas

TWO OF ELIXIR'S DRILLABLE PROSPECTS



Seismic Line through Leopard Prospect (Block 211/18b)

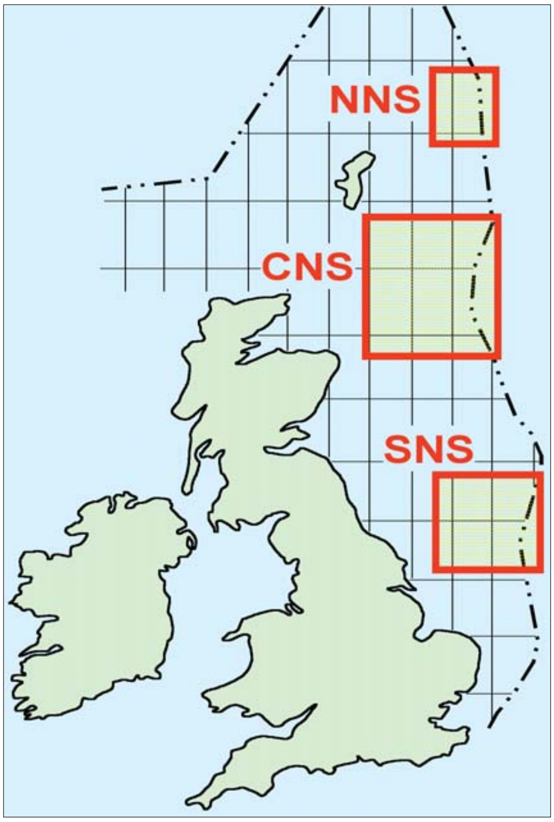
This line displays the acoustic impedance response over the prospect. The bright yellow colour highlights the Kimmeridge Clay Formation, the anticipated source rock for charging the reservoir. The primary reservoir target is shown within this formation in grey shades.



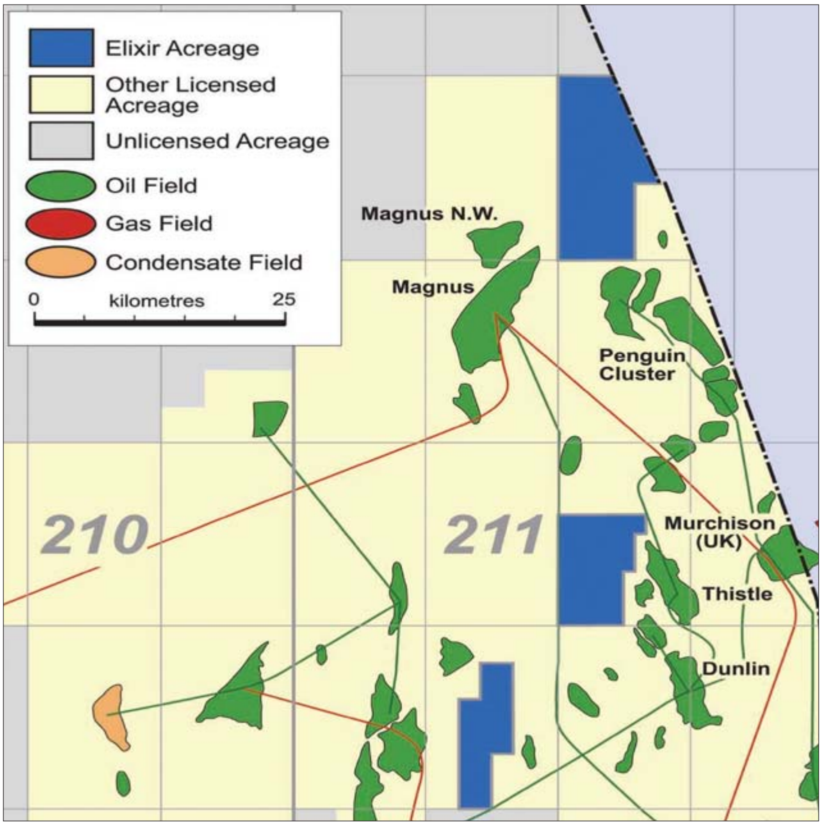
Seismic Section through Guinea Prospect (Block 15/13b)

The anticipated top Balmoral sands reservoir unit is highlighted in yellow.

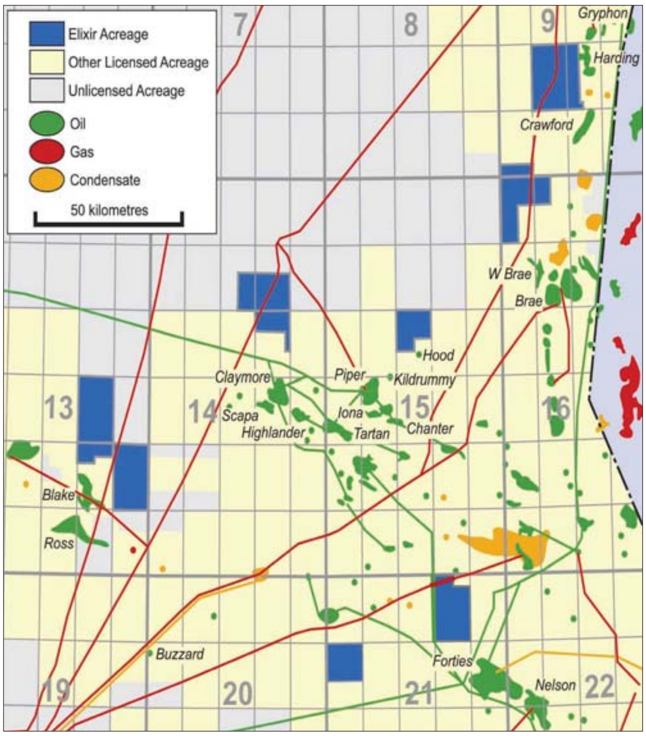
LOCATION OF ELIXIR'S NORTH SEA LICENCE INTERESTS



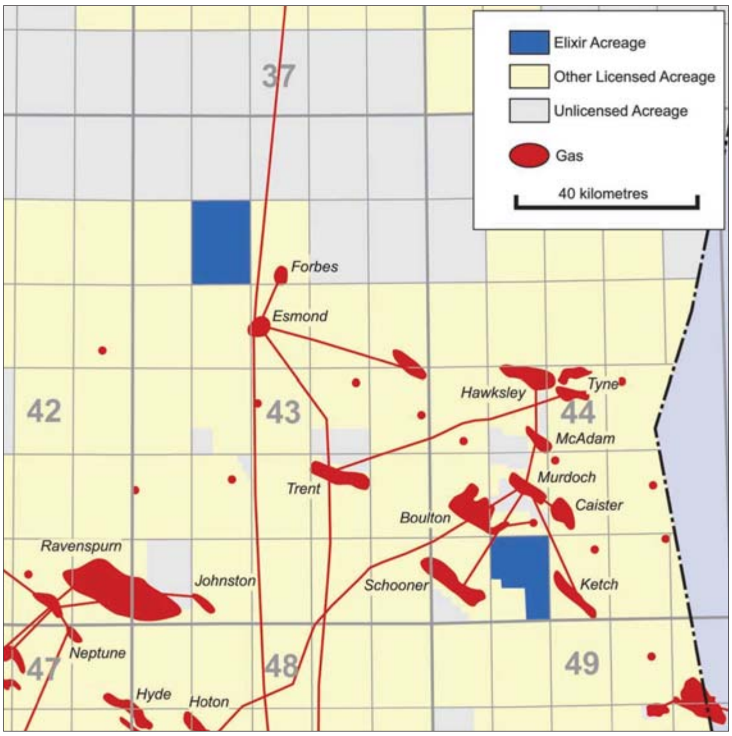
Northern North Sea



Central North Sea



Southern North Sea



DIRECTORS' REPORT

Your directors present their report on the Consolidated Entity for the financial year ended 30 June 2006.

DIRECTORS

The names of directors in office at any time during or since the end of the period are:

John Robertson

Donald Maloney (resigned 25 January 2006)

Russell Langusch

Angus MacAskill (resigned 1 September 2006)

Iain Knott

Kent Hunter

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

PRINCIPAL ACTIVITIES

The principal activity of the Company during the financial period was oil and gas exploration.

There were no significant changes in the nature of the Company's principal activities during the financial period.

OPERATING RESULTS

The loss of the economic entity after providing for income tax amounted to $6,985,776 (2005: $3,870,711).

DIVIDENDS PAID OR RECOMMENDED

The directors do not recommend the payment of a dividend and no amount has been paid or declared by way of a dividend to the date of this report.

REVIEW OF OPERATIONS

FINANCIAL POSITION

The net assets of the Consolidated Entity have decreased by $3.7 million from 1 July 2005 to 30 June 2006. This decrease has largely resulted from:

- $2.6 million capital raising in June 2006;
- A net reduction of $0.4 million for capitalised exploration and development resulting from $4.6 million of exploration expenditure capitalised during the period and $5.0 million written off
- $2.7 million of operating and overhead costs (including valuations for director and consultant options issued during the year).

SIGNIFICANT CHANGES IN STATE OF AFFAIRS

Elixir Petroleum Limited **(Elixir)** was established as a North Sea-focused oil & gas exploration company in 2004. To date all the Company's activities have been concentrated in the UK North Sea although the Company is actively pursuing exploration and production opportunities in other petroleum provinces.

The following summary of events records significant milestones in the state of affairs of the Consolidated Entity during the financial period:

OPERATIONS

UKCS Block 21/4b – Muness Well (EXR 7%)

During the December 2005 quarter, Elixir earned a 7% interest in Central North Sea Block 21/4b by contributing to the costs of drilling the Muness exploration well.

Well 21/4b-6 was spudded on 30 November 2005 by the Sedco 712 drilling rig and drilled to a total depth of 3,650 metres. The target Lower Cretaceous Kopervik sands were intersected close to prognosis but produced only minor gas shows. The well was subsequently plugged and abandoned.

The Company is evaluating the remaining prospectivity of the block before making any decision whether to retain or relinquish the licence.

23rd Seaward Licensing Round Awards

The Company made a number of applications in the 23rd Offshore UK Licensing Round conducted by the DTI during the first half of calendar 2005. In September 2005 the DTI announced licence offers to the successful applicants. Elixir was successful in four applications made in conjunction with its alliance partner, Granby Oil & Gas plc, and two other applications made with another partner, Sosina Exploration Ltd. Formal offers of the 23rd Round licences, including the licence documents, were received and accepted by the Company in January 2006.

The two successful applications made by Elixir are both located in the Northern North Sea and lie north-east of the Company's Block 211/22b (Licence P1067).

Block 211/18b (Licence P1381) was granted as a Traditional licence and contains the Leopard prospect. Although the application was made by Elixir, 20% of Elixir's 100% licence interest has subsequently been assigned to Sosina Exploration Limited, a company formerly associated with the Odegaard Group, the Danish international provider of technology to the oil industry. State-of-the-art technical work undertaken by Odegaard during the licence application phase was a key factor in Elixir's success in securing the licence award.

Block 211/8b (Licence P1379) was awarded as a two year Promote licence to Elixir (80%) and Sosina Exploration (20%). This block hosts the Panther prospect.

UKCS Block 211/22b – Jaguar Prospect (EXR 40%)

The Company initially purchased a 100% interest in 21st Round Promote Block 211/22b in December 2004 from Hunter Petroleum Ltd. The block hosted the Upper Jurassic Jaguar prospect. Under farm-in arrangements announced in mid-2005 DNO ASA agreed to secure a 50% working interest and Rocksource ASA a 10% interest in Block 211/22b by contributing 77.08% and 15.42% respectively of the Jaguar well costs. Elixir retained a 40% interest and contributed the remaining 7.5% of the Jaguar well costs.

The Jaguar exploration well, designated as 211/22b-5, was spudded on 23 January 2006. It was drilled to a total depth of 3,977 metres but failed to find commercial hydrocarbons in the primary objective but encountered oil shows in the underlying Middle Jurassic sands.

The results of the well did prove however that a working hydrocarbon system exists in the block. An extensive technical evaluation program is now being conducted to assess the remaining prospectivity at both the Middle Jurassic and Upper Jurassic levels elsewhere in the licence area.

UKCS Block 15/13b – Guinea Prospect (EXR 35%, diluting to 13.125%)

In late May 2006 the Company in conjunction with its alliance partner, Granby Oil & Gas, announced the successful farmout of the Guinea prospect located in Block 15/13b to a consortium of Nexen, Gas Plus Italiana and Albion Petroleum. Under the terms of the farmin agreements, Elixir will retain a 13.125% interest in the block with its share of well costs being fully-funded by Nexen, Gas Plus and Albion.

The Guinea prospect is a robust four-way dip closed Palaeocene structure which lies on-trend with producing oil fields such as Balmoral and Dumbarton. Nexen drilled the Yeoman discovery on the neighbouring Block 15/18b to the south in 2005.

On unrisked basis, the Guinea structure is estimated to host prospective resources of between 65 million (low case) and 120 million (high case) barrels of oil on Block 15/13b, if hydrocarbons are present, with a mid-case estimate of 91 million barrels. The well is scheduled to be drilled during the fourth quarter of 2006 with a drilling rig already contracted by the operator, Nexen. The pre-requisite site surveys were completed earlier in the year.

Other 22nd Round Licence Farmouts

A farmout program is continuing for the Company's four other 22nd Round Promote licences. A Heads of Agreement has been signed with Canadian-listed Albion Petroleum for a portfolio farmin. Albion will earn an interest in between three and five licences by funding a portion of the well costs of the first well on each licence on a 2-for-1 basis. The Guinea well forms part of this group.

Northern North Sea Blocks 211/18b & 211/8b (EXR 80%)

A long offset seismic survey is scheduled to be acquired in the third quarter of 2006 across the Leopard prospect in Block 211/18b. The objective is to further de-risk the prospect prior to resuming an intensified farmout campaign.

More seismic data has also been acquired for the Panther prospect in Block 211/8b in order to mature this combined structural and stratigraphic play for farmout.

24th Seaward Licensing Round

The Company participated in the recent 24th UK Offshore Licensing Round for which applications closed on 15 June 2006. Elixir in partnership with two experienced North Sea companies has made a number of applications.

Announcement of the successful awards is expected to be made by the DTI in September 2006 or possibly even early October given the large number of applications received. The 24th Round marked a 35 year high in terms of industry interest. Applications from 121 companies including 25 new North Sea entrants were made covering 147 licences.

Elixir and its partners have submitted strong technical applications and hope to be successful. However, competition is intense which demonstrates continuing market interest in the UK North Sea. This is despite the recent well-publicised tax changes and the maturity of the basin.

CORPORATE

2005 Annual General Meeting

The inaugural Annual General Meeting of the Company was held in Perth, Western Australia, on 10 November 2005.

All resolutions tabled at the meeting were approved by shareholders.

During the AGM, the Company's shareholders approved the issue of 250,000 options to Elixir's Chairman Dr John Robertson. The options are exercisable at $1.00 per share on or before 31 December 2007.

Resignation of Deputy Chairman

On 25 January 2006 the Company announced the resignation of its Deputy Chairman, Mr Don Maloney. Mr. Maloney, who had been a board member since the incorporation of Elixir and its listing on the ASX in mid-2004, stepped down for personal reasons.

Share Placement

On 6 June 2006 Company made a successful share placement to sophisticated investors of 6.5 million new shares raising a total of $2.6 million (£1.1 million) before expenses. The placement was arranged and coordinated by Argonaut Securities Pty Ltd. The Company issued 1 million options exercisable at $0.50 on or before 31 December 2007 to Argonaut Securities Pty Ltd as part consideration for facilitating the placement.

