



ASX RELEASE

15 August, 2007

**ANNUAL FINANCIAL REPORT
For Year ended 30 June, 2007**

Elixir Petroleum Limited (ASX: EXR, AIM: ELP) (“Elixir” or “the Company”) announces its financial results for the 12 month period to 30 June 2007.

For the full year the Company recorded a net loss of approximately \$3.1 million after expensing \$1.4 million of capitalised expenses incurred during unsuccessful North Sea exploration activities.

The 2007 result compares with a loss of \$7.0 million in the corresponding period of the previous year which included exploration writeoffs totalling \$5.1 million.

At 30 June 2007, Elixir held cash funds and securities investments totalling \$9.0 million.

The full financial results are set out in the attached directors’ report and accompanying financial statements.

During the year Elixir took a major step towards becoming a larger, more balanced oil and gas exploration and production company. On 23 March 2007, the Company signed a Merger Implementation Agreement with ASX-listed Gawler Resources Limited (ASX: GRL) (“Gawler”) which outlines the proposed terms for an Elixir-Gawler merger.

The merger is being achieved by way of a Scheme of Arrangement with Elixir being the continuing entity. The draft Scheme documents have been lodged with the Australian Securities and Investments Commission for review before a Court hearing and dispatch to Gawler shareholders.

The proposed merger has the full support of both companies’ boards and Gawler’s largest shareholder, in the absence of any superior offer. Upon a successful conclusion it will see the creation of a balanced group combining emerging Gulf of Mexico production with high impact North Sea exploration.

More details of the merger terms are given in the accompanying report and have been disclosed in recent market announcements.

On 9 July 2007, the Company announced a proposed convertible note issue comprising 10.7 million convertible notes at a subscription price of \$0.25 to raise approximately \$2.7 million before expenses. These funds have now been received and the notes issued to a small number of sophisticated investors under Section 708 of the Australian Corporations Act.

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Elixir Petroleum Limited

(ABN 51 108 230 995)

Annual Financial Report

*For the year ended
30 June 2007*

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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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STOCK EXCHANGE LISTINGS

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

AIM Market, London Stock Exchange
Code: ELP

BANKERS

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WEBSITE

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DIRECTORS' REPORT

Your directors present their report on the Consolidated Entity for the financial year ended 30 June 2007.

DIRECTORS

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

John Robertson
Russell Langusch
Iain Knott
Kent Hunter
Angus MacAskill (resigned 1 September 2006)

Directors have been in office since the start of the financial period to the date of this report unless otherwise stated. Mr Kent Hunter held the position of Company Secretary at the end of the year.

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 \$3,084,813 (2006: \$6,985,776).

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 \$1.3 million from 1 July 2006 to 30 June 2007. This decrease has largely resulted from:

- \$0.4 million capital raising during the year; and
- \$1.8 million of revaluations upward of financial assets to their market value at 30 June 2007; and
- \$3.1 million of operating losses during the year, including capitalised exploration expenditure write offs of \$1.3 million.

SIGNIFICANT CHANGES IN STATE OF AFFAIRS

Proposed Merger

Elixir Petroleum Limited ("Elixir") was established as a North Sea focused oil and gas exploration company in 2004 and all the Company's activities have been concentrated in the UK North Sea. However on 23 March 2007 the Company announced a proposed merger with Gawler Resources Limited ("Gawler"). The objective is to create a company holding a balanced oil and gas exploration and production ("E&P") portfolio with assets at varying stages of evaluation and development, listed on ASX and AIM and capitalised at approximately \$35.0 million (£14.4 million) based upon share prices at the time the proposed merger was announced.

Elixir and Gawler entered into a Merger Implementation Agreement ("MIA") under which the companies agreed to merge by way of a Scheme of Arrangement ("Scheme"). As the continuing entity, Elixir is making an offer to Gawler share and option holders.

Under the proposed merger terms Gawler share and option holders will receive:

- 1 Elixir share for each Gawler share held, and
- 1 unlisted Elixir option for every 5 Gawler options, exercisable at \$0.001 and expiring 3 months after the Scheme record date.

Key steps to be undertaken during the Scheme process include:

- Lodging Scheme documents with the Australian Securities & Investments Commission (“ASIC”);
- Obtaining Court approval to hold a shareholder meeting of Gawler to vote on the Scheme;
- Gawler share and option holder approval at that meeting;
- If Gawler share and option holders approve the Scheme, Court ratification of the Scheme.

Placement and Funding Facility

In order to progress development of Gawler’s High Island oil and gas project, Elixir agreed to provide Gawler with a total funding package of up to \$5 million while the merger process occurs. The package is made up of equity and debt funding elements.

During the period 28 March 2007 to 23 May 2007 Elixir subscribed for share and option placements in Gawler comprising a total of 12,487,500 shares at \$0.20 per share and an equivalent number of options at \$0.01 per option (exercise price of \$0.20; expiry date of 31 March 2009) injecting approximately \$2.6 million into Gawler.

Following the conclusion of the two placements, Elixir’s holding in Gawler was 20.0%.

A further \$2.4 million was advanced to Gawler (\$1.2 million at 30 June 2007) in the form of a bridging loan to meet cash calls associated with its High Island development activities. Subsequent to 30 June 2007, this funding facility has been increased by approximately \$2.5 million to accommodate accelerated development activity as well as a second Gulf of Mexico project being purchased by Gawler based on the Pompano field. The loan is unsecured.

EXPLORATION REVIEW

UKCS Block 211/18b (EXR 80%, decreasing to 56%)

Block 211/18b (Licence P1381) is a Traditional licence granted in the 23rd Licensing Round in December 2005 to Elixir (80%) and its joint venture partner, Sosina Exploration (“Sosina”) (20%). It hosts the large Leopard prospect.

Technical work undertaken on the block during the year including a long offset 2D seismic survey was pivotal in securing a farminee, RWE Dea UK SNS Limited (“RWE”), to part-fund well costs associated with drilling the planned Leopard exploration well.

The farmin agreement covering the RWE’s agreed participation was finalised and signed during the June quarter. Under the farmin terms, RWE will secure a 30% interest in Block 211/18b by contributing on a promoted basis to the cost of drilling the Leopard well.

Following RWE’s farmin the interest holders in the licence will be Elixir 56%, RWE 30% and Sosina 14%. Necessary consent from the UK Secretary of State for Trade and Industry for the licence interest assignment has been granted. Post the 2006-07 financial year-end, the RWE farmin agreement was completed on 1 August 2007 and Elixir’s working interest has been reduced to 56% in accordance with the farmin terms.

Activities to obtain another farminee for the block are ongoing with the objective of largely covering Elixir’s and Sosina’s cost exposures to the planned Leopard well. A number of companies have shown interest and are currently evaluating the prospect following dataroom visits.

Block 211/22b (EXR 40%)

Block 211/22b (Licence P1067) is a 21st Round Traditional licence which hosts a number of prospects and leads. The Jaguar well drilled in February 2006 failed to find hydrocarbons in the primary Upper Jurassic target but did intersect oil in the underlying Middle Jurassic Brent sands. This latter result proved that a working hydrocarbon system exists in the block and has significantly enhanced the Brent prospectivity of the licence.

Ongoing technical work during 2006-07 has been aimed at fully evaluating this Brent potential as well as the remaining Upper Jurassic plays within Block 211/22b. A consortium headed by Antrim Energy has made several Brent oil discoveries along the Causeway trend during the year in the neighbouring blocks to the immediate east of 211/22b.

Block 211/8b (EXR 80%)

Block 211/8b (Licence P1379) was awarded as a two year Promote licence in December 2005 to Elixir (80%) and Sosina (20%). The block contains the Upper Jurassic/Lower Cretaceous Panther prospect.

Additional seismic data acquired in Shell's Penguin 3D survey was purchased and has been interpreted to better define the Panther prospect. The results are considered encouraging such that an active farm-out marketing program commenced in the second half year with the objective to secure farminees for drilling Panther.

Block 15/13b (EXR 13.125%)

During the March quarter the Guinea well in Block 15/13b was drilled by farmin partner, Nexen Petroleum UK Limited, using the *Borgsten Dolphin* semi-submersible drilling rig.

The well reached a total depth of 2,176m but failed to encounter any significant hydrocarbons in the primary Palaeocene Balmoral sands objective. It was subsequently plugged and abandoned.

The Company retains a 13.125% working interest in Block 15/13b after Nexen and Gas Plus International BV completed their farmin obligations on the Guinea well. Elixir's share of the Guinea well costs were carried by the farminees through the well.

The deeper prospectivity of the block remains untested including a Jurassic prospect named Eagle. Further technical work will assess this deeper potential.

Block 21/16b (EXR 40%)

The results of the much-delayed 24th UK Seaward Licensing Round were announced by the DTI in early February 2007. Elixir and its bidding partners, DNO and Sosina, were successful in securing a Promote licence over the Central North Sea Block 21/16b (Licence P1507).

Block 21/16b is located in the north west Central Graben area immediately to the south of the Dauntless and Durward oil fields. Four prospects in the Upper Jurassic Fulmar sands have been identified on the block. Further technical work has commenced in preparation for seeking farminees prior to drilling activity.

Licence Relinquishments

Five 22nd Round Promote licences that Elixir held with two partners in the Central North Sea reached their second anniversary in December 2006. Under the Promote licence terms, the DTI required a firm drilling commitment or substantial work program to retain each licence for a further two years.