Share Capital Changes

On 7 June 2006 the Company announced the proposed cancellation of 10 million discovery options issued as part-consideration for the purchase of Block 211/22b. These were only exercisable upon a commercial discovery in the Jaguar well, which was subsequently plugged and abandoned after failing to find commercial hydrocarbons.

FUTURE STRATEGY

The primary objective for Elixir is to establish a successful oil & gas exploration and production business. The initial focus of the Company has been the UK North Sea where it has successfully acquired interests in 14 UKCS licences. Whilst the Company has been undertaking only exploration activities to date, the addition of oil & gas production or near term development projects either through exploration success or acquisition is a key goal.

The Company intends to offer investors exposure to at least five high impact exploration wells with an average reserves potential of approximately 10-20 million barrels of oil per prospect net to Elixir over a rolling two year period. It aims to achieve this goal through a combination of:

- Advancing exploration on the current UKCS licences;
- Aggressive pursuit of further prospective exploration in future DTI licensing rounds;
- Reviewing and potentially acquiring other interests in the UKCS, the greater North Sea region, onshore UK and other petroleum provinces;
- Pursuing opportunities for asset or corporate acquisitions in the North Sea and elsewhere; and
- Utilising the Board and management's collective experience and skills to progress any discoveries to commercial production.

SUBSEQUENT EVENTS

On 19 July 2006, 9.025 million shares were released from a two year escrow, effective since the Company listed on the ASX in July 2004.

On 27 July 2006, Mr Angus MacAskill tendered his resignation to the Board, effective 1 September 2006.

Since the end of the financial year, 750,000 unlisted 20 cent June 2007 options have been exercised from the 2,000,000 unlisted options exercisable on or before 30 June 2007, outstanding at 30 June 2006.

Apart from the above, no matters or circumstances have arisen since the end of the financial period which significantly affected or may significantly affect the operations of the Company, the results of those operations or the state of affairs of the Company in future financial years.

ENVIRONMENTAL ISSUES

The economic entity is aware of its environmental obligations with regards to its exploration activities and ensures that it complies with all regulations when carrying out any exploration work.

ADOPTION OF AUSTRALIAN EQUIVALENTS TO IFRS

As a result of the introduction of Australian Equivalents to International Financial Reporting Standards (AIFRS), the Company's financial report has been prepared in accordance with those standards. A reconciliation of adjustments arising on the transition to AIFRS has been included in Note 2 to this report.

INFORMATION ON DIRECTORS

John Robertson
Non-Executive Chairman
Age: 61
Qualifications: BSc (Hons) PhD

Experience:

Dr Robertson was appointed as Non-Executive Chairman coincident with the Company's AIM admission in May 2005. He has a wealth of experience in the finance and oil and gas industries. Dr Robertson joined the corporate banking department of Schroders in 1970 and then worked in corporate finance at Cannon Street Investments. Subsequently, he accrued over 13 years experience in senior management positions with Ultramar, a leading UK independent oil company until the early 1990's. Following this role he acted as a consultant before becoming a Director of Corporate Finance at Durlacher Ltd. From 1995 to June 2005 Dr Robertson was a Director of Nabarro Wells, the London-based independent corporate finance advisory firm, where he provided capital raising and corporate advice to private and quoted companies, particularly in the oil and gas and mining sectors.

Interest in Shares and Options:
400,000 fully paid ordinary shares

250,000 $1.00 options expiring
31 December 2007

Russell Langusch
Managing Director
Age: 55
Qualifications: BE (Hons) MEngSc

Experience:

Mr Langusch is a Petroleum Engineer who has accumulated over 30 years experience in the upstream oil & gas and finance sectors. This period includes five years direct working experience in the UK North Sea based in Aberdeen. From 1975 Russell spent 13 years with Schlumberger and Esso in a variety of roles including Field Engineer, Field Service Manager, Marketing Manager, Log Analyst and Senior Reservoir Engineer. He was then employed by a number of international investment banks as an oil & gas analyst. In 2001 he established his own consulting business providing services to many domestic and international clients before joining Elixir Petroleum as founding Managing Director in May 2004.

Interest in Shares and Options:
500,000 fully paid ordinary shares

1,500,000 $0.90 options expiring
5 October 2007

1,500,000 $1.30 options expiring
5 October 2007

500,000 $0.20 options expiring
30 June 2007

Iain Knott
Exploration Director
Age: 46
Qualifications: BSc (Hons) MSc

Experience:

Mr Knott is a Petroleum Geologist who has over 24 years' North Sea and international oil & gas experience. After graduating from Kingston University in 1983, Iain was employed in a number of geological roles by Core-Lab, Paleoservices and British Gas. Since 1996 he has held senior roles in the oil and gas and investment banking industries, firstly as an Assistant Director with NatWest Markets – Wood Mackenzie, then as Technical Director responsible for Northwest Europe for Burlington Resources, and most recently as Technical Director of Ingen. Ingen is an Aberdeen-based independent energy consultancy which successfully participated in the 21st and 22nd UKCS Licensing Rounds.

Interest in Shares and Options:
1,000,000 $0.90 options expiring
31 December 2007

1,000,000 $1.30 options expiring
31 December 2007

Angus MacAskill
Business Development Director
Age: 47
Qualifications: BSc (Hons) MEng (Pet Eng) MBA CEng

Experience:

Mr MacAskill is a Petroleum Engineer who has accumulated over 25 years' upstream oil & gas experience. After graduating from Edinburgh University in 1981 his career has spanned roles in engineering, marketing and business development. He spent five years with Schlumberger in Africa followed by ten years with Mobil working in the UK and Norwegian sectors of the North Sea. Between 1997 and 2002 he held several senior positions with Enterprise Oil plc including two years as Enterprise Oil's Business Development Manager for the US Gulf of Mexico based in Houston, Texas.

Interest in Shares and Options:
1,000,000 $0.90 options expiring
5 October 2007

1,000,000 $1.30 options expiring
5 October 2007

Kent Hunter
Non-Executive Director and Company Secretary
Age: 39
Qualifications: BBus CA

Experience:

Mr Hunter is a Chartered Accountant with over 15 years' corporate and company secretarial experience. He has been involved in the listing of 20 junior gold, uranium and base metal exploration companies on ASX in the past five years with capital raisings exceeding $90 million.

Interest in Shares and Options:
250,000 fully paid ordinary shares

125,000 $0.20 options expiring
30 June 2007

DIRECTORSHIPS OF OTHER LISTED COMPANIES

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

Name	Company	Period of directorship
John Robertson	Prosperity Minerals Holdings Limited	Since 24 May 2006
Russell Langusch	Tower Resources plc	Since 17 December 2004
Angus MacAskill	None	
Iain Knott	None	
Kent Hunter	Cazaly Resources Limited	Since 15 August 2003
	Gryphon Minerals Limited	Since 20 January 2004
	Scimitar Resources Limited	Since 21 November 2002
	Venture Minerals Limited	Since 12 May 2006
	Hamill Resources Limited	From 10 November 2000 to 16 September 2004
	International Goldfields Limited	From 5 June 2002 to 16 September 2004

REMUNERATION REPORT

Remuneration Policy

The remuneration policy of Elixir has been designed to align director's and executives' objectives with shareholder and business objectives by providing a fixed remuneration component which is assessed on an annual basis in line with market rates. The Board of Elixir believes the remuneration policy to be appropriate and effective in its ability to attract and retain the best directors and executives to run and manage the Company, as well as create goal congruence between directors and shareholders.

The policy for determining the nature and amount of remuneration for Board members is as follows:

- The remuneration policy and setting the terms and conditions for the executive directors and other senior staff members was developed by the Managing Director and approved by the Board after seeking professional advice from independent external consultants.

- In determining competitive remuneration rates, the Board seeks independent advice on local and international trends among comparative companies and industry generally. It examines terms and conditions for employee incentive schemes, benefit plans and share plans. Independent advice is obtained to confirm that executive remuneration is in line with market practice and is reasonable in the context of both UK and Australian executive reward practices.

- All executives receive a base salary (which is based on factors such as length of service and experience) and options.

The Company is an exploration entity, and therefore speculative in terms of performance. Consistent with attracting and retaining talented senior executives, they are paid market rates associated with individuals in similar positions within the same industry. Options and performance incentives have been issued to executives as part of their initial remuneration package, and may be issued when the Company moves from an exploration to a producing entity and key performance indicators such as profit and production and reserves growth can be used as measurements for assessing executive performance.

All remuneration paid to directors is valued at the cost to the Company and expensed. Any options granted to directors are valued using the Black-Scholes methodology.

The Board policy is to remunerate non-executive directors at market rates for comparable companies for time, commitment and responsibilities. The Managing Director in consultation with independent advisors determines payments to the non-executive directors and reviews their remuneration annually, based on market practice, duties and accountability. The maximum aggregate amount of fees that can be paid to non-executive directors is subject to approval by shareholders at the Annual General Meeting. Fees for non-executive directors are not linked to the performance of the Company. However, to align directors' interests with shareholder interests, the directors are encouraged to hold shares in the company.

Company Performance, Shareholder Wealth and Director and Executive Remuneration

The remuneration policy aims to increase goal congruence between shareholders and directors via the issue of options to the majority of directors to encourage the alignment of personal and shareholder interests. During the financial period the Company's share price traded between a low of $0.39 and a high of $1.00. The price volatility is a concern to the Board but is not considered abnormal for a junior oil & gas explorer such as Elixir. In order to keep all investors fully-informed and minimise market fluctuations the Board is determined to maintain promotional activity amongst the investment community so as to increase awareness of the Company.

REMUNERATION REPORT (CONTINUED)

Details of Remuneration for the year ended 30 June 2006

The remuneration for each director during the year is as follows:

	Primary		Equity Compensation	Post-employment		Performance Related %
	Base Salary and Fees $	Bonus and Non Cash $	Value of Options $	Supperannuation Contributions $	Total $	
Directors						
John Robertson	73,872	-	37,731	-	111,603	-
Russell Langusch	321,443	-	(i) 180,479	-	501,922	-
Kent Hunter	24,000	-	-	2,160	26,160	-
Angus MacAskill	310,941	-	(i) 120,320	-	431,261	-
Iain Knott	310,941	-	(i) 168,359	-	479,300	-
Don Maloney	21,000	-	-	-	21,000	-
Totals	1,062,197	-	506,889	2,160	1,571,246	-

(i) Relates to options which were granted in prior period, but brought to account over the vesting period.

The options valued using the Black Scholes valuation model and are disclosed above of $693,946. The options were granted when the share price of the Company was substantially higher at $0.78 (currently the share price is trading at approximately $0.40) thus increasing the value of the options as determined by the model. The exercise price of the options are $0.90, $1.00 and $1.30.

PERFORMANCE INCOME AS A PROPORTION OF TOTAL INCOME

No bonuses were paid to executive or non-executive directors during the year.

OPTIONS ISSUED AS PART OF REMUNERATION FOR THE YEAR ENDED 30 JUNE 2006

Options are issued to directors and executives as part of their remuneration. The options are not issued based upon performance criteria, but are issued to directors to increase goal congruence between executives, directors and shareholders.

Value of options issued to directors and executives

The following table details the value of options granted, exercised or lapsed during the year:

	Granted No	Options Granted Value at grant date $	Options Exercised Value at exercise date $	Options Lapsed Value at time of lapse $	Total value of options granted, exercised and lapsed $	Value of options included in remuneration for the year $
John Robertson	250,000	37,731	-	-	37,731	37,731
Russell Langusch	-	-	-	-	-	-
Kent Hunter	-	-	-	-	-	-
Angus MacAskill	-	-	-	-	-	-
Iain Knott	-	-	-	-	-	-
Don Maloney	-	-	-	-	-	-
Total	250,000	37,731	-	-	37,731	37,731

EMPLOYMENT CONTRACTS OF DIRECTORS AND SENIOR EXECUTIVES

All executives are permanent employees of the Company's wholly-owned UK subsidiary, Elixir Petroleum (UK) Limited. Employment conditions are formalised in a contracts of employment.

The employment contracts stipulate a range of one to three-month resignation periods. The Company may terminate an employment contract without cause by providing one to twelve months written notice (depending upon the relevant director) or making payment in lieu of notice, based on the individual's annual salary component. Termination payments are not generally payable on dismissal for serious misconduct. In the instance of serious misconduct the company can terminate employment at any time.

MEETINGS OF DIRECTORS

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

	Directors Meetings		Audit Committee Meetings	
Director	Meetings Attended	Number Eligible to Attend	Meetings Attended to Attend	Number Eligible
John Robertson	11	11	-	1
Don Maloney	3	7	-	-
Russell Langusch	11	11	1	1
Angus MacAskill	10	11	1	1
Iain Knott	8	11	-	-
Kent Hunter	10	11	-	-

OPTIONS

Share options on issue at year end or exercised during the year

At the end of the financial period the following options over new ordinary shares in the Company were on issue:

Type	No. Issued	No. Quoted	Exercise Price	Expiry Date	Note
Granby Performance	4,625,000	-	50 cents	31 December 2007	(i)
Unlisted Options	2,000,000	-	20 cents	30 June 2007	(i)
Hunter Farmout	500,000	-	100 cents	31 December 2007	(ii)
Director Incentive	2,500,000	-	90 cents	5 October 2007	(iii)
Director Incentive	2,500,000	-	130 cents	5 October 2007	(iii)
Director Incentive	1,000,000	-	90 cents	31 December 2007	(iv)
Director Incentive	1,000,000	-	130 cents	31 December 2007	(iv)
RFC Options	500,000	-	90 cents	16 May 2008	(v)
Ambrian Options	637,148	-	59 cents (24p)	16 May 2010	(v)
Director Incentive	250,000	-	100 cents	31 December 2007	(vi)
Placement Options	1,000,000	-	50 cents	31 December 2007	(vii)

(i) Escrowed until 19 July 2006

(ii) Issued to Hunter Petroleum for purchase of Block 211/22b on 16 December 2004.

(iii) Director Incentive Options issued to Russell Langusch (total 3.0 million) and Angus MacAskill (total 2.0 million), one quarter vested upon issue and remainder vesting after 12 months' employment, or 5 October 2005, whichever is the later date.

(iv) Director Incentive Options issued to Iain Knott (total 2.0 million), one quarter vested upon issue and remainder vesting after 12 months' employment, or 5 October 2005, whichever is the later date.

(v) 0.5 million unlisted options were issued to RFC Corporate Finance Limited on 16 May 2005 exercisable at $0.90, expiring on 16 May 2008. The options were issued in consideration for corporate finance and Nomad services provided by RFC Corporate Finance in relation to the Company's AIM admission.

(v) 0.637 million unlisted options were issued to Ambrian Partners on 16 May 2005, exercisable at $0.59 (£0.24) on or before 16 May 2010. The options were issued in consideration for broking and corporate advisory services provided by Ambrian Partners in relation to the AIM admission.

(vi) Director Incentive Options issued to John Robertson, approved at AGM on 10 November 2005.

(vii) Options issued to Argonaut Investments Pty Ltd, as partial consideration for placement services.

There have been no issue of ordinary shares as a result of the exercise of options during the financial year. Since the end of the financial year, 750,000 unlisted 20 cent June 2007 options have been exercised from the 2,000,000 outstanding at 30 June 2006.

INDEMNIFYING OFFICERS OR AUDITOR

In accordance with the constitution, except as may be prohibited by the Corporations Act 2001, every officer, auditor or agent of the Company shall be indemnified out of the property of the Company against any liability incurred by him in his capacity as officer, auditor or agent of the Company or any related corporation in respect of any act or omission whatsoever and howsoever occurring or in defending any proceedings, whether civil or criminal.