Licence P1212 covering Block 15/13b was converted to a Traditional licence through drilling of the Guinea well in early 2007. Elixir relinquished its interest in the other four 22nd Round licences due to the inability to secure farmin partners before the DTI's two-year deadline. An interest in a 23rd Round Promote licence P1288 (Blocks 14/8a and 14/9a) was also surrendered as it adjoined one of the relinquished 22nd Round blocks.

Although a number of the more marginal licences were given back to the DTI, the Company still retains an attractive exploration portfolio with interests in nine UKCS licences. Prospects spread across these licences are estimated to contain total unrisks net prospective resources of 272 million barrels of oil at the best estimate level of confidence, if hydrocarbons are present. This volume translates to 54 million barrels net to Elixir on a risked basis. The remaining prospects in the Company's portfolio represent a good diverse mix of geological play types located in all three main basins of the UK North Sea.

CORPORATE

2006 Annual General Meeting

The second Annual General Meeting of the Company was held in Perth, Western Australia, on 17 November 2006. All five resolutions tabled at the meeting were approved by shareholders without amendment.

Resignation of Director

Angus MacAskill resigned from the position of Business Development Director with the Company effective from 1 September 2006. Mr MacAskill who was a board member of Elixir since the establishment of its London office in late 2004 stepped down to pursue external opportunities in the upstream oil and gas sector.

Share Capital Changes

During the financial year 2,000,000 options expiring on 30 June 2007 and held by directors and foundation shareholders were exercised at \$0.20 each raising at total of \$400,000.

FUTURE STRATEGY

Since its inception in 2004 Elixir's aim has been to establish a successful oil & gas exploration and production business. The initial focus of the Company's exploration strategy was based in the UK North Sea where favourable technical and commercial terms provided the opportunity for growth through successful exploration. Whilst the Company has been undertaking only exploration activities to date, the addition of oil and gas production or near term development projects either through exploration success or acquisition has remained a key goal.

The proposed merger with Gawler outlined above is designed to establish a balanced oil and gas exploration and production company. The merged group will combine emerging Gulf of Mexico production with high impact North Sea exploration. It will be well-funded, allowing the development of the producing assets to run in parallel with an active and highly prospective exploration program.

The Boards of Elixir and Gawler believe the benefits of the merger are compelling. These include:

- A 30% working interest in the High Island A268 oil and gas development project in shallow water offshore Texas, which is due to come on stream in August-September 2007 and initially expected to produce at gross rates of around 20 million cubic feet of gas per day;
- A portfolio of North Sea exploration licences containing drillable prospects, which, if any one is successful, will provide significant upside to the group's valuation;
- Access to US deal flow where management has demonstrated the ability to source quality new projects to grow the business;
- A board and management team with complementary skills and extensive experience in the technical, commercial and financial aspects of the international upstream industry;
- Immediate exposure for shareholders of both Elixir and Gawler to a more diversified portfolio of assets at varying stages of evaluation and development; and
- Balance sheet capacity to pursue the group's expanded business plans, facilitated later by first production cashflow.

SUBSEQUENT EVENTS

The Scheme documents for the proposed Elixir-Gawler merger were lodged with ASIC for review on 31 July 2007. Court approval will then be sought prior to convening a Gawler shareholders' meeting to vote on the Scheme.

To reflect developments that have occurred since the MIA and associated Loan Facility Agreement were signed on 23 March 2007, a number of minor changes were made to the agreements subsequent to balance date. The key amendments include:

- A change to the option Scheme previously announced such that Gawler option holders will receive 1 unlisted Elixir option exercisable at \$0.001 (previously 1 Elixir share) for every 5 Gawler options held at the record date. The Elixir options will expire three months after the Scheme record date.
- An increase in the loan facility provided by Elixir of approximately \$2.5 million to accommodate both the High Island and Pompano projects.
- The proposed demerger of Gawler's existing mineral exploration assets into NewCo to be owned by Gawler shareholders (including Elixir). It is intended that the new company will undertake an IPO and that Gawler shareholders will receive an in-specie distribution of shares in the new company along with a priority share allocation to subscribe for additional shares in the IPO.
- An extension of the merger completion date ("Scheme End Date") until 30 November 2007.

On 9 July 2007, Elixir also announced the proposed issue of 10.7 million convertible notes at a subscription price of \$0.25 to raise a total of approximately \$2.7 million before expenses. The funds are to be employed in an enlarged gas development program in the Gulf of Mexico by Gawler at High Island and Pompano.

The convertible note issue was arranged and underwritten by Argonaut Capital Limited. The issue was made to Macquarie Bank Limited, AFM Perseus Fund Limited and three other clients of Argonaut under Section 708 of the Australian Corporations Act. The convertible notes will not be quoted on the ASX or AIM.

Key terms of the notes include the following:

- On the basis that the proposed merger is approved by Gawler shareholders, the notes are, at the election of the noteholder, convertible into Elixir shares at a price of \$0.25 per share at any time up until 31 October 2008 or are redeemable at face value plus interest on 30 November 2008.
- Should the merger between Elixir and Gawler not proceed, the notes are redeemable at face value plus interest within 90 days or are convertible into Gawler shares (being Gawler shares held by Elixir) at a price of \$0.25 per share.
- The notes are unsecured and carry a coupon of 8% per annum.

The convertible notes were issued in full on 8th August 2007, pursuant to the receipt of \$2.7 million subscription funds.

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 regard to its exploration activities and ensures that it complies with all regulations when carrying out any exploration work.

INFORMATION ON DIRECTORS**John Robertson****Non-Executive Chairman****Age: 62****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: 56****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: 750,000 fully paid ordinary shares
1,500,000 \$0.90 options expiring 5 October 2007
1,500,000 \$1.30 options expiring 5 October 2007**

Iain Knott**Exploration Director****Age: 47****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**

Kent Hunter**Non-Executive Director and Company Secretary****Age: 40****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: 375,000 fully paid ordinary shares

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:

<i>Name</i>	<i>Company</i>	<i>Period of directorship</i>
John Robertson	Prosperity Minerals Holdings Limited	Since 24 May 2006
Russell Langusch	Tower Resources plc	From 17 December 2004 to 9 February 2007
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 directors' 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 **\$0.205** and a high of **\$0.495**. 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 2007**

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

	Primary		Equity	Post-	Performance	
	Base Salary and Fees	Bonus and Non Cash Benefits	Compensation Value of Options	employment Superannuation Contributions		Related %
	\$	\$	\$	\$	TOTAL \$	
Directors						
John Robertson	73,787	-	-	-	73,787	-
Russell Langusch	355,099	-	-	-	355,099	-
Kent Hunter	24,000	-	-	2,160	26,160	-
Angus MacAskill	97,646	-	-	-	97,646	-
Iain Knott	339,891	-	-	-	339,891	-
Totals	890,423	-	-	2,160	892,583	-

No performance options were granted during the year.

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 2007

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	Options	Options	Total value of options granted, exercised and lapsed \$	Value of options included in remuneration for the year \$
		Granted Value at grant date \$	Exercised Value at exercise date \$	Lapsed Value at time of lapse \$		
John Robertson	-	-	-	-	-	-
Russell Langusch	-	-	-	-	-	-
Kent Hunter	-	-	-	-	-	-
Angus MacAskill	-	-	-	-	-	-
Iain Knott	-	-	-	-	-	-
	-	-	-	-	-	-

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:

Director	Directors Meetings		Audit Committee Meetings	
	Meetings Attended	Number Eligible to Attend	Meetings Attended	Number Eligible to Attend
John Robertson	9	9	1	1
Russell Langusch	9	9	-	-
Angus MacAskill	1	2	-	-
Iain Knott	8	9	1	1
Kent Hunter	7	9	1	1

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	
Hunter Farmout	500,000	-	100 cents	31 December 2007	(i)
Director Incentive	2,500,000	-	90 cents	5 October 2007	(ii)
Director Incentive	2,500,000	-	130 cents	5 October 2007	(ii)
Director Incentive	1,000,000	-	90 cents	31 December 2007	(iii)
Director Incentive	1,000,000	-	130 cents	31 December 2007	(iii)
RFC Options	500,000	-	90 cents	16 May 2008	(iv)
Ambrian Options	637,148	-	59 cents (24p)	16 May 2010	(iv)
Director Incentive	250,000	-	100 cents	31 December 2007	(v)
Placement Options	1,000,000	-	50 cents	31 December 2007	(vi)
Hunter Discovery	10,000,000	-	74 cents	31 December 2007	(vii)

- (i) Issued to Hunter Petroleum for purchase of Block 211/22b on 16 December 2004.
- (ii) Director Incentive Options issued to Russell Langusch (total 3.0 million) and Angus MacAskill (total 2.0 million), all vested at balance date.
- (iii) Director Incentive Options issued to Iain Knott (total 2.0 million), all vested at balance date.
- (iv) 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.
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.
- (v) Director Incentive Options issued to John Robertson, approved at AGM on 10 November 2005.
- (vi) Options issued to Argonaut Investments Pty Ltd, as partial consideration for placement services.
- (vii) Hunter discovery options exercisable only upon a commercial discovery in Block 211/22b before 31 December 2007.

There have been 2,000,000 ordinary shares issued as a result of the exercise of options during the financial year. There have been no options exercised since the end of the financial year.

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 2007 has been received and can be found on page 8 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.
- The directors are satisfied that no non audit services were provided to the Company by its auditors during the period ended 30 June 2007.