During the financial year, the Company has paid insurance premiums of £18,900 (or approximately $46,540) in respect of directors' and officers' liability. The insurance premiums relate to:

- Costs and expenses incurred by the relevant officers in defending legal proceedings, whether civil or criminal and whatever their outcome; and
- Other liabilities that may arise from their position, with the exception of conduct involving wilful breach of duty or improper use of information to gain a personal advantage.

PROCEEDINGS ON BEHALF OF COMPANY

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

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

AUDITORS INDEPENDENCE DECLARATION

The lead auditor's independence declaration for the year ended 30 June 2006 has been received and can be found on page 20 of the financial report.

NON-AUDIT SERVICES

The Board of Directors is satisfied that the provision of non-audit services performed during the year by the entity's auditors is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001. The directors are satisfied that the services disclosed below did not compromise the external auditor's independence for the following reason:

- The nature of the services provided do not compromise the general principles relating to auditors independence as set out in the Institute of Chartered Accountants in Australia and CPA Australia's Professional Statement F1: Professional Independence.

An amount of $1,450 was payable to Mack & Co, (auditors) for the preparation of the Company's 2005 Income Tax Return. No other fees were paid or payable to the auditors for non-audit services performed during the year to 30 June 2006.

Signed in accordance with a resolution of the directors made pursuant to s.298(2) of the Corporations Act 2001.

On behalf of the Directors

Russell Langusch
Managing Director

London

26 September 2006

AUDITOR'S INDEPENDENCE DECLARATION UNDER SECTION 307C OF THE CORPORATIONS ACT 2001 TO THE DIRECTORS OF ELIXIR PETROLEUM LIMITED

I declare that to the best of my knowledge and belief, during the year ended June 30 2006, there have been:

(i) No contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the audit; and

(ii) No contraventions of any applicable code of professional conduct in relation to the audit.

Mack & Co
Chartered Accountants

N.A Calder, Partner

September 26 2006

2nd Floor, 35 Havelock Street
West Perth WA 6005

Datre

INDEPENDENT AUDIT REPORT TO MEMBERS OF ELIXIR PETROLEUM LIMITED

SCOPE

The Financial Report and Directors' Responsibility

The financial report comprises the income statement, balance sheet, statement of changes in equity, statement of cash flows, accompanying notes to the financial statements and the directors' declaration for Elixir Petroleum Limited and the Consolidated Entity, for the year ended 30 June 2006. The Consolidated Entity comprises both the company and the entity it controlled during that year.

The directors of the Company are
responsible for the preparation and true and fair presentation of the financial report in accordance with the Corporations Act 2001. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error and for the accounting policies and accounting estimates inherent in the financial report.

Audit Approach

We conducted an independent audit in order to express an opinion to the members of the Company. Our audit was conducted in accordance with Australian Auditing Standards, in order to provide reasonable assurance as to whether the financial report is free of material misstatement. The nature of an audit is influenced by factors such as the use of professional judgment, selective testing, the inherent limitations of internal control and the availability of persuasive rather than conclusive evidence. Therefore, an audit cannot guarantee that all material misstatements have been detected.

We performed procedures to assess whether in all material respects the financial report presents fairly, in accordance with the Corporations Act 2001, including compliance with Accounting Standards and other mandatory financial reporting requirements in Australia, a view which is consistent with our understanding of the Company's and the Consolidated Entity's financial position and of their performance as represented by the results of their operations and cash flows.

We formed our audit opinion on the basis of these procedures, which included:

- examining, on a test basis, information to provide evidence supporting the amounts and disclosures in the financial report, and
- assessing the appropriateness of the accounting policies and disclosures used and the reasonableness of significant accounting estimates made by the directors.

While we considered the effectiveness of management's internal controls over financial reporting when determining the nature and extent of our procedures, our audit was not designed to provide assurance on internal controls.

Independence

In conducting our audit, we followed applicable independence requirements of Australian professional ethical pronouncements and the Corporations Act 2001.

In accordance with ASIC Class Order 05/83, we declare to the best of our knowledge and belief that the auditor's independence declaration as set out in financial report has not changed as at the date of providing our audit opinion.

Audit Opinion

In our opinion, the financial report of Elixir Petroleum Limited and its Consolidated Entity is in accordance with:

a) the Corporations Act 2001, including:

(i) giving a true and fair view of the company's and Consolidated Entity's financial position as at 30 June 2006 and of their performance for the year ended on that date; and

(ii) complying with Accounting Standards in Australia and the Corporations Regulations 2001; and

b) other mandatory professional reporting requirements in Australia.

Mack & Co	N A Calder	September 26 2006
Mack & Co Chartered Accountants	N.A Calder, Partner	Datre

2nd Floor, 35 Havelock Street
West Perth WA 6005

DIRECTORS' DECLARATION

The directors declare that:

(a) in the directors' opinion, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable;

(b) in the directors' opinion, the attached financial statements and notes thereto are in accordance with the Corporations Act 2001, including compliance with accounting standards and giving a true and fair view of the financial position and performance of the Consolidated Entity; and

(c) the directors have been given the declarations required by s.295A of the Corporations Act 2001

Signed in accordance with a resolution of the directors made pursuant to s.295(5) of the Corporations Act 2001.

On behalf of the Directors

Russell Langusch
Director

London, 26 September 2006

INCOME STATEMENT
FOR THE YEAR ENDED 30 JUNE 2006

		CONSOLIDATED		THE COMPANY	
		YEAR ENDED 30 JUNE 2006 $	YEAR ENDED 30 JUNE 2005 $	YEAR ENDED 30 JUNE 2006 $	YEAR ENDED 30 JUNE 2005 $
REVENUES	3	719,715	187,767	74,352	175,685
Finance costs	4	(6,385)	(4,242)	(840)	(2,892)
Depreciation expense	4	(18,902)	(7,985)	-	-
Travel and accommodation		(107,989)	(201,606)	(14,659)	(180,434)
Compliance expenses		(126,071)	(102,048)	(91,013)	(82,383)
Administration expenses		(532,867)	(567,324)	(130,039)	(86,377)
Salaries, directors fees and employee benefits		(1,190,556)	(675,787)	(47,432)	(109,484)
Equity compensation benefits	6(c)	(506,887)	(693,946)	(506,887)	(693,946)
Consultants fees		(264,620)	(303,937)	(239,201)	(288,688)
Foreign exchange gain (loss)	4	98,990	(227,539)	-	(225,114)
Exploration expenses written off	4	(5,050,204)	(1,274,064)	(631,839)	(1,262,137)
Provision against group borrowings		-	-	(6,216,536)	-
LOSS BEFORE INCOME TAX		(6,985,776)	(3,870,711)	(7,804,094)	(2,755,770)
Income Tax Benefit (Expense)	5	-	-	-	-
NET LOSS FOR THE YEAR FROM CONTINUING OPERATIONS		(6,985,776)	(3,870,711)	(7,804,094)	(2,755,770)
NET LOSS ATTRIBUTABLE TO THE PARENT ENTITIY	17	(6,985,776)	(3,870,711)	(7,804,094)	(2,755,770)
LOSS PER SHARE					
Basic loss per share (cents)	22	10.9	10.2	12.2	7.2
Diluted loss per share (cents)	22	-	-	-	-

The accompanying notes form part of these financial statements.

BALANCE SHEET

AS AT 30 JUNE 2006

	Note	CONSOLIDATED		THE COMPANY	
		AS AT 30 JUNE 2006 $	AS AT 30 JUNE 2005 $	AS AT 30 JUNE 2006 $	AS AT 30 JUNE 2005 $
CURRENT ASSETS					
Cash and cash equivalents	7	11,072,065	16,044,627	3,311,267	6,538,605
Trade and other receivables	8	171,735	150,122	-	83,038
Other current assets	9	97,790	76,855	45,022	19,251
		11,341,590	16,271,604	3,356,289	6,640,894
Non current assets held for sale	10	437,978	-	-	-
TOTAL CURRENT ASSETS		11,779,568	16,271,604	3,356,289	6,640,894
NON-CURRENT ASSETS					
Trade and other receivables	8	-	-	9,889,147	9,656,223
Investment accounted for using equity method	11	-	-	2	2
Plant and equipment	12	32,500	46,504	-	-
Deferred exploration and evaluation expenditure	13	1,942,367	2,278,259	-	1,850,479
TOTAL NON-CURRENT ASSETS		1,974,867	2,324,763	9,889,149	11,506,704
TOTAL ASSETS		13,754,435	18,596,367	13,245,438	18,147,598
CURRENT LIABILITIES					
Trade and other payables	14	548,253	1,665,981	39,256	102,271
TOTAL CURRENT LIABILITIES		548,253	1,665,981	39,256	102,271
TOTAL LIABILITIES		548,253	1,665,981	39,256	102,271
NET ASSETS		13,206,182	16,930,386	13,206,182	18,045,327
EQUITY					
Issued capital	15	22,120,176	19,773,149	22,120,176	19,773,149
Reserves	16	1,987,007	1,072,462	1,690,384	1,072,462
Accumulated losses	17	(10,901,001)	(3,915,225)	(10,604,378)	(2,800,284)
TOTAL EQUITY		13,206,182	16,930,386	13,206,182	18,045,327

The accompanying notes form part of these financial statements.

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2006

CONSOLIDATED	SHARE CAPITAL ORDINARY	ACCUMULATED LOSSES	OPTION PREMIUM RESERVE	FINANCIAL ASSETS RESERVE	FOREIGN EXCHANGE TRANSLATION RESERVE	TOTAL
	$	$	$	$	$	$
Balance at 1.7.2005	19,773,149	(3,915,225)	1,072,462	-	-	16,930,386
Value of options issued to directors and consultants	-	-	617,922	-	-	617,922
Foreign currency translation reserve recognised	-	-	-	-	529,067	529,067
Financial assets revalued	-	-	-	(232,444)		(232,444)
Loss attributable to members	-	(6,985,776)	-	-	-	(6,985,776)
Shares issued during the year	2,600,000	-	-	-	-	2,600,000
Share issue costs	(252,973)	-	-	-	-	(252,973)
Balance at 30.06.2006	22,120,176	(10,901,001)	1,690,384	(232,444)	529,067	13,206,182
Balance at 1.7.2004	430,001	(44,514)	-	-	-	385,487
Value of options issued to directors and consultants	-	-	1,072,462	-	-	1,072,462
Loss attributable to members	-	(3,870,711)	-	-	-	(3,870,711)
Shares issued during the year	22,382,873	-	-	-	-	22,382,873
Share issue costs	(3,039,725)	-	-	-	-	(3,039,725)
Balance at 30.06.2005	19,773,149	(3,915,225)	1,072,462	-	-	16,930,386
COMPANY						
Balance at 1.7.2005	19,773,149	(2,800,284)	1,072,462	-	-	18,045,327
Value of options issued to directors and consultants	-	-	617,922	-		617,922
Loss attributable to members	-	(7,804,094)	-	-	-	(7,804,094)
Shares issued during the year	2,600,000	-	-	-	-	2,600,000
Share issue costs	(252,973)	-	-	-	-	(252,973)
Balance at 30.06.2006	22,120,176	(10,604,378)	1,690,384	-	-	13,206,182
Balance at 1.7.2004	430,001	(44,514)	-	-	-	385,487
Value of options issued to directors and consultants	-	-	1,072,462	-	-	1,072,462
Loss attributable to members	-	(2,755,770)	-	-	-	(2,755,770)
Shares issued during the year	22,382,873	-	-	-	-	22,382,873
Share issue costs	(3,039,725)	-	-	-	-	(3,039,725)
Balance at 30.06.2005	19,773,149	(2,800,284)	1,072,462	-	-	18,045,327

The accompanying notes form part of these financial statements.

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 30 JUNE 2006

	Note	CONSOLIDATED		THE COMPANY	
		YEAR ENDED 30 JUNE 2006 $	YEAR ENDED 30 JUNE 2005 $	YEAR ENDED 30 JUNE 2006 $	YEAR ENDED 30 JUNE 2005 $
CASH FLOWS FROM OPERATING ACTIVITIES					
Payments to suppliers and employees		(3,104,506)	(602,357)	(500,002)	(749,549)
Interest received		565,145	174,583	70,196	162,801
Finance costs paid		(9,906)	(4,242)	(840)	(2,892)
Payments for exploration and evaluation expenditure		(4,773,841)	(1,706,388)	(586,910)	(1,496,926)
NET CASH FLOWS (USED IN) OPERATING ACTIVITIES	18(a)	(7,323,108)	(2,138,404)	(1,017,556)	(2,086,566)
CASH FLOWS FROM INVESTING ACTIVITIES					
Payments for plant and equipment		(4,898)	(54,489)	-	-
Payments for investments		(308,702)	-	-	-
Proceeds from sale of shares		218,129	-	-	-
Payments to acquire exploration licences		-	(691,193)	-	(647,319)
Payments to controlled entities		-	-	(4,598,981)	(9,656,223)
NET CASH FLOWS (USED IN) INVESTING ACTIVITIES		(95,471)	(745,682)	(4,598,981)	(10,303,542)
CASH FLOWS FROM FINANCING ACTIVITIES					
Proceeds from issue of ordinary shares		2,600,000	21,565,871	2,600,000	21,565,871
Proceeds received and held awaiting the issue of ordinary shares/ (transferred)		-	(739,845)	-	(739,845)
Payment of share issue costs		(252,973)	(2,636,761)	(210,801)	(2,636,761)
NET CASH FLOWS FROM FINANCING ACTIVITIES		2,347,027	18,189,265	2,389,199	18,189,265
NET (DECREASE)/ INCREASE IN CASH HELD		(5,071,552)	15,305,179	(3,227,338)	5,799,157
Add opening cash brought forward		16,044,627	964,562	6,538,605	964,562
Effects of exchange rate changes on cash		98,990	(225,114)	-	(225,114)
CLOSING CASH CARRIED FORWARD	7	11,072,065	16,044,627	3,311,267	6,538,605

The accompanying notes form part of these financial statements

NOTES TO THE FINANCIAL INFORMATION

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

The financial report is a general-purpose financial report, which has been prepared in accordance with Australian Accounting Standards and the Corporations Act 2001. The financial report covers the Company of Elixir Petroleum Limited and its controlled entity, Elixir Petroleum (UK) Limited. Elixir Petroleum Limited is a listed public company, incorporated and domiciled in Australia.

The financial report complies with Australian Accounting Standards, which include Australian equivalents to International Financial Reporting Standards (AIFRS). Compliance with AIFRS ensures that the financial report, comprising the financial statements and notes thereto, complies with International Financial Reporting Standards (IFRS).

Basis of preparation

In the application of A-IFRS management is required to make judgments, estimates and assumptions about carrying values of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstance, the results of which form the basis of making the judgments. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgments made by management in the application of A-IFRS that have significant effects on the financial statements and estimates with a significant risk of material adjustments in the next year are disclosed, where applicable, in the relevant notes to the financial statements.

Accounting policies are selected and applied in a manner which ensures that the resulting financial information satisfies the concepts of relevance and reliability, thereby ensuring that the substance of the underlying transactions or other events is reported.

The Consolidated Entity changed its accounting policies on 1 January 2005 to comply with A-IFRS. The transition to A-IFRS is accounted for in accordance with Accounting Standard AASB 1 'First-time Adoption of Australian Equivalents to International Financial Reporting Standards', with 1 January 2004 as the date of transition. An explanation of how the transition from superseded policies to A-IFRS has affected the company's and financial position, financial performance and cash flows is discussed in note 2.

The accounting policies set out below have been applied in preparing the financial statements for the year ended 30 June 2006, the comparative information presented in these financial statements for the year ended 30 June 2005, and in the preparation of the opening A-IFRS balance sheet at 1 July 2004 (as disclosed in note 2), the Company's date of transition, except for the accounting policies in respect of financial instruments. The company has not restated comparative information for financial instruments, including derivatives, as permitted under the first-time adoption transitional provisions.