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

14 August 2007

**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 2007, 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

Mack & Co
Chartered Accountants
2nd Floor, 35 Havelock Street
West Perth WA 6005

n a Calder

N.A Calder, Partner

AUGUST 15 2007

Date

**INDEPENDENT AUDIT REPORT
TO MEMBERS OF ELIXIR PETROLEUM LIMITED**

Report on the Financial Report

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

As permitted by the Corporations Regulations 2001, the company has disclosed information about the remuneration of directors and executives (remuneration disclosures), required by Accounting Standard AASB 124: Related Party Disclosures, under the heading 'Remuneration Policy of the directors' report and in the financial report.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Act 2001. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101: Presentation of Financial Statements, that compliance with the Australian equivalents to International Financial Reporting Standards (IFRS) ensures that the financial report, comprising the financial statements and notes, complies with IFRS.

The directors also are responsible for preparation and presentation of the remuneration disclosures contained in the directors' report in accordance with the Corporations Regulations 2001.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement and that the remuneration disclosures in the directors' report comply with Accounting Standard AASB 124.

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

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

Independence

In conducting our audit, we have complied with the independence requirements of the Corporations Act 2001. We confirm that the independence declaration required by the Corporations Act 2001, provided to the directors of Elixir Petroleum Limited on 14 August 2007, would be in the same terms if provided to the directors as at the date of this auditor's report.

Auditor's Opinion

In our opinion:

- a. the financial report of Elixir Petroleum Limited and its consolidated entities is in accordance with 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 2007 and of their performance for the year ended on that date; and
 - ii. complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001;
- b. the financial report also complies with International financial Reporting Standards as disclosed in Note 1; and
- c. the remuneration disclosures that are contained within the directors' report comply with Accounting Standard AASB 124.

Material Uncertainty Regarding Continuation as a Going Concern

Without qualifying our opinion, we draw our attention to Note 1(b) and Note 31 which indicates that the Company entered into a Scheme of Arrangement to Merge with the Gawler Group, These notes detail circumstances that may arise as a result of the proposed merger that may result in material uncertainty which may cast significant doubt about the ability to continue as a going concern.

MACK & CO
Mack & Co
Chartered Accountants
2nd Floor, 35 Havelock Street
West Perth WA 6005

N A Calder
N A Calder, Partner
AUGUST 15 2007
Date

DIRECTOR'S 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, 14 August 2007

INCOME STATEMENT
For the year ended 30 June 2007

		CONSOLIDATED		THE COMPANY	
		Year ended	Year ended	Year ended	Year ended
		30 June 2007	30 June 2006	30 June 2007	30 June 2006
		\$	\$	\$	\$
REVENUES	2	690,762	719,715	173,453	74,352
Finance costs	3	(7,050)	(6,385)	(599)	(840)
Depreciation expense	3	(20,353)	(18,902)	-	-
Travel and accommodation		(149,228)	(107,989)	(21,975)	(14,659)
Compliance expenses		(239,102)	(126,071)	(196,675)	(91,013)
Administration expenses		(552,869)	(532,867)	(199,783)	(130,039)
Salaries, directors fees and employee benefits		(1,072,708)	(1,190,556)	(25,890)	(47,432)
Equity compensation benefits	5(c)	-	(506,887)	-	(506,887)
Consultants fees		(366,703)	(264,620)	(361,848)	(239,201)
Foreign exchange gain (loss)	3	72,468	98,990	-	-
Fair value adjustment		(88,298)	-	-	-
Exploration expenses written off	3	(1,351,732)	(5,050,204)	-	(631,839)
Provision against group borrowings		-	-	(2,803,492)	(6,216,536)
LOSS BEFORE INCOME TAX		(3,084,813)	(6,985,776)	(3,436,809)	(7,804,094)
Income Tax Benefit (Expense)	4	-	-	-	-
NET LOSS FOR THE YEAR FROM CONTINUING OPERATIONS		(3,084,813)	(6,985,776)	(3,436,809)	(7,804,094)
NET LOSS ATTRIBUTABLE TO THE PARENT ENTITY	16	(3,084,813)	(6,985,776)	(3,436,809)	(7,804,094)
LOSS PER SHARE					
Basic loss per share (cents)	21	4.3	10.9	4.8	12.2
Diluted loss per share (cents)	21	-	-	-	-

The accompanying notes form part of these financial statements.

BALANCE SHEET
As at 30 June 2007

		CONSOLIDATED		THE COMPANY	
		As at	As at	As at	As at
		30 June 2007	30 June 2006	30 June 2007	30 June 2006
		\$	\$	\$	\$
CURRENT ASSETS					
Cash and cash equivalents	6	4,406,436	11,072,065	692,094	3,311,267
Trade and other receivables	7	1,348,064	171,735	1,252,256	-
Other current assets	8	48,781	97,790	-	45,022
		<u>5,803,281</u>	<u>11,341,590</u>	<u>1,944,350</u>	<u>3,356,289</u>
Financial Assets	9	221,152	437,978	-	-
TOTAL CURRENT ASSETS		<u>6,024,433</u>	<u>11,779,568</u>	<u>1,944,350</u>	<u>3,356,289</u>
NON-CURRENT ASSETS					
Trade and other receivables	7	-	-	5,620,971	9,889,147
Investment in subsidiary	10	-	-	2	2
Financial assets	9	4,408,088	-	4,408,088	-
Plant and equipment	11	14,073	32,500	-	-
Deferred exploration and evaluation expenditure	12	1,803,087	1,942,367	-	-
TOTAL NON-CURRENT ASSETS		<u>6,225,248</u>	<u>1,974,867</u>	<u>10,029,061</u>	<u>9,889,149</u>
TOTAL ASSETS		<u>12,249,681</u>	<u>13,754,435</u>	<u>11,973,411</u>	<u>13,245,438</u>
CURRENT LIABILITIES					
Trade and other payables	13	314,307	548,253	38,037	39,256
TOTAL CURRENT LIABILITIES		<u>314,307</u>	<u>548,253</u>	<u>38,037</u>	<u>39,256</u>
TOTAL LIABILITIES		<u>314,307</u>	<u>548,253</u>	<u>38,037</u>	<u>39,256</u>
NET ASSETS		<u>11,935,374</u>	<u>13,206,182</u>	<u>11,935,374</u>	<u>13,206,182</u>
EQUITY					
Issued capital	14	22,500,464	22,120,176	22,500,464	22,120,176
Reserves	15	3,420,724	1,987,007	3,476,097	1,690,384
Accumulated losses	16	(13,985,814)	(10,901,001)	(14,041,187)	(10,604,378)
TOTAL EQUITY		<u>11,935,374</u>	<u>13,206,182</u>	<u>11,935,374</u>	<u>13,206,182</u>

The accompanying notes form part of these financial statements.

**STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2007**

CONSOLIDATED	Share Capital		Option Premium Reserve	Financial Assets Reserve	Foreign Exchange Translation Reserve	Total
	Ordinary	Accumulated Losses				
	\$	\$	\$		\$	\$
Balance at 1.7.2006	22,120,176	(10,901,001)	1,690,384	(232,444)	529,067	13,206,182
Foreign currency translation reserve recognised	-	-	-	-	(584,440)	(584,440)
Financial assets revalued	-	-	-	1,785,713	-	1,785,713
Transfer from financial assets to brought forward reserves	-	-	-	232,444	-	232,444
Loss attributable to members	-	(3,084,813)	-	-	-	(3,084,813)
Shares issued during the year	400,000	-	-	-	-	400,000
Share issue costs	(19,712)	-	-	-	-	(19,712)
Balance at 30.06.2007	22,500,464	(13,985,814)	1,690,384	1,785,713	(55,373)	11,935,374
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
COMPANY						
Balance at 1.7.2006	22,120,176	(10,604,378)	1,690,384	-	-	13,206,182
Financial Assets Revalued	-	-	-	1,785,713	-	1,785,713
Loss attributable to members	-	(3,436,809)	-	-	-	(3,436,809)
Shares issued during the year	400,000	-	-	-	-	400,000
Share issue costs	(19,712)	-	-	-	-	(19,712)
Balance at 30.06.2007	22,500,464	(14,041,187)	1,690,384	1,785,713	-	11,935,374
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

The accompanying notes form part of these financial statements.

STATEMENT OF CASH FLOWS
For the year ended 30 June 2007

	CONSOLIDATED		THE COMPANY	
	Year to 30 June 2007 \$	Year to 30 June 2006 \$	Year to 30 June 2007 \$	Year to 30 June 2006 \$
CASH FLOWS FROM OPERATING ACTIVITIES				
Payments to suppliers and employees	(2,431,299)	(3,104,506)	(784,344)	(500,002)
Interest received	454,575	565,145	174,973	70,196
Finance costs paid	(7,051)	(9,906)	(599)	(840)
Other Income	601	-	-	-
Payments for exploration and evaluation expenditure	(1,798,293)	(4,773,841)	-	(586,910)
NET CASH FLOWS (USED IN) OPERATING ACTIVITIES	(3,781,467)	(7,323,108)	(609,970)	(1,017,556)
17(a)				
CASH FLOWS FROM INVESTING ACTIVITIES				
Payments for plant and equipment	(1,927)	(4,898)	-	-
Payments for investments	(2,622,459)	(308,702)	(2,622,459)	-
Proceeds from sale of shares	591,649	218,129	-	-
Payments to controlled entity	-	-	1,464,681	(4,598,981)
NET CASH FLOWS (USED IN) INVESTING ACTIVITIES	(2,032,737)	(95,471)	(1,157,778)	(4,598,981)
CASH FLOWS FROM FINANCING ACTIVITIES				
Proceeds from issue of ordinary shares	400,000	2,600,000	400,000	2,600,000
Payment of share issue costs	(19,712)	(252,973)	(19,712)	(210,801)
Loans to other entities	(1,231,713)	-	(1,231,713)	-
NET CASH FLOWS FROM FINANCING ACTIVITIES	(851,425)	2,347,027	(851,425)	2,389,199
NET (DECREASE)/ INCREASE IN CASH HELD	(6,665,629)	(5,071,552)	(2,619,173)	(3,227,338)
Add opening cash brought forward	11,072,065	16,044,627	3,311,267	6,538,605
Effects of exchange rate changes on cash	-	98,990	-	-
CLOSING CASH CARRIED FORWARD	4,406,436	11,072,065	692,094	3,311,267
6				