The financial information has been prepared on the accruals basis and is based on historical costs and does not take into account changing money values. Cost is based on the fair values of the consideration given in exchange for assets.

The following is a summary of the accounting policies adopted by the Company in the preparation of the financial information. The accounting policies have been consistently applied unless otherwise stated.

(b) Plant and Equipment

Each class of plant and equipment is carried at cost or fair value less, where applicable, any accumulated depreciation and impairment losses.

Cost includes expenditure that is directly attributable to the acquisition of the item. In the event that settlement of all or part of the purchase consideration is deferred, cost is determined by discounting the amounts payable in the future to their present value as at the date of acquisition.

The carrying amount of plant and equipment is reviewed annually by directors to ensure it is not in excess of the recoverable amount from these assets. The recoverable amount is assessed on the basis of the expected net cash flows that will be received from the assets employment and subsequent disposal. The expected net cash flows have been discounted to their present values in determining recoverable amounts.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the Income Statement during the financial period in which they are incurred.

Depreciation

The depreciable amount of all fixed assets is depreciated on a straight line basis over their useful lives to the economic entity commencing from the time the asset is held ready for use.

The depreciation rates used for each class of depreciable assets are:

CLASS OF FIXED ASSET	DEPRECIATION RATE	
	2006	2005
Plant and equipment	40.0%	40.0%
Office furniture and equipment	18.0%	18.0%

The estimated useful lives, residual values and depreciation method is reviewed at the end of each annual reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These gains and losses are included in the Income Statement. When revalued assets are sold, amounts included in the revaluation reserve relating to that asset are transferred to retained earnings.

(c) Income Tax

Current Tax

Current tax is calculated by reference to the amount of income taxes payable or recoverable in respect of the taxable profit or tax loss for the period. It is calculated using tax rates and tax laws that have been enacted or substantively enacted by reporting date. Current tax for current and prior periods is recognised as a liability (or asset) to the extent that it is unpaid (or refundable).

Deferred Tax

Deferred tax is accounted for using the comprehensive balance sheet liability method in respect of temporary differences arising from differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax base of those items.

In principle, deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that sufficient taxable amounts will be available against which deductible temporary differences or unused tax losses and tax offsets can be utilised. However, deferred tax assets and liabilities are not recognised if the temporary differences giving rise to them arise from the initial recognition of assets and liabilities (other than as a result of a business combination) which affects neither taxable income nor accounting profit. Furthermore, a deferred tax liability is not recognised in relation to taxable temporary differences arising from goodwill.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period (s) when the asset and liability giving rise to them are realised or settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by reporting date. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Consolidated Entity expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Current and Deferred Taxation

Current and deferred tax is recognised as an expense or income in the Income Statement, except when it relates to items credited or debited directly to equity, in which case the deferred tax is also recognised directly in equity, or where it arises from the initial accounting for a business combination, in which case it is taken into account in the determination of goodwill or excess.

The amount of benefits brought to account or which may be realised in the future is based on the assumption that no adverse change will occur in income taxation legislation and the anticipation that the Company will derive sufficient future assessable income to enable the benefit to be realised and comply with the conditions of deductibility imposed by the law.

(d) Exploration, Evaluation and Development Expenditure

Exploration, evaluation and development expenditure incurred is accumulated in respect of each identifiable area of interest. As the Company's exploration assets are north sea oil licenses, an identifiable area of interest relates to a license area as defined by the UK Department of Trade and Industry. Costs associated with these identifiable areas of interests are only carried forward to the extent that they are expected to be recouped through the successful development of the area or where activities in the area have not yet reached a stage that permits reasonable assessment of the existence of economically recoverable reserves. As a determination can be made to the recoverability of the asset once a well has been drilled. Consequently the areas of interest are capitalised on a successful efforts basis.

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

When production commences, the accumulated costs for the relevant area of interest are amortised over the life of the area according to the rate of depletion of the economically recoverable reserves.

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

Costs of site restoration are provided over the life of the facility from when exploration commences and are included in the costs of that stage. Site restoration costs include the dismantling and removal of mining plant, equipment and building structures, waste removal, and rehabilitation of the site in accordance with clauses of the mining or petroleum permits. Such costs have been determined using estimates of future costs, current legal requirements and technology on an undiscounted basis.

Any changes in the estimates for the costs are accounted on a prospective basis. In determining the costs of site restoration, there is uncertainty regarding the nature and extent of the restoration due to community expectations and future legislation. Accordingly the costs have been determined on the basis that the restoration will be completed within one year of abandoning the site.

(e) Earnings per Share

Basic earnings per share is calculated as net earnings attributable to members, adjusted to exclude 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 EPS is calculated as net earnings attributable to members, 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 shares that would 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.

(f) Revenue

Revenues are recognised at fair value of the consideration received net of the amount of goods and services tax paid to the taxation authority.

Interest

Interest revenue is recognised on a proportional basis taking into account the interest rates applicable to the financial assets.

(g) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, cash in banks and investments in money market instruments, net of outstanding bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities in the balance sheet.

For the purpose of the Statement of Cash Flows, cash and cash equivalents includes on hand and other funds held at call net of bank overdrafts.

(h) Other Financial Assets

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

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

(i) Financial assets at fair value through profit or loss

Financial assets classified as held for trading are included in the category ‘Financial assets at fair value through profit or loss’. Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term. Derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on investments held for trading are recognised in profit or loss.

(ii) Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Group has the positive intention and ability to hold to maturity. Investments intended to be held for an undefined period are not included in this classification. Investments that are intended to be held-to-maturity, such as bonds, are subsequently measured at amortised cost. This cost is computed as the amount initially recognised minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initially recognised amount and the maturity amount. This calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums and discounts. For investments carried at amortised cost, gains and losses are recognised in profit or loss when the investments are derecognised or impaired, as well as through the amortisation process.

(iii) Loans and receivables

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

(iv) Available-for-sale investments

Available-for-sale investments are those non-derivative financial assets that are designated as available-for-sale or are not classified as any of the three preceding categories. After initial recognition available-for sale investments are measured at fair value with gains or losses being recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is recognised in profit or loss.

The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business on the balance sheet date. For investments with no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument that is substantially the same; discounted cash flow analysis and option pricing models.

(i) Foreign Currency

Foreign currency transactions are converted to Australian currency at the rates of exchange ruling at the dates of the transactions. Amounts receivable and payable in foreign currencies at balance date are translated at the rates of exchange ruling on that date.

Exchange differences relating to amounts payable or receivable in foreign currencies are brought to account as exchange gains or losses in the operating result in the financial year in which the exchange rates change.

Translation of financial reports of overseas operations

All overseas operations are deemed integrated operations, in that they are dependent upon the financial and operational support of the parent entity. The financial reports of overseas operations are translated using the temporal method and any exchange differences are taken to the Statement of Financial Performance.

(j) Segment Reporting

Individual business segments have been identified on the basis of grouping individual assets with similar risks and returns.

(k) Receivables

Trade receivables are recognised and carried at original invoice amount less a provision for any uncollectable debts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off as incurred.

Receivables from related parties are recognised and carried at the nominal amount due. Interest is taken up as income on an accrual basis.

(l) Principles of Consolidation

Controlled entities

The financial statements of controlled entities are included in the consolidated financial statements from the date control commences until the date control ceases.

Transactions eliminated on consolidation

Unrealised gains and losses and inter-entity balances resulting from transactions with or between controlled entities are eliminated in full on consolidation.

(m) Issued Capital

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

(n) Operating Leases

The minimum lease payments of operating leases, where the lessor effectively retains substantially all of the risks and benefits of ownership of the leased item, are recognised as an expense on a straight-line basis.

(o) Employee Benefits

Provision is made for employee benefits accumulated as a result of employees rendering services up to the balance date. These benefits include wages and salaries, annual leave, sick leave and long service leave.

Liabilities arising in respect of wages and salaries, annual leave, sick leave and other employee benefits expected to be settled within twelve months of balance date are measured at their nominal amounts based on remuneration rates which are expected to be paid when the liability is settled. All other employee benefits are measured at the present value of the estimated future cash flows.

Employee benefit expenses and revenues arising in respect of the following categories:

- wages and salaries, non-monetary benefits, annual leave, long service leave, sick leave and other leave benefits; and
- other types of employee benefits

are recognised against earnings on a net basis in their respective categories.

(p) Joint Ventures

Interests in joint venture operations are recognised by including in the respective classifications, the share of individual assets employed and share of liabilities and expenses incurred.

(q) Impairment

At each reporting date, the Company reviews the carrying values of its tangible and intangible assets to determine whether there is any indication that those assets have been impaired. If such an indication exists, the recoverable amount of the asset, being the higher of the asset's fair value less costs to sell and value in use, is compared to the asset's carrying value. Any excess of the asset's carrying value over it recoverable amount is expensed to the Income Statement

The recoverable amount of plant and equipment is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised in profit or loss immediately, unless the relevant asset is carried at fair value, in which case the impairment loss is treated as a revaluation decrease.

(r) Share-Based Payment

The Company provides benefits to employees (including senior executives) of the Consolidated Entity in the form of share-based payments, whereby employees render services in exchange for shares or rights over shares (equity-settled transactions).

The cost of these equity-settled transactions with employees is measured by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined using a Black & Scholes model, further details of which are given in note 5d.

Equity-settled share-based payments granted after 7 November 2002 that were unvested as of 1 January 2005, are measured at fair value at the date of grant. Fair value is measured by use of a Black & Scholes model. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations.

The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Consolidated Entity's estimate of shares that will eventually vest.

For cash-settled share-based payments, a liability equal to the portion of the goods or services received is recognised at the current fair value determined at each reporting date.

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

The cumulative expense recognised for equity-settled transactions at each reporting date until vesting date reflects:-

(i) the extent to which the vesting period has expired; and

(ii) the Company's best estimate of the number of equity instruments that will ultimately vest.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is only conditional upon a market condition.

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

2. IMPACT OF THE ADOPTION OF AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS

The Consolidated Entity changed its accounting policies on 1 July 2005 to comply with Australian equivalents to International Financial Reporting Standards ('A-IFRS'). The transition to A-IFRS is accounted for in accordance with Accounting Standard AASB 1 'First-time Adoption of Australian Equivalents to International Financial Reporting Standards', with 1 July 2004 as the date of transition.

An explanation of how the transition from superseded policies to A-IFRS has affected the Consolidated Entity's financial position, financial performance and cash flows is set out in the following tables and the notes that accompany the tables.

(i) Effects of AIFRS on Balance Sheet at 1 July 2004

	CONSOLIDATED			THE COMPANY		
	Previous GAAP at 1 July 2004 $	Effects of AIFRS adoption $	AIFRS Balance 2004 $	Previous GAAP at 1 July 2004 $	Effects of AIFRS adoption $	AIFRS Balance 2004 $
ASSETS						
CURRENT ASSETS						
Cash and cash equivalents	-	-	-	964,562	-	964,562
Trade and other receivables	-	-	-	6,367	-	6,367
Other current assets	-	-	-	153,707	-	153,707
TOTAL CURRENT ASSETS	-	-	-	1,124,636	-	1,124,636
NON-CURRENT ASSETS						
Plant and equipment	-	-	-	-	-	-
Deferred exploration and evaluation expenditure	-	-	-	77,601	-	77,601
TOTAL NON-CURRENT ASSETS	-	-	-	77,601	-	77,601
TOTAL ASSETS	-	-	-	1,202,237	-	1,202,237
CURRENT LIABILITIES						
Trade and other payables	-	-	-	816,750	-	816,750
TOTAL LIABILITIES	-	-	-	816,750	-	816,750
NET ASSETS	-	-	-	385,487	-	385,487
EQUITY						
Issued capital	-	-	-	430,001	-	430,001
Option premium reserve	-	-	-	-	-	-
Accumulated losses	-	-	-	(44,514)	-	(44,514)
TOTAL EQUITY	-	-	-	385,487	-	385,487

(ii) Effect of AIFRS on Income Statement for the year ended 30 June 2005

	CONSOLIDATED			THE COMPANY		
	Previous GAAP at 30 June 2005 $	Effects of AIFRS adoption $	AIFRS Balance 2005 $	Previous GAAP at 30 June 2005 $	Effects of AIFRS adoption $	AIFRS Balance 2005 $
REVENUES	187,767	-	187,767	175,685	-	175,685
Finance costs	(4,242)	-	(4,242)	(2,892)	-	(2,892)
Depreciation expense	(7,985)	-	(7,985)	-	-	-
Travel and accommodation	(201,606)	-	(201,606)	(180,434)	-	(180,434)
Compliance expenses	(102,048)	-	(102,048)	(82,383)	-	(82,383)
Administration expenses	(567,324)	-	(567,324)	(86,377)	-	(86,377)
Salaries, directors fees and employee benefits (a)	(675,787)	(693,946)	(1,369,733)	(109,484)	(693,946)	(803,430)
Consultants fees	(303,937)	-	(303,937)	(288,688)	-	(288,688)
Foreign exchange loss	(227,539)	-	(227,539)	(225,114)	-	(225,114)
Exploration expenses written off	(1,274,064)	-	(1,274,064)	(1,262,137)	-	(1,262,137)
LOSS BEFORE INCOME TAX	(3,176,765)	(693,946)	(3,870,711)	(2,061,824)	(693,946)	(2,755,770)
Income Tax Benefit / (Expense)	-	-	-	-	-	-
NET LOSS FOR THE YEAR FROM CONTINUING OPERATIONS	(3,176,765)	(693,946)	(3,870,711)	(2,061,824)	(693,946)	(2,755,770)
NET LOSS ATTRIBUTABLE TO THE PARENT ENTITIY	(3,176,765)	(693,946)	(3,870,711)	(2,061,824)	(693,946)	(2,755,770)

(a) Equity-based payment costs to directors are charged to the Income Statement and option premium reserve under AASB2 "Share Based Payment". This was not the case under previous Australian GAAP.

(iii) Effect of AIFRS on Balance Sheet at 30 June 2005

	CONSOLIDATED			THE COMPANY		
	Previous GAAP at 30 June 2005 $	Effects of AIFRS adoption $	AIFRS Balance 2005 $	Previous GAAP at 30 June 2005 $	Effects of AIFRS adoption $	AIFRS Balance 2005 $
ASSETS						
CURRENT ASSETS						
Cash and cash equivalents	16,044,627	-	16,044,627	6,538,605	-	6,538,605
Trade and other receivables	150,122	-	150,122	83,038	-	83,038
Other current assets	76,855	-	76,855	19,251	-	19,251
TOTAL CURRENT ASSETS	16,271,604	-	16,271,604	6,640,894	-	6,640,894
NON-CURRENT ASSETS						
Plant and equipment	46,504	-	46,504	-	-	-
Investments	-	-	-	2	-	2
Receivables	-	-	-	9,656,223	-	9,656,223
Deferred exploration and evaluation expenditure	2,278,259	-	2,278,259	1,850,479	-	1,850,479
TOTAL NON-CURRENT ASSETS	2,324,763	-	2,324,763	11,506,704	-	11,506,704
TOTAL ASSETS	18,596,367	-	18,596,367	18,147,598	-	18,147,598
CURRENT LIABILITIES						
Trade and other payables	1,665,981	-	1,665,981	102,271	-	102,271
TOTAL LIABILITIES	1,665,981	-	1,665,981	102,271	-	102,271
NET ASSETS	16,930,386	-	16,930,386	18,045,327	-	18,045,327
EQUITY						
Issued capital	19,773,149	-	19,773,149	19,773,149	-	19,773,149
Option premium reserve (a)	378,516	693,946	1,072,462	378,516	693,946	1,072,462
Accumulated losses	(3,221,279)	(693,946)	(3,915,225)	(2,106,338)	(693,946)	(2,800,284)
TOTAL EQUITY	16,930,386	-	16,930,386	18,045,327	-	18,045,327

(a) Equity-based payment costs to directors are charged to the Income Statement and option premium reserve under AASB2 “Share-Based Payment”. This was not the case under previous Australian GAAP.

	CONSOLIDATED		THE COMPANY	
	YEAR ENDED 30 JUNE 2006 $	YEAR ENDED 30 JUNE 2005 $	YEAR ENDED 30 JUNE 2006 $	YEAR ENDED 30 JUNE 2005 $
3. REVENUE				
Revenue				
Interest received	568,686	187,767	74,352	175,685
Fair value of share warrants	129,276	-	-	-
Profit on sale of investments	21,137	-	-	-
Other income	616	-	-	-
Total revenues	719,715	187,767	74,352	175,685

4. LOSSES

(b) Losses from operations have been arrived after charging the following items				
Exploration expenditure written off - Marquis well abandoned	-	1,274,064	-	1,262,137
Pre-grant expenditure	256,309	-	631,839	-
Muness well – 21/4b abandoned	1,106,200	-	-	-
Jaguar well – 211/22b abandoned	3,687,695	-	-	-
Total	5,050,204	1,274,064	631,839	1,262,137
Depreciation of non current assets Plant and equipment	18,902	7,985	-	-
Interest expense - Other persons/corporations	6,385	4,242	840	2,892
Operating lease rental - Minimum lease payments	87,642	28,502	-	750
Net foreign currency losses/(gains)	(98,990)	227,539	-	225,114
Provision against non-recoverability of loan to Elixir Petroleum (UK) Limited	-	-	6,216,536	-

	CONSOLIDATED		THE COMPANY	
	YEAR ENDED 30 JUNE 2006 $	YEAR ENDED 30 JUNE 2005 $	YEAR ENDED 30 JUNE 2006 $	YEAR ENDED 30 JUNE 2005 $
5. INCOME TAX				
The prima facie income tax expense on pre-tax accounting profit from operations reconciles to the income tax expense in the financial statements as follows:				
Prima facie tax (benefit)/expense on (loss) at 30%	(2,095,732)	(1,161,213)	(2,341,228)	(826,731)
Add: Tax effect of: Other non-allowable items	-	98,586	-	-
Licenses transferred to subsidiary	-	-	343,057	-
Provision against group borrowings	-	-	1,864,961	-
Share based payments	152,066	208,184	152,066	208,184
Effect of lower rate of tax on overseas loss	593,804	86,495	-	-
Revenue losses not recognised	347,534	329,056	347,534	329,056
Foreign losses not recognised	204,941	1,324,995	204,941	1,324,995
Overseas losses not recognised	1,025,661	149,401	-	-
	2,324,006	2,196,717	2,912,559	1,862,235
Less: Tax effect of: Exploration and evaluation expenditure deductible for income tax purposes not recognised	-	910,505	-	910,505
Recoupment of foreign losses not previously recognised	-	-	343,057	-
Other deferred tax balances not recognised	228,274	124,999	228,274	124,999
	228,723	1,035,504	571,331	1,035,504
Income tax	-	-	-	-
The following deferred tax balances have not been recognised: Deferred Tax Assets: At 30%: Carry forward revenue losses	678,487	330,953	678,487	330,953
Carry forward foreign losses	645,598	988,655	645,598	988,655
Capital raising costs	632,048	725,072	632,048	725,072
Foreign exchange loss	-	67,534	-	67,534
Provisions and accruals	5,229	1,500	5,229	1,500
Other	154	231	154	231
	1,961,516	2,113,945	1,961,516	2,113,945

	CONSOLIDATED		THE COMPANY	
	YEAR ENDED 30 JUNE 2006 $	YEAR ENDED 30 JUNE 2005 $	YEAR ENDED 30 JUNE 2006 $	YEAR ENDED 30 JUNE 2005 $

5. INCOME TAX

The prima facie income tax expense on pre-tax accounting profit from operations reconciles to the income tax expense in the financial statements as follows:

At 19% (United Kingdom):				
Carry forward overseas losses	1,175,062	149,401	-	-

The tax benefits of the above Deferred Tax Assets will only be obtained if:

(a) the company derives future assessable income of a nature and of an amount sufficient to enable the benefits to be utilised;

(b) the company continues to comply with the conditions for deductibility imposed by law; and

(c) no changes in income tax legislation adversely affect the company in utilising the benefits.

Deferred Tax Liabilities:				
At 30%				
Other	1,250	5,775	1,250	5,775

The above Deferred Tax Liabilities have not been recognised as they have given rise to the carry forward revenue losses for which the Deferred Tax Asset has not been recognised.

6. KEY MANAGEMENT PERSONNEL COMPENSATION

(a) Details of Key Management Personnel in Office at any time during the financial year are:

(i) Directors

John Robertson – Non-Executive Chairman

Donald Maloney – (Resigned 25 January 2006)

Russell Langusch – Managing Director

Angus MacAskill – Executive Director (Resigned 1 September 2006)

Iain Knott – Executive Director

Kent Hunter – Non-Executive Director

Executive Directors' remuneration and other terms of employment are reviewed annually by the non-executive directors having regard to performance against goals set at the start of the year, relative comparative information and independent expert advice.

Except as detailed in Notes (a) – (e) to the Remuneration Report, no director has received or become entitled to receive, during or since the financial period, a benefit because of a contract made by the Company or a related body corporate with a director, a firm of which a director is a member or an entity in which a director has a substantial financial interest. This statement excludes a benefit included in the aggregate amount of emoluments received or due and receivable by directors and shown in Notes (a) – (e) to the Remuneration Report, prepared in accordance with the Corporations regulations, or the fixed salary of a full time employee of the Consolidated Entity.

6. KEY MANAGEMENT PERSONNEL COMPENSATION (CONT.)

(b) Remuneration Practices

Remuneration Policy

The Board of Directors is responsible for determining and reviewing compensation arrangements for the executive team. The Board will assess the appropriateness of the nature and amount of emoluments of such officers on a periodic basis by reference to relevant employment market conditions with the overall objective of ensuring maximum stakeholder benefit from the retention of a high quality Board and executive team. The remuneration of Directors is set out below.

(c) Key Management Personnel Compensation

	Primary		Equity Compensation	Post-employment	
Period ended:	Base Salary and Fees	Bonus and Non Monetary Benefits	Value of Options	Supperannuation Contributions	Total
	$	$	$	$	$
John Robertson					
30 June 2006	73,872	-	37,731	-	111,603
30 June 2005	8,654	-	-	-	8,654
Russell Langusch					
30 June 2006	321,443	-	180,479	-	501,922
30 June 2005	208,702	-	310,721	-	519,423
Kent Hunter (iii)					
30 June 2006	24,000	-	-	2,160	26,160
30 June 2005	24,000	-	-	2,160	26,160
Angus MacAskill					
30 June 2006	310,941	-	120,320	-	431,261
30 June 2005	200,358	-	207,148	-	407,506
Iain Knott					
30 June 2006	310,941	-	168,359	-	479,300
30 June 2005	141,974	-	176,077	-	318,051
Don Maloney					
30 June 2006 (i)	21,000	-	-	-	21,000
30 June 2005	36,000	-	-	-	36,000
Michael Pedley					
30 June 2005 (ii)	16,000	-	-	-	16,000
Totals					
30 June 2006	1,062,197	-	506,889	2,160	1,571,246
30 June 2005	635,688	-	693,946	2,160	1,331,794

(i) Donald Maloney resigned on 25 January 2006.

(ii) Michael Pedley Resigned on 9 February 2005.

(iii) In the twelve months to 30 June 2006, fees of $50,361 (30 June 2005: $75,385) were paid to Mining Corporate Pty Ltd (a company of which Mr Hunter is a Director) for company secretarial, accounting and compliance services. These have not been included in his remuneration as these fees were not paid to Mr Hunter in relation to the management of the affairs of the Consolidated Entity.

The options valued using the Black Scholes valuation model and are disclosed above of $693,946. The options were granted when the share price of the Company was substantially higher at $0.78 (currently the share price is trading at approximately $0.40) thus increasing the value of the options as determined by the model. The exercise price of the options are $0.90, $1.00 and $1.30.

(d) Compensation Options

The following table illustrates details of compensation options granted or vested during the financial year:

2006

Key Management Personnel	Number Granted	Number Vested	Grant date	Expiry date	Exercise price $	Fair value at grant date $
John Robertson	250,000	250,000	10.11.2005	31.12.2007	$1.00	$0.15
Angus MacAskill	-	750,000	21.03.2005	05.10.2007	$0.90	$0.20
Angus MacAskill	-	750,000	21.03.2005	05.10.2007	$1.30	$0.13
Russell Langusch	-	1,125,000	21.03.2005	05.10.2007	$0.90	$0.20
Russell Langusch	-	1,125,000	21.03.2005	05.10.2007	$1.30	$0.13
Iain Knott	-	750,000	31.03.2005	31.12.2007	$0.90	$0.21
Iain Knott	-	750,000	31.03.2005	31.12.2007	$1.30	$0.14

The weighted average fair value of the share options granted during the financial year is $0.15 each. All options granted during the year vested immediately. Options were priced using Black & Scholes option pricing model. Details of factors used to calculated fair value of these options are disclosed in Note (d) (i) below.

2005

Key Management Personnel	Number Granted	Number Vested	Grant date	Expiry date	Exercise price $	Fair value at grant date $
Angus MacAskill	1,000,000	250,000	21.03.2005	05.10.2007	$0.90	$0.20
Angus MacAskill	1,000,000	250,000	21.03.2005	05.10.2007	$1.30	$0.13
Russell Langusch	1,500,000	375,000	21.03.2005	05.10.2007	$0.90	$0.20
Russell Langusch	1,500,000	375,000	21.03.2005	05.10.2007	$1.30	$0.13
Iain Knott	1,000,000	250,000	31.03.2005	31.12.2007	$0.90	$0.21
Iain Knott	1,000,000	250,000	31.03.2005	31.12.2007	$1.30	$0.14

The weighted average fair value of share options granted during the financial year ended 30 June 2005 ranges between $0.13 and $0.21. These options were partially vested in the prior year, and the remaining balance were vested during the current financial year ended 30 June 2006.

(i) Option Valuation Calculation

Details of factors used in option valuation calculation for the options granted during the financial year are as follows:-

Inputs into the model	2006	2005	
	Option series $1.00 31 December 2007	Option series $0.90 5 October 2007	Option series $1.30 5 October 2007
Grant date share price	$0.68	$0.78	$0.78
Exercise price	$1.00	$0.90	$1.30
Expected volatility	65%	55%	55%
Option life	2.14 years	2.54 years	2.54 years
Dividend yield	-	-	-
Risk-free interest rate	5.50%	5.50%	5.50%

(e) Shares issued on exercise of compensation options

There were no options exercised during the year that were granted as compensation options.

6. KEY MANAGEMENT PERSONNEL COMPENSATION (CONT.)

(f) Share Holdings

Number of Shares held by Key Management Personnel
30 June 2006

	Balance at beginning of year	Received as Compensation	Options Exercised	Net Change Other*	Balance at end of year
Russell Langusch	250,000(i)	-	-	-	250,000(i)
Donald Maloney	490,000(ii)	-	-	(490,000)(iii)	-
Kent Hunter	250,000(iv)	-	-	-	250,000(iv)
Angus MacAskill	-	-	-	-	-
Iain Knott	-	-	-	-	-
John Robertson	200,000	-	-	200,000(v)	400,000
	1,190,000	-	-	(290,000)	900,000

* Net Change Other refers to shares purchased or sold during the financial year, and directors resigned during the year.

(i) Held indirectly by Russell and Paula Langusch as Trustees for the Russell and Paula Langusch Super Fund ;

(ii) Held directly by DG Maloney;

(iii) Mr Maloney resigned on 25 January 2006;

(iv) Held indirectly by Mr K Hunter as Trustee for the Houndy Family Trust. Mr Hunter is a beneficiary of the Houndy Family Trust;

(v) Acquired on market during the year, and held by James Hay Pension Trustees Limited ATF the John Campbell Robertson Self-Invested Pension Plan.

30 June 2005

	Balance at beginning of year	Received as Compensation	Opions Exercised	Net Change Other*	Balance at end of year
Russell Langusch	250,000	-	-	-	250,000
Donald Maloney	400,000	-	-	90,000	490,000
Kent Hunter	250,000	-	-	-	250,000
Michael Pedley	550,000	-	-	(550,000) (i)	-
Angus MacAskill	-	-	-	-	-
Iain Knott	-	-	-	-	-
John Robertson	-	-	-	200,000	200,000
	1,450,000	-	-	(260,000)	1,190,000

(i) Mr Pedley resigned as a director on 9 February 2005

6. KEY MANAGEMENT PERSONNEL COMPENSATION (CONT.)

(g) Option Holdings

Number of Shares held by Key Management Personnel
30 June 2006

	Balance at beginning of year	Received as Remuneration	Net Change Other	Balance at end of year	Total Vested	Total Exercisable
Russell Langusch	3,500,000	-	-	3,500,000	3,500,000	3,500,000
Donald Maloney (i)	250,000	-	(250,000)	-	-	-
Kent Hunter	125,000	-	-	125,000	125,000	125,000
Angus MacAskill	2,000,000	-	-	2,000,000	2,000,000	2,000,000
Iain Knott	2,000,000	-	-	2,000,000	2,000,000	2,000,000
John Robertson	-	250,000	-	250,000	250,000	250,000
	7,875,000	250,000	(250,000)	7,875,000	7,875,000	7,875,000

(i) Mr Maloney resigned as a director on 25 January 2006.

Number of Shares held by Key Management Personnel
30 June 2006

	Balance at beginning of year	Received as Remuneration	Net Change Other	Balance at end of year	Total Vested	Total Exercisable
Russell Langusch	500,000	3,000,000	-	3,500,000	1,250,000	1,250,000
Donald Maloney	250,000	-	-	250,000	250,000	250,000
Kent Hunter	125,000	-	-	125,000	125,000	125,000
Michael Pedley (i)	125,000	-	(125,000)	-	125,000	125,000
Angus MacAskill	-	2,000,000	-	2,000,000	500,000	500,000
Iain Knott	-	2,000,000	-	2,000,000	500,000	500,000
John Robertson	-	-	-	-	-	-
	1,000,000	7,000,000	(125,000)	7,875,000	2,750,000	2,750,000

(i) Mr Pedley resigned as a director on 9 February 2005

	CONSOLIDATED		THE COMPANY	
	YEAR ENDED 30 JUNE 2006 $	YEAR ENDED 30 JUNE 2005 $	YEAR ENDED 30 JUNE 2006 $	YEAR ENDED 30 JUNE 2005 $
7. CASH AND CASH EQUIVALENTS				
Cash at bank	93,836	1,431,576	93,836	400,314
Deposits at call (i)	10,978,229	14,613,051	3,217,431	6,138,291
	11,072,065	16,044,627	3,311,267	6,538,605

(i) The bank deposits are short term deposits maturing within 30 days, and pay interest at a rate between 4.4% and 5.5% per annum.

	CONSOLIDATED		THE COMPANY	
	YEAR ENDED 30 JUNE 2006 $	YEAR ENDED 30 JUNE 2005 $	YEAR ENDED 30 JUNE 2006 $	YEAR ENDED 30 JUNE 2005 $
8. RECEIVABLES				
CURRENT				
Other receivables (i)	171,735	150,122	-	83,038
	171,735	150,122	-	83,038
NON CURRENT				
Amounts receivable from controlled entities (ii)	-	-	16,105,683	9,656,223
Provision for non-recoverability of intercompany loan	-	-	(6,216,536)	-
	-	-	9,889,147	9,656,223

(a) Terms and conditions

Terms and conditions relating to the above financial instruments

(i) Other debtors are non-interest bearing and are normally settled on 60 day terms.