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 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) *Going Concern*

The financial report has been prepared on the going concern basis, which contemplates the continuity of normal business activity and the realisation of assets and the settlement of liabilities in the normal course of business.

The Group incurred a net loss of \$3.1 million for the financial period ending 30 June 2007 and had a net cash outflow from operations of \$3.8 million for the period. As stated in the Directors' Report, Elixir has committed by way of debt and equity funding a total of approximately \$7.5 million to the Gawler Group including approximately \$4.9 million by way of an unsecured loan facility. Should the proposed Merger by Schemes of Arrangement between Elixir and Gawler not proceed, this loan is repayable to Elixir within 90 days. Elixir may also (upon election by noteholders) be required to redeem in cash convertible notes for up to \$2.675 million plus interest that have been issued subsequent to year end.

Going Concern (Continued)

In the event that:

- the proposed Merger does not proceed to completion; **and**,
- Gawler is unable to repay the loan facility within 90 days; **and**,
- Convertible noteholders elect to redeem their notes in cash; **and**,
- The Group is unable to secure additional funding by way of additional debt and / or equity raisings,

the ability of Elixir to continue as a going concern may be prejudiced.

Should the Merger not proceed and Gawler defaults on the repayment of its outstanding loan, Elixir will retain a shareholding in Gawler which could be divested to raise funds.

In the event that the Merger does proceed, the notes are, at the election of the noteholder, convertible into Elixir shares at a price of \$0.25 per share at any time up until 31 October 2008 or are redeemable at face value plus interest on 30 November 2008. The notes are unsecured and carry a coupon rate of 8% per annum. The Directors are confident that the funds generated from merged group's Gulf of Mexico portfolio will be sufficient for Elixir to repay its convertible note holders.

There may also be a risk however that:

- Gawler is unable to repay the loan facility; **and**,
 - Insufficient funds are generated from the merged group's oil and gas projects by 31 October 2008,
- which may prejudice Elixir's ability to continue as a going concern.

Should Elixir be unable to continue as a going concern, it may be required to realise its assets and extinguish its liabilities other than in the normal course of business and at amounts different from those stated in the financial report. The financial report does not include any adjustments relating to the recoverability and classification of recorded asset amounts or to the amounts and classification of liabilities that may be necessary should Elixir be unable to continue as a going concern.

Having regard to these factors, the financial report has nonetheless been prepared on a going concern basis which the Directors consider to be appropriate based upon the reasonable expectation that, if the Merger does not proceed and convertible noteholders subsequently elect to redeem their convertible notes for cash, or if the Merger does proceed and insufficient funds are generated by the merged group's oil and gas assets by 31 October 2008 to repay the noteholders, the Group will be able to raise additional funds through debt or equity raisings as required.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(c) 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	
	2007	2006
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.

(d) 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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**(d) Income Tax (Continued)**

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.

(e) 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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)**(f) 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.

(g) 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.

(h) 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.

(i) Financial Assets

Financial assets in the scope of AASB139 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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)**(i) Financial Assets (Continued)***(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.

(j) 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.

(k) Segment Reporting

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)**(l) 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.

(m) 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.

(n) 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.

(o) 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.

(p) 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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)**(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 its 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.