(ii) Amounts receivable from group entities are non interest bearing, with no fixed terms of repayment.

(b) Amounts receivable from controlled entities

The loan to Elixir Petroleum (UK) Limited (which is a controlled entity), has been substantially expended by that company on exploration and evaluation costs in respect of the North Sea licenses. The eventual recovery of this loan is dependent upon the successful commercial application of this project or its sale to third parties.

9. OTHER CURRENT ASSETS

Prepayments	97,970	76,855	45,022	19,251
	97,970	76,855	45,022	19,251

10. OTHER FINANCIAL ASSETS

Available for sale financial assets

Shares in listed corporations at fair value	437,978	-	-	-
	437,978	-	-	-

11. INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD

Investments in subsidiary entity	-	-	2	2
	-	-	2	2

12. PLANT AND EQUIPMENT

Plant and equipment

- At cost	59,493	54,489	-	-
- Accumulated depreciation	(26,993)	(7,985)	-	-
- Total plant and equipment 11(a)	32,500	46,504	-	-

	CONSOLIDATED		THE COMPANY	
	YEAR ENDED 30 JUNE 2006 $	YEAR ENDED 30 JUNE 2005 $	YEAR ENDED 30 JUNE 2006 $	YEAR ENDED 30 JUNE 2005 $

(a) Reconciliations

Reconciliations of the carrying amounts of plant and equipment at the beginning and end of the current and previous financial year.

Plant and equipment				
Carrying amount at the beginning of the year	46,504	-	-	-
Additions	4,898	54,489	-	-
Depreciation expense	(18,902)	(7,985)	-	-
Carrying amount at the end of the year	32,500	46,504	-	-

13. DEFERRED EXPLORATION AND EVALUATION EXPENDITURE

Exploration and evaluation costs carried forward in respect of petroleum exploration areas of interest

Pre-production

- Exploration and evaluation phases	1,942,369	2,278,259	-	1,850,479
Opening balance	2,278,259	77,601	1,850,479	77,601
Exploration expenditure incurred	4,714,308	3,474,722	-	3,035,015
Written off in respect of areas of interest abandoned	(5,050,200)	(1,274,064)	(631,839)	(1,262,137)
Refund of well costs received	-	-	(75,116)	-
Licenses transferred (to) group company	-	-	(1,143,524)	-
Closing balance	1,942,367	2,278,259	-	1,850,479

The ultimate recoupment of costs carried forward for exploration and evaluation phases is dependent on the successful development and commercial exploitation or sale of the petroleum exploration areas of interest.

14. PAYABLES (CURRENT) (UNSECURED)

Trade payables 13(a)	444,575	1,258,083	14,373	88,136
Sundry payables and accruals 13(a)	103,679	407,898	24,883	14,135
Total	548,254	1,665,981	39,256	102,271
Aggregate amounts payable to related parties:				
Directors and director-related entities				
- directors	-	4,620	-	4,620

(a) Terms and conditions

Terms and conditions relating to the above financial instruments

(i) Trade creditors are non-interest bearing and are normally settled on 45 day terms.

(ii) Sundry creditors and accruals are non-interest bearing and have an average term of 45 days.

		COMPANY AND CONSOLIDATED AS AT 30 JUNE 2006 $	COMPANY AND CONSOLIDATED AS AT 30 JUNE 2005 $
15. ISSUED CAPITAL			
Issued and paid up capital 70,224,791 (2005: 63,724,791) ordinary shares fully paid		21,887,732	19,773,149
(a) Movements in shares in issue			
At the beginning of the reporting period		19,773,149	430,001
Shares issued during the period:			
- Placement	13(b)(i)	2,600,000	-
- IPO Issue for cash	13(b)(ii)	-	3,300,000
- Non-cash issue at $0.20 per share to Granby Enterprises Limited in relation to acquisition of interest in Block 21/6b	13(b)(iii)	-	500,000
- Placement at $0.35 per share	13(b)(iv)	-	1,522,500
- Placement at $0.35 per share	13(b)(v)	-	1,050,000
- Non-cash issue at $0.56 per share to Hunter Petroleum Limited in relation to acquisition of interest in Block 211/22b	13(b)(vi)	-	140,000
- Issue at $0.59 pursuant to AIM Admission	13(b)(vii)	-	5,162,500
- Issue at £0.24 pursuant to AIM Admission	13(b)(vii)	-	10,701,973
- Placement at $0.59 per share	13(b)(viii)	-	5,900
- Share issue costs		(252,973)	(3,039,725)
At end of reporting period		22,120,176	19,773,149
		NUMBER	NUMBER
(b) Movements in shares in issue			
At the beginning of the reporting period		63,724,791	10,000,001
Shares issued during the period:			
- Placement	13(b)(i)	6,500,000	-
- IPO Issue for cash	13(b)(ii)	-	16,500,000
- Non-cash issue at $0.20 per share to Granby Enterprises Limited in relation to acquisition of interest in Block 21/6b	13(b)(iii)	-	2,500,000
- Placement at $0.35 per share	13(b)(iv)	-	4,350,000
- Placement at $0.35 per share	13(b)(v)	-	3,000,000
- Non-cash issue at A$0.56 per share to Hunter Petroleum Limited in relation to acquisition of interest in Block 211/22b	13(b)(vi)	-	250,000
- Issue at $0.59 pursuant to AIM Admission	13(b)(vii)	-	8,750,000
- Issue at £0.24 pursuant to AIM Admission	13(b)(vii)	-	18,364,790
- Placement at $0.59 per shares	13(b)(viii)	-	10,000
At end of reporting period		70,224,791	63,724,791

(i) On 9 June 2006 the Company issued 6.5 million fully paid ordinary shares at $0.40 each as a placement to sophisticated investors

(ii) On 8 July 2004 the Company issued 16.5 million ordinary shares at $0.20 each to various parties pursuant to the prospectus issued by the Company dated 17 June 2004.

(iii) On 12 July 2004 the Company issued 2.5 million ordinary shares at $0.20 each and 4.625 million options to Granby Enterprises Limited pursuant to the Acquisition and Alliance Deed Agreement, dated 7 June 2004. The shares and options are under voluntary escrow for 24 months following the Company's official quotation on ASX (19 July 2004). Refer to note 11(a) for terms and conditions of options.

(iv) On 3 September 2004 the Company issued 4.35 million ordinary shares at $0.35 each to UK institutional investors to raise further funds.

(v) On 6 October 2004 the Company issued 3 million ordinary shares at $0.35 each to UK institutional investors to raise further working capital.

(vi) On 16 December 2004 the Company issued 250,000 ordinary shares to Hunter Petroleum Limited (Hunter) pursuant to a Sale and Purchase Agreement with Hunter, as consideration for Hunter's 100% interest in UKCS Block 211/22b. 10.5million options were subsequently issued to Hunter following shareholder approval at an Extraordinary General Meeting dated 21 March 2005.

(vii) Total of 27,114,790 ordinary shares issued at $0.59 (£0.24) at AIM admission on 16 May 2005.

(viii) On 16 May 2005 a placement of 10,000 shares was made to an institutional investor at $0.59 (£0.24).

Terms and conditions of contributed equity

Ordinary shares

Ordinary shares have the right to receive dividends as declared and, in the event of the winding up of the Company, to participate in the proceeds from the sale of all surplus assets in proportion to the number of and amounts paid up on shares held.

Ordinary shares entitle their holder to one vote, either in person or by proxy, at a meeting of the Company.

Options over ordinary shares

During the period between incorporation and 30 June 2005, 25.262 million options have been issued over ordinary shares, exercisable at varying prices and periods. Further details of the terms and conditions of these options is provided in the Directors Report.

		CONSOLIDATED		THE COMPANY	
	NOTES	YEAR ENDED 30 JUNE 2006 $	YEAR ENDED 30 JUNE 2005 $	YEAR ENDED 30 JUNE 2006 $	YEAR ENDED 30 JUNE 2005 $
16. RESERVES					
Option Premium Reserve	16(a)	1,690,384	1,072,462	1,690,384	1,072,462
Foreign Currency Translation Reserve	16(b)	529,067	-	-	-
Financial Assets Reserve	16(c)	(232,444)	-		-
TOTAL RESERVES		1,987,007	1,072,462	1,690,384	1,072,462

Nature and Purpose of Reserves

Option Premium Reserve

The option premium reserve records items recognised as expenses on valuation of employee share options, and options issued to advisors.

Foreign Currency Translation Reserve

The foreign currency translation reserve records exchange differences arising on translation of a foreign controlled subsidiary.

Financial Assets Reserve

The financial assets reserve records revaluations of financial assets held to sale.

	NOTES	CONSOLIDATED YEAR ENDED 30 JUNE 2006 $	CONSOLIDATED YEAR ENDED 30 JUNE 2005 $	THE COMPANY YEAR ENDED 30 JUNE 2006 $	THE COMPANY YEAR ENDED 30 JUNE 2005 $
16. RESERVES					
(a) Option Premium Reserve					
Balance at the beginning of the year		1,072,462	-	1,072,462	-
Options issued to Argonaut Investments Pty Ltd as partial consideration for broking services provided	16(a)(i)	111,033	-	111,033	-
Options issued to RFC Corporate Finance Ltd in consideration for services provided as corporate advisor	16(a)(ii)	-	125,879	-	125,879
Options issued to Ambrian Partners Limited in consideration for broking services provided	16(a)(iii)	-	252,637	-	252,637
Value of directors' options vested during the year		469,158	693,946	469,158	693,946
Director options granted during the year		37,731	-	37,731	-
Balance at end of the year		1,690,384	1,072,462	1,690,384	1,072,462
(b) Foreign Exchange Reserve					
Balance at the beginning of the year		-	-	-	-
Net foreign exchange gain loss on consolidation		529,067	-	-	-
Balance at end of the year		529,067	-	-	-
(c) Financial Assets Reserve					
Balance at the beginning of the year		-	-	-	-
Write down to market value on assets held for sale		(232,444)	-	-	-
Balance at end of the year		(232,444)	-	-	-

(i) 1 million unlisted options were issued to Argonaut Investments Pty Ltd on 9 June 2006 exercisable at $0.50, expiring 31 December 2007. The options were issued as partial consideration for placement and broking services performed in arranging the June 2006 placement.

(ii) 0.5 million unlisted options were issued to RFC Corporate Finance Limited on 16 May 2005 exercisable at $0.90, expiring on 16 May 2008. The options were issued in consideration for corporate finance and Nomad services provided by RFC Corporate Finance in relation to the AIM admission.

(iii) 0.637 million unlisted options were issued to Ambrian Partners on 16 May 2005, exercisable at $0.59 (£0.24) on or before 16 May 2010. The options were issued in consideration for broking and corporate advisory services provided by Ambrian Partners in relation to the AIM admission.

The nature and purpose of the option premium reserve is to record the valuation of options issued in consideration of services and assets acquired, and on valuation of employee share options, separately from contributed equity. All options were valued using the Black & Scholes valuation model.

17. ACCUMULATED LOSSES

(b) Accumulated Losses

	CONSOLIDATED 2006 $	CONSOLIDATED 2005 $	THE COMPANY 2006 $	THE COMPANY 2005 $
Balance at the beginning of the year	(3,915,225)	(44,514)	(2,800,284)	(44,514)
Net loss attributable to members of Elixir Petroleum Limited	(6,985,776)	(3,870,711)	(7,804,094)	(2,755,770)
Balance at end of the year	(10,901,001)	(3,915,225)	(10,604,378)	(2,800,284)

	CONSOLIDATED		THE COMPANY	
	YEAR TO 30 JUNE 2006 $	YEAR TO 30 JUNE 2005 $	YEAR TO 30 JUNE 2006 $	YEAR TO 30 JUNE 2005 $

18. STATEMENT OF CASH FLOWS

(a) Reconciliation of loss after tax to the net cash flows from operations:

	CONSOLIDATED YEAR TO 30 JUNE 2006 $	CONSOLIDATED YEAR TO 30 JUNE 2005 $	THE COMPANY YEAR TO 30 JUNE 2006 $	THE COMPANY YEAR TO 30 JUNE 2005 $
Net loss	(6,985,776)	(3,870,711)	(7,804,094)	(2,755,770)
Non cash items				
Depreciation of non-current assets	18,902	7,985	-	-
Profit from sale of shares	(21,137)	-	-	-
Fair value of share warrants	(129,276)	-	-	-
Unrealised foreign currency (gain)/losses	(98,990)	227,539	-	225,114
Write off exploration expenditure	5,050,204	1,274,064	631,839	1,262,137
Provision on non-recoverability of loan to group entity	-	-	6,216,536	-
Employee option valuation	506,889	693,946	506,889	693,946
Write down of investments to recoverable amount	(232,444)	-	-	-
Cash flows not in net loss				
Exploration and evaluation expenditure	(4,208,097)	(1,988,318)	(563,085)	(1,532,452)
Changes in assets and liabilities				
(Increase)/decrease in receivables	(84,720)	(143,755)	83,083	(76,671)
(Increase)/decrease in prepayments	(20,935)	71,766	(25,711)	71,766
Increase/(decrease) in payables and accruals	(1,117,728)	1,589,076	(63,013)	25,364
Net cash flows (used in) / from operating activities	(7,323,108)	(2,138,408)	(1,017,556)	(2,086,566)

(b) Non cash financing and investing activities
During the year ended 30 June 2006, the Company issued the following options as consideration for directors remuneration [Refer note 6(d)]

(i) 1 million unlisted options were issued to Argonaut Investments Pty Ltd on 9 June 2006 exercisable at $0.50, expiring 31 December 2007. The options were issued as partial consideration for placement and broking services performed in arranging the June 2006 placement.

19. SHARE-BASED PAYMENTS

Options are issued to vendors, brokers and advisors as part of consideration for services provided and also to directors and executives as part of their remuneration as disclosed in Note 5. The options issued are not subject to performance criteria, but are issued to directors of Elixir Limited to increase goal congruence between executives, directors and shareholders.

The following table illustrates the number and weighted average exercise prices (WAEP) of and movements in share options issued to brokers and under the Share Based Payment Scheme during the year:

	2006		2005	
	NUMBER OF OPTIONS	WEIGHT AVERAGE EXERCISE PRICE $	NUMBER OF OPTIONS	WEIGHT AVERAGE EXERCISE PRICE $
18. STATEMENT OF CASH FLOWS				
(a) Reconciliation of loss after tax to the net cash flows from operations:				
At beginning of reporting period	25,262,148		2,000,000	0.20
Granted during the period				
- Issued to vendors	-	-	5,125,000	0.55
- Discovery options - vendors	-	-	10,000,000	*
- Equity settled transactions	1,000,000	0.50	1,137,148	0.73
- Director remuneration	250,000	1.00	3,500,000	0.90
- Director remuneration	-	-	3,500,000	1.30
Options cancelled during the period	(10,000,000)	*	-	
Balance the end of reporting period	16,512,148		25,262,148	
Exercisable at end of reporting period	16,512,148		10,387,148	

(i) The options outstanding at 30 June 2006 had weighted average exercise prices of $0.20, $0.90, $1.00 and $1.30, and a weighted average remaining life between 2.54 years and 3.12 years.

(ii) The respective weighted average fair values of options granted during 2006 were $0.11 for equity settled transactions and $0.15 for equity settled employee benefits.

(iii) Included under employee benefits expense in the Income Statement is $506,889 (2005: $693,946), that relates to employee equity-settled payment transactions. $111,033 (2005: 378,516) of equity settled transaction is included under share issue costs in issued capital.

* Linked to share price

20. EXPENDITURE COMMITMENTS

(a) Exploration & Evaluation Expenditure Commitments

The commitments note has been prepared to provide information in relation to future commitments for Elixir. For this purpose a Sterling / Australian dollar exchange rate of 2.49 has been used to calculate the Australian equivalents for those amounts contracted to in British pounds.

Pursuant to the Acquisition and Alliance Deed agreement between the Company and Granby Enterprises Limited:

- At 30 June 2006, the entity is committed to pay a success fee of $87,773 to Granby Oil and Gas for successful 23rd Round licence applications upon formal license interest assignments.
- For the financial year ended 30 June 2005, the entity advanced $31,250 per month to Granby (being a total commitment of $32,500 at 30 June 2005) as advance payment against future applications to be made for the 23rd Round, which was non-refundable notwithstanding that the payments may exceed actual commitments in a given month. As at 30 June 2005, success fees of $219,792 payable to Granby for successful 22nd Round licence applications were outstanding.

Elixir is required to make rental payments to the DTI of $70,853 per annum to maintain its interest in the relevant licenses held.

		30 JUNE 2006 $	30 JUNE 2005 $
(b) Operating lease commitments			
Minimum lease payments	(i)		
- not later than one year		77,788	19,500
- later than one year but not later than five years		-	-
- later than five years		-	-
- aggregate expenditure contracted for at balance date but not provided for		77,788	19,500

(i) Elixir Petroleum (UK) Limited entered into a lease on 1 June 2006 for office premises at Golden Cross House , 8 Duncannon Street, London WC2N 4JF for a period of 12 months at $7,070 per month.

21. SEGMENT INFORMATION

(a) Primary Segment - Geographical Segments

The Economic Entity has the following geographical segments:

United Kingdom

The United Kingdom ("UK") is the location of the Company's exploration activities and where licence interests held, which comprise interests in 19 blocks situated in the UK sector of the North Sea.

Australia

Australia is the location of the central management and control of Elixir, including where company secretarial services, accounting and cash management operations are performed.

30 June 2006 Primary Reporting – Geographical Segments	$ United Kingdom	$ Australia	$ Eliminations	$ Consolidated
Revenues from ordinary activities	645,363	74,352	-	719,715
Segment result profit / (loss)	818,319	(7,804,095)	-	(6,985,776)
Segment assets	10,398,144	13,245,438	(9,889,147)	13,754,435
Segment liabilities	(508,995)	(39,258)	-	(548,253)
Acquisitions of plant and equipment, exploration and evaluation, and other non-current segment assets	4,719,206	-	-	4,719,206
Depreciation and amortisation	(18,902)	-	-	(18,902)
Other non-cash expenses	-	-	-	-

30 June 2006 Primary Reporting – Geographical Segments	$ United Kingdom	$ Australia	$ Eliminations	$ Consolidated
Revenues from ordinary activities	12,082	175,685	-	187,767
Segment result (loss)	(786,320)	(2,061,825)	(328,620)	(3,176,765)
Segment assets	10,104,992	18,147,598	(9,656,223)	18,596,367
Segment liabilities	(1,563,710)	(102,271)	-	(1,665,981)
Acquisitions of plant and equipment, exploration and evaluation, and other non-current segment assets	474,285	1,850,478	-	2,324,763
Depreciation and amortisation	7,985	-	-	7,985
Other non-cash expenses	-	-	-	-

(b) Secondary Segment - Business Segments

Petroleum Exploration
The Economic Entity operates solely in petroleum exploration, with interests in 19 blocks situated in the UK sector of the North Sea.

	CONSOLIDATED		THE COMPANY	
	AS AT 30 JUNE 2006 $	AS AT 30 JUNE 2005 $	AS AT 30 JUNE 2006 $	AS AT 30 JUNE 2005 $
22. LOSS PER SHARE				
The following reflects the income and share data used in the calculation of basic and diluted earnings per share:				
Earnings used in calculation of diluted earnings per share	(6,985,776)	(3,870,711)	(7,804,094)	(2,755,770)
Weighted average number of ordinary shares on issue used in the calculation of basic EPS (i)	64,098,764	37,804,427	64,098,764	37,804,427

(i) Share options are not considered dilutive, as their impact would be to decrease the net loss per share.

23. RELATED PARTY DISCLOSURES

Ultimate Parent

Elixir Petroleum Limited is the ultimate Australian parent company.

Other Related Party Transactions

There are no other related party transactions other than those already disclosed in the Remuneration Report.

24. INTEREST IN CONTROLLED ENTITIES

Controlled entities consolidated

Name	Country of Incorporation	Percentage owned 2006	2005
Elixir Petroleum (UK) Limited	United Kingdom	100%	100%

	CONSOLIDATED		THE COMPANY	
	YEAR TO 30 JUNE 2006 $	YEAR TO 30 JUNE 2005 $	YEAR TO 30 JUNE 2006 $	YEAR TO 30 JUNE 2005 $
25. AUDITORS' REMUNERATION				
Amounts received or due and receivable by Mack & Co for:				
- an audit of the financial report of the Company at the financial year end and half year	25,450	22,500	25,450	22,500
- preparation of income tax return	1,450	1,000	1,450	1,000
Amounts received or due and receivable by MGI Midgley Snelling for:				
- audit of the UK subsidiary accounts	23,200	20,000	-	-
	50,100	43,500	26,900	23,500

26. FINANCIAL INSTRUMENTS

(a) Interest rate risk

The Company's exposure to interest rate risks and the effective interest rates of financial assets and financial liabilities, both recognised and unrecognised at balance date, are as follows:

30 JUNE 2006 FINANCIAL INSTRUMENT	FLOATING INTEREST RATE $	NON INTEREST BEARING $	FIXED INTEREST MATURING LESS THAN 1 YEAR $	TOTAL $	AVERAGE EFFECTIVE INTEREST RATE $
FINANCIAL ASSETS					
Cash and cash equivalents	1,163,774	-	9,908,291	11,072,065	4.81
Trade and other receivables	-	269,525	-	269,525	-
Total financial assets	1,163,774	269,525	9,908,291	11,341,590	
FINANCIAL LIABILITIES					
Trade and other payables	-	548,253	-	548,253	-
TOTAL	1,163,774	(278,728)	9,908,291	10,793,337	

30 JUNE 2006 FINANCIAL INSTRUMENT	FLOATING INTEREST RATE $	NON INTEREST BEARING $	FIXED INTEREST MATURING LESS THAN 1 YEAR $	TOTAL $	AVERAGE EFFECTIVE INTEREST RATE $
FINANCIAL ASSETS					
Cash and cash equivalents	1,431,576	-	14,613,051	16,044,627	4.59
Trade and other receivables	-	226,977	-	226,977	-
Total financial assets	1,431,576	226,977	14,613,051	16,271,604	
FINANCIAL LIABILITIES	-	-	-	-	
Trade and other payables	-	(1,665,981)	-	(1,665,981)	-
TOTAL	1,431,576	(1,439,004)	14,613,051	14,605,623	

(b) Net fair values of financial assets and liabilities

Financial assets and liabilities have been recognised at the balance date at their net fair values.

The following methods and assumptions are used to determine the net fair values of financial assets and liabilities

Recognised Financial Instruments

Cash and cash equivalents: The carrying amount approximates fair value because of their short-term maturity.

Receivables and payables: The carrying amount approximates fair value.

(c) Credit Risk Exposures

The Company's maximum exposure to credit risk at each balance date in relation to each class of recognised financial assets is the carrying amount, net of any provision for doubtful debts, of those assets as indicated in the balance sheet.

Concentration of Credit Risk

The Company is not materially exposed to any individual overseas country or individual customer.

27. CONTINGENT ASSETS/ LIABILITIES

There are no contingent liabilities or assets requiring disclosure.

28. INTEREST IN JOINT VENTURE OPERATIONS

Elixir Petroleum Limited has the following interests in joint venture operations:

UKCS Licence	Block (s)	Participating Joint Venture Interest	Principal Activity
P1067	211/22b	40%	Exploration for hydrocarbons
P1104	21/4b	7%	Exploration for hydrocarbons
P1105	21/6b	15%	Exploration for hydrocarbons
P1208	9/22, 9/23c	33.3%	Exploration for hydrocarbons
P1209	13/19, 13/24c	50%	Exploration for hydrocarbons
P1211	14/14b	50%	Exploration for hydrocarbons
P1212	15/13b	13.125%	Exploration for hydrocarbons
P1213	9/26, 16/1b, 16/2b	33.3%	Exploration for hydrocarbons
P1288	14/8a, 14/9a	50%	Exploration for hydrocarbons
P1333	43/7	33.3%	Exploration for hydrocarbons
P1344	44/27b	33.3%	Exploration for hydrocarbons
P1379	211/8b	80%	Exploration for hydrocarbons
P1381	211/18b	80%	Exploration for hydrocarbons
P1404	13/25	25%	Exploration for hydrocarbons

The above joint venture operations represent $1,942,367 of deferred exploration and evaluation expenditure as at 30 June 2006 (30 June 2005: $1,592,586).

29. EMPLOYEE BENEFITS

Employee Share Incentive Scheme

The Company has an Employee Incentive Scheme approved at the general meeting held on 4 March 2004.

The plan provides for the Board to elect to offer options to an employee having regard to the potential contribution of the employee to the group and any other matters the Board considers relevant.

Each option is convertible to one ordinary share. The exercise price of the options, determined in accordance with the Rules of the Scheme, is based upon:

(i) 125% of the market value of Shares on the day the option is issued;

(ii) A$0.20; or

(iii) any greater exercise price determined by the Board and advised to the employee when options are offered to the employee,

whichever is the greatest.

All options expire on the earlier of their termination date or 30 days following termination of the employees employment. Options vest on granting, however exercise can be conditional upon the Consolidated Entity achieving certain performance hurdles as determined by the Board of directors.

There are no voting or dividend rights attaching to the options. There are no voting rights attaching to the unissued ordinary shares. Voting rights will be attached to the unissued ordinary shares when the options have been exercised.

Details of shares and options issued to Directors are included in the Remuneration Report.

30. COMPANY INFORMATON

The registered office of Elixir Petroleum Limited is:

9A Agnew Way, Subiaco,

Western Australia WA 6008

Telephone: + 61 8 9382 3200

Facsimile: + 61 8 9388 8042

The Operating Office / Principal Place of Business is:

Golden Cross House

8 Duncannon Street

London WC2N 4JF, UK

Telephone: + 44 207 484 5019

31. CONTINGENT ASSETS AND LIABILITIES

In the opinion of the directors, there were no contingent assets and liabilities at 30 June 2006, and the interval between 30 June 2006 and the date of this report.

32. SUBSEQUENT EVENTS

On 19 July 2006, 9.025 million shares were released from a two year escrow, effective since the Company listed on the ASX in July 2004.

On 27 July 2006, Mr MacAskill tendered his resignation to the Board, effective 1 September 2006.

Since the end of the financial year, 750,000 unlisted 20 cent June 2007 options have been exercised from the 2,000,000 unlisted options exercisable on or before 30 June 2007, outstanding at 30 June 2006.

Apart from the above, no matters or circumstances have arisen since the end of the financial period which significantly affected or may significantly affect the operations of the Company, the results of those operations, or the state of affairs of the Company in future financial years.

ADDITIONAL SHAREHOLDER INFORMATION

Shareholding

The distribution of members and their holdings of equity securities in the company as at 18 September 2006 was as follows:

Number held as at 18 September 2006	Class of Equity Securities Fully Paid Ordinary Shares
1-1,000	45
1,001 - 5,000	252
5,001 – 10,000	228
10,001 - 100,000	384
100,001 and over	55
TOTALS	964

Holders of less than a marketable parcel: - fully paid shares 0

Restricted Securities

The Company had no restricted securities at the current date.

Voting Rights

Ordinary Shares

In accordance with the Company's Constitution, on a show of hands every member present in person or by proxy or attorney or duly authorised representative has one vote. On a poll every member present in person or by proxy or attorney or duly authorised representative has one vote for every fully paid ordinary share held.

Twenty Largest Shareholders

The names of the twenty largest ordinary fully paid as at 18 September 2006 are as follows:

Name	Number of Ordinary Fully Paid Shares Held	% Held of Issued Ordinary Capital
Nordea Bank Danmark A/S	8,053,329	11.47
Argonaut Capital Limited	2,500,000	3.56
Granby Enterprises Limited	2,500,000	3.56
HSBC Global Custody Nominee (UK) Limited	2,312,700	3.29
Mellon Nominees (UK) Limited	2,002,140	2.85
Vidacos Nominees Limited	1,450,000	2.65
Caroline De Mori	1,500,000	2.14
HSBC Global Custody Nominee (UK) Limited	1,380,000	1.97
Allundy Pty Ltd	1,345,000	1.92
Roy Nominees Limited	1,325,000	1.89
National Nominees Limited	1,310,600	1.87
TD Waterhouse Nominees (Europe) Limited	1,182,391	1.68
Barclayshare Nominees Limited	1,089,118	1.55
Derek Steinepreis	1,000,000	1.42
HSBC Global Custody Nominee (UK) Limited	869,000	1.24
Vidacos Nominees Limited	858,333	1.22
Mr John Thomas Roy	850,000	1.21
Siafu Securities Pty Ltd	750,000	1.07
HSDL Nominees Limited	726,303	1.03
The Bank of New York (Nominees) Limited	703,000	1.00
	33,706,914	48.59

SCHEDULE OF UKCS LICENCE INTERESTS AS AT 21 SEPTEMBER 2006

Licence	Blocks	EXR Interest	Area (km^2)	Licensing Round	Licence Type (1)	Grant Date
P1067	211/22b	40%	50	21st	Trad	1-Oct-03
P1104	21/4b	7%	150	21st	Trad	1-Oct-03
P1105	21/6b	15%	133	21st	Trad	1-Oct-03
P1208	9/22 9/23c	33.3%	284	22nd	Promote	1-Dec-04
P1209	13/19 13/24c	50%	271	22nd	Promote	1-Dec-04
P1211	14/14b	50%	76	22nd	Promote	1-Dec-04
P1212	15/13b	13.1%	108	22nd	Promote	1-Dec-04
P1213	9/26 16/1b 16/2c	33.3%	228	22nd	Promote	1-Dec-04
P1288 (2)	14/8a 14/9a	50%	150	23rd	Trad	22-Dec-05
P1333	43/7	33.3%	239	23rd	Prom	22-Dec-05
P1344	44/27b	33.3%	182	23rd	Prom	22-Dec-05
P1379	211/8b	80%	117	23rd	Prom	22-Dec-05
P1381	211/18b	80%	66	23rd	Trad	22-Dec-05
P1404 (3)	13/25	25%	220	23rd	Prom	22-Dec-05

Notes:

(1) Trad = Traditional, Prom =Promote licenses

(2) Beneficial interest held in trust pending assignment

(3) Assignment pending from Faroe Petroleum and Granby Oil & Gas.

CORPORATE GOVERNANCE

The Company is committed to implementing the highest standards of corporate governance. In determining what those high standards should involve the Company has turned to the ASX Corporate Governance Council's Principles of Good Corporate Governance and Best Practice Recommendations. The Company is pleased to advise that the Company's practices are largely consistent with those ASX guidelines. As consistency with the guidelines has been a gradual process, where the Company did not have certain policies or committees recommended by the ASX Corporate Governance Council (the Council) in place during the reporting period, we have identified such policies or committees.

Where the Company's corporate governance practices do not correlate with the practices recommended by the Council, the Company is working towards compliance. However it does not consider that all the practices are appropriate for the Company due to the size and scale of Company operations.

To illustrate where the Company has addressed each of the Council's recommendations, the following table cross-references each recommendation with sections of this report. The table does not provide the full text of each recommendation but rather the topic covered. Details of all of the recommendations can be found on the ASX Corporate Governance Council's website at http://www.asx.com.au/about/CorporateGovernance_AA2.shtm.

Recommendation		Section
Recommendation 1.1	Functions of the Board and Management	1.1
Recommendation 2.1	Independent Directors	1.2
Recommendation 2.2	Independent Chairman	1.2
Recommendation 2.3	Role of the Chairman and CEO	1.2
Recommendation 2.4	Establishment of Nomination Committee	2.3
Recommendation 2.5	Reporting on Principle 2	1.2, 1.4.6, 2.3.2 and the Directors' Report
Recommendation 3.1	Directors' and Key Executives' Code of Conduct	1.1
Recommendation 3.2	Company Security Trading Policy	1.4.9
Recommendation 3.3	Reporting on Principle 3	1.1 and 1.4.9
Recommendation 4.1	Attestations by CEO and CFO	1.4.11
Recommendation 4.2	Establishment of Audit Committee	2.1
Recommendation 4.3	Structure of Audit Committee	2.1.2
Recommendation 4.4	Audit Committee Charter	2.1
Recommendation 4.5	Reporting on Principle 4	2.1
Recommendation 5.1	Policy for Compliance with Continuous Disclosure	1.4.4
Recommendation 5.2	Reporting on Principle 5	1.4.4
Recommendation 6.1	Communications Strategy	1.4.8
Recommendation 6.2	Attendance of Auditor at General Meetings	1.4.8
Recommendation 7.1	Policies on Risk Oversight and Management	2.1.3
Recommendation 7.2	Attestations by CEO and CFO	1.4.11
Recommendation 7.3	Reporting on Principle 7	2.1.3
Recommendation 8.1	Evaluation of Board, Directors and Key Executives	1.4.10
Recommendation 9.1	Remuneration Policies	2.2.4
Recommendation 9.2	Establishment of Remuneration Committee	2.2
Recommendation 9.3	Executive and Non-Executive Director Remuneration	2.2.4.1 and 2.2.4.2
Recommendation 9.4	Equity-Based Executive Remuneration	2.2.4.1
Recommendation 9.5	Reporting on Principle 9	2.2.2 and 2.2.4
Recommendation 10.1	Company Code of Conduct	3

1. BOARD OF DIRECTORS

1.1 ROLE OF THE BOARD

The Board's role is to govern the Company rather than to manage it. In governing the Company, the Directors must act in the best interests of the Company as a whole. It is the role of senior management to manage the Company in accordance with the direction and delegations of the Board and the responsibility of the Board to oversee the activities of management in carrying out these delegated duties.

In carrying out its governance role, the main task of the Board is to drive the performance of the Company. The Board must also ensure that the Company complies with all of its contractual, statutory and any other legal obligations, including the requirements of any regulatory body. The Board has the final responsibility for the successful operations of the Company.

To assist the Board carry our its functions, it has developed a Code of Conduct to guide the Directors, the Chief Executive Officer, the Chief Financial Officer and other key executives in the performance of their roles.

1.2 COMPOSITION OF THE BOARD

To add value to the Company the Board has been formed so that it has effective composition, size and commitment to adequately discharge its responsibilities and duties given its current size and scale of operations. The names of the Directors and their qualifications and experience are stated in the Directors' Report along with the term of office held by each of the Directors. Directors are appointed based on the specific skills required by the Company and on their decision-making and judgment skills.

The Company recognises the importance of Non-Executive Directors and the external perspective and advice that Non-Executive Directors can offer. Mr K Hunter and Mr Robertson are Non-Executive Directors, however Mr Hunter is not an independent director as he does not meet the following criteria for independence adopted by the Company.

An Independent Director is a Non-Executive Director and:

- is not a substantial shareholder of the Company or an officer of, or otherwise associated directly with, a substantial shareholder of the Company;
- within the last three years has not been employed in an executive capacity by the Company or another group member, or been a Director after ceasing to hold any such employment;
- within the last three years has not been a principal of a material professional adviser or a material consultant to the Company or another group member or an employee materially associated with the service provided;
- is not a material supplier or customer of the Company or another group member, or an officer of or otherwise associated directly or indirectly with a material supplier or customer;
- has no material contractual relationship with the Company or other group member other than as a Director of the Company;
- has not served on the Board for a period which could, or could reasonably be perceived to, materially interfere with the Director's ability to act in the best interests of the Company; and
- is free from any interest and any business or other relationship which could, or could reasonably be perceived to, materially interfere with the Director's ability to act in the best interests of the Company.

Mr K Hunter is a Non-Executive Director of the Company and does not satisfy the Company's criteria for independence based on his provision of accounting and advisory services via Mining Corporate Pty Ltd. However, his experience and knowledge of the Company makes his contribution to the Board such that it is appropriate for him to remain on the Board.

Dr J Robertson is the Non-Executive Chairman of the Company and meets the Company's criteria for independence.

1.3 RESPONSIBILITIES OF THE BOARD

In general, the Board is responsible for, and has the authority to determine, all matters relating to the policies, practices, management and operations of the Company. It is required to do all things that may be necessary to be done in order to carry out the objectives of the Company.

Without intending to limit this general role of the Board, the principal functions and responsibilities of the Board include the following.

- Leadership of the Organisation: overseeing the Company and establishing codes that reflect the values of the Company and guide the conduct of the Board.
- Strategy Formulation: to set and review the overall strategy and goals for the Company and ensuring that there are policies in place to govern the operation of the Company.
- Overseeing Planning Activities: the development of the Company's strategic plan.
- Shareholder Liaison: ensuring effective communications with shareholders through an appropriate communications policy and promoting participation at general meetings of the Company.
- Monitoring, Compliance and Risk Management: the development of the Company's risk management, compliance, control and accountability systems and monitoring and directing the financial and operational performance of the Company.
- Company Finances: approving expenses and approving and monitoring acquisitions, divestitures and financial and other reporting.
- Human Resources: appointing, and, where appropriate, removing the Chief Executive Officer or Managing Director (CEO / MD) and Chief Financial Officer (CFO) as well as reviewing the performance of the CEO and monitoring the performance of senior management in their implementation of the Company's strategy.
- Ensuring the Health, Safety and Wellbeing of Employees: in conjunction with the senior management team, developing, overseeing and reviewing the effectiveness of the Company's occupational health and safety systems to ensure the well-being of all employees.
- Delegation of Authority: delegating appropriate powers to the CEO to ensure the effective day-to-day management of the Company and establishing and determining the powers and functions of the Committees of the Board.

Full details of the Board's role and responsibilities are contained in the Board Charter, a copy of which is available for inspection at the Company's registered office.

1.4 BOARD POLICIES

1.4.1 Conflicts of Interest

Directors must:

- disclose to the Board actual or potential conflicts of interest that may or might reasonably be thought to exist between the interests of the Director and the interests of any other parties in carrying out the activities of the Company; and
- if requested by the Board, within seven days or such further period as may be permitted, take such necessary and reasonable steps to remove any conflict of interest.

If a Director cannot or is unwilling to remove a conflict of interest then the Director must, as per the Corporations Act, absent himself or herself from the room when discussion and/or voting occurs on matters about which the conflict relates.

1.4.2 Commitments

Each member of the Board is committed to spending sufficient time to enable them to carry out their duties as a Director of the Company.

1.4.3 Confidentiality

In accordance with legal requirements and agreed ethical standards, Directors and key executives of the Company have agreed to keep confidential, information received in the course of the exercise of their duties and will not disclose non-public information except where disclosure is authorised or legally mandated.

1.4.4 Continuous Disclosure

The Board has designated the Company Secretary as the person responsible for overseeing and coordinating disclosure of information to the ASX as well as communicating with the ASX. In accordance with the ASX Listing Rules the Company immediately notifies the ASX of information:

- concerning the Company that a reasonable person would expect to have a material effect on the price or value of the Company's securities; and
- that would, or would be likely to, influence persons who commonly invest in securities in deciding whether to acquire or dispose of the Company's securities.

1.4.5 Education and Induction

It is the policy of the Company that new Directors undergo an induction process in which they are given a full briefing on the Company. Where possible this includes meetings with key executives, tours of the premises, an induction package and presentations. Information conveyed to new Directors include:

- details of the roles and responsibilities of a Director;
- formal policies on Director appointment as well as conduct and contribution expectations;
- access to a copy of the Board Charter;
- guidelines on how the Board processes function;
- details of past, recent and likely future developments relating to the Board;
- background information on and contact information for key people in the organisation;
- an analysis of the Company;
- a synopsis of the current strategic direction of the Company; and
- a copy of the Constitution of the Company.

In order to achieve continuing improvement in Board performance, all Directors are encouraged to undergo continual professional development. Specifically, Directors are provided with the resources and training to address skills gaps where they are identified.

1.4.6 Independent Professional Advice

The Board collectively and each Director has the right to seek independent professional advice at the Company's expense, up to specified limits, to assist them to carry out their responsibilities.

1.4.7 Related Party Transactions

Related party transactions include any financial transaction between a Director and the Company. Unless there is an exemption under the Corporations Act from the requirement to obtain shareholder approval for the related party transaction, the Board cannot approve the transaction.

1.4.8 Shareholder Communication

The Company respects the rights of its shareholders and to facilitate the effective exercise of those rights the Company is committed to:

- communicating effectively with shareholders through releases to the market via ASX, information mailed to shareholders and the general meetings of the Company;
- giving shareholders ready access to balanced and understandable information about the Company and corporate proposals;
- making it easy for shareholders to participate in general meetings of the Company; and
- requesting the external auditor to attend the annual general meeting and be available to answer shareholder questions about the conduct of the audit and the preparation and content of the auditor's report.

The Company also makes available a telephone number and email address for shareholders to make enquiries of the Company.

1.4.9 Trading in Company Shares

Due to the size of the Company, the Board does not consider it appropriate to implement a Share Trading Policy. Rather, it reminds directors, officers and employees of the prohibition in the Corporations Act 2001 concerning trading in the Company's securities when in possession of "inside information".

1.4.10 Performance Review/Evaluation

It is the policy of the Board to conduct evaluation of its performance. The evaluation process was introduced via the Board Charter adopted on 30 June 2004 and will be implemented for the financial year ended 30 June 2006. The objective of this evaluation will be to provide best practice corporate governance to the Company.

1.4.11 Attestations by CEO and CFO

It is the Board's policy, that the CEO and the CFO make the attestations recommended by the ASX Corporate Governance Council as to the Company's financial condition prior to the Board signing the Annual Report. However, as at the date of this report the Company does not have a designated CEO or CFO These roles are performed by the Managing Director and Company Secretary.

2. BOARD COMMITTEES

2.1 AUDIT COMMITTEE

An audit committee was formed on 28 June 2005 and consisted of three members, Mr A MacAskill, Dr J Robertson and Mr K Hunter. Previously this function was performed by the Board as a whole. As Mr MacAskill resigned as a director on 1 September 2006, this function will be performed by the whole Board until a suitable replacement can be sourced. The audit committee consists of primarily independent directors.

2.1.1 Role

The Audit Committee is responsible for reviewing the integrity of the Company's financial reporting and overseeing the independence of the external auditors.

2.1.2 Responsibilities

The Audit Committee reviews the audited annual and half-yearly financial statements and any reports which accompany published financial statements and recommends their approval to the members.

The Audit Committee each year reviews the appointment of the external auditor, their independence, the audit fee, and any questions of resignation or dismissal.

The Audit Committee or is also responsible for establishing policies on risk oversight and management.

2.1.3 Risk Management Policies

The Board's Charter clearly establishes that it is responsible for ensuring there is a good sound system for overseeing and managing risk. Due to the size and scale of operations, risk management issues are considered by the Board as a whole. On 25 September 2006 Mr Russell Langusch (Managing Director) and Mr Kent Hunter (Company Secretary) provided the Board with written assurance that the financial statements are founded on a sound system of risk management and internal compliance. Their statement assured the Board that the risk management and internal compliance and control system is operating efficiently and effectively in all material respects.

2.2 REMUNERATION COMMITTEE

2.2.1 Role

The role of a Remuneration Committee is to assist the Board in fulfilling its responsibilities in respect of establishing appropriate remuneration levels and incentive policies for employees.

As the whole Board only consists of four (4) members, the Company does not have a remuneration committee because it would not be a more efficient mechanism than the full Board for focusing the Company on specific issues.

2.2.2 Responsibilities

The responsibilities of a Remuneration Committee, or the full Board include setting policies for senior officers' remuneration, setting the terms and conditions of employment for the Chief Executive Officer, reviewing and making recommendations to the Board on the Company's incentive schemes and superannuation arrangements, reviewing the remuneration of both Executive and Non-Executive Directors and making recommendations on any proposed changes and undertaking reviews of the Chief Executive Officer's performance, including, setting with the Chief Executive Officer goals and reviewing progress in achieving those goals.

2.2.3 Remuneration Policy

Directors' Remuneration for the majority of directors was approved at a Board meeting held on 17 May 2004.

2.2.3.1Senior Executive Remuneration Policy

The Company is committed to remunerating its senior executives in a manner that is market-competitive and consistent with best practice as well as supporting the interests of shareholders. Consequently, under the Senior Executive Remuneration Policy the remuneration of senior executive may be comprised of the following:

- fixed salary that is determined from a review of the market and reflects core performance requirements and expectations;
- a performance bonus designed to reward actual achievement by the individual of performance objectives and for materially improved Company performance;
- participation in any share/option scheme with thresholds approved by shareholders;
- statutory superannuation.

By remunerating senior executives through performance and long-term incentive plans in addition to their fixed remuneration the Company aims to align the interests of senior executives with those of shareholders and increase Company performance. During the year there were no Non-Director Executives.

The value of shares and options were they to be granted to senior executives would be calculated using the Black and Scholes method.

The objective behind using this remuneration structure is to drive improved Company performance and thereby increase shareholder value as well as aligning the interests of executives and shareholders.

The Board may use its discretion with respect to the payment of bonuses, stock options and other incentive payments.

2.2.3.2Non-Executive Director Remuneration Policy

Non-Executive Directors are to be paid their fees out of the maximum aggregate amount approved by shareholders for the remuneration of Non-Executive Directors. Non-Executive Directors do not receive performance based bonuses and do not participate in equity schemes of the Company.

Non-Executive Directors are entitled to but not necessarily paid statutory superannuation.

2.2.4 Current Director Remuneration

Full details regarding the remuneration of Directors, is included in the Directors' Report.

2.3 NOMINATION COMMITTEE

2.3.1 Role

The role of a Nomination Committee is to help achieve a structured Board that adds value to the Company by ensuring an appropriate mix of skills are present in Directors on the Board at all times.

As the whole Board only consists of four (4) members, the Company does not have a nomination committee because it would not be a more efficient mechanism than the full Board for focusing the Company on specific issues.

2.3.2 Responsibilities

The responsibilities of a Nomination Committee would include devising criteria for Board membership, regularly reviewing the need for various skills and experience on the Board and identifying specific individuals for nomination as Directors for review by the Board. The Nomination Committee would also oversee management succession plans including the CEO/ MD and his/her direct reports and evaluate the Board's performance and make recommendations for the appointment and removal of Directors. Currently the Board as a whole performs this role.

2.3.3 Criteria for selection of Directors

Directors are appointed based on the specific governance skills required by the Company. Given the size of the Company and the business that it operates, the Company aims at all times to have at least two Directors with experience appropriate to the Company's target market. In addition, Directors should have the relevant blend of personal experience in accounting and financial management and Director-level business experience.

3. COMPANY CODE OF CONDUCT

The Board has decided against the implementation of a code of conduct as it does not believe that it is in the best interests of its employees or other stakeholders to have what purports to be an exhaustive code of conduct. The Board feels that such a code may be too prescriptive and not allow the employees the discretion they need to best serve the Company's stakeholders.

elixir
petroleum limited

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