	CONSOLIDATED		THE COMPANY	
	Year Ended 30 June 2007 \$	Year Ended 30 June 2006 \$	Year Ended 30 June 2007 \$	Year Ended 30 June 2006 \$
2. REVENUE				
Revenue				
Interest received	459,470	568,686	173,453	74,352
Fair value of share warrants	-	129,276	-	-
Profit on sale of investments	230,677	21,137	-	-
Other income	615	616	-	-
Total revenues	690,762	719,715	173,453	74,352
3. LOSSES				
Losses from operations have been arrived at after charging the following items:				
Exploration expenditure written off -				
Pre-grant expenditure	145,011	256,309	-	631,839
Muness well – 21/4b abandoned	33,556	1,106,200	-	-
Jaguar well – 211/22b abandoned	-	3,687,695	-	-
14/8a, 14/9a relinquished	241,696	-	-	-
14/14b relinquished	216,402	-	-	-
9/22, 9/23c relinquished	342,651	-	-	-
9/26,16/1b,16/2c relinquished	212,144	-	-	-
Other sundry write offs	160,272	-	-	-
	1,351,732	5,050,204	-	631,839
Depreciation of non current assets				
Plant and equipment	20,353	18,902	-	-
Interest expense				
- Other persons/corporations	7,050	6,385	599	840
Operating lease rental				
Minimum lease payments	84,840	87,642	-	-
Net foreign currency losses/(gains)	(72,468)	(98,990)	-	-
Provision against non-recoverability of loan to Elixir Petroleum (UK) Limited	-	-	(2,803,492)	6,216,536

4. INCOME TAX

(a) 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:

	CONSOLIDATED		THE COMPANY	
	Year Ended 30 June 2007 \$	Year Ended 30 June 2006 \$	Year Ended 30 June 2007 \$	Year Ended 30 June 2006 \$
Prima facie tax benefit on loss at 30% (2006:30%)	(925,444)	(2,095,732)	(1,031,042)	(2,341,228)
Add:				
Tax effect of:				
Non assessable non-exempt expenditure	-	217,329	=	217,329
Other non-allowable items	12,085	-	12,085	-
Provision against group borrowings		-	841,048	1,864,961
Share based payments		152,066		152,066
Effect of lower rate of tax on overseas loss	269,665	593,804	-	-
Revenue losses not recognised	349,716	335,146	349,716	335,146
Foreign losses not recognised	29,834	-	29,834	-
Overseas losses not recognised	465,785	1,025,661		-
	<u>1,127,085</u>	<u>2,324,006</u>	<u>1,232,683</u>	<u>2,569,502</u>
Less:				
Tax effect of:				
Other deferred tax balances not recognised	201,641	228,273	201,641	228,274
	<u>201,641</u>	<u>228,273</u>	<u>201,641</u>	<u>228,274</u>
Income tax	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

The applicable weighted average tax rates are as follows:

0% 0% 0% 0'

The 2006 comparatives have been re-stated to reflect the tax treatment of non-assessable non-exempt expenditure relating to the exploration conducted directly by the company pre-transfer of licences to the foreign subsidiary previously treated as foreign losses.

(b) The following deferred tax balances have not been recognised:

Deferred Tax Assets:

At 30%:

Carry forward revenue losses	1,040,849	691,132	1,040,849	691,132
Carry forward foreign losses	56,746	26,912	56,746	26,912
Capital raising costs	435,083	632,048	435,083	632,048
Property, plant and equipment	275	-	275	-
Provisions and accruals	5,886	5,229	5,886	5,229
Foreign exchange loss	-	67,534	-	67,534
	<u>1,538,839</u>	<u>1,422,855</u>	<u>1,538,839</u>	<u>1,422,855</u>

4. 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:

	CONSOLIDATED		THE COMPANY	
	Year Ended 30 June 2007	Year Ended 30 June 2006	Year Ended 30 June 2007	Year Ended 30 June 2006
	\$	\$	\$	\$
At 19% (United Kingdom):				
Carry forward overseas losses	1,640,847	1,175,062	-	-

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

- the company derives future assessable income of a nature and of an amount sufficient to enable the benefits to be utilised;
- the company continues to comply with the conditions for deductibility imposed by law; and
- no changes in income tax legislation adversely affect the company in utilising the benefits.

Deferred Tax Liabilities:

At 30%

Other	791	1,250	791	1,250
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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.

5. 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
 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.

5. 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

Period ended:	Primary		Equity	Post-	TOTAL
	Base Salary and Fees	Bonus and Non Monetary Benefits	Compensation Value of Options	employment Superannuation Contributions	
	\$	\$	\$	\$	\$
John Robertson					
30 June 2007	73,787	-	-	-	73,787
30 June 2006	73,872	-	37,731	-	111,603
Russell Langusch					
30 June 2007	355,099	-	-	-	355,099
30 June 2006	321,443	-	180,479	-	501,922
Kent Hunter (ii)					
30 June 2007	24,000	-	-	2,160	26,160
30 June 2006	24,000	-	-	2,160	26,160
Angus MacAskill					
30 June 2007 (i)	97,646	-	-	-	97,646
30 June 2006	310,941	-	120,320	-	431,261
Iain Knott					
30 June 2007	339,891	-	-	-	339,891
30 June 2006	310,941	-	168,359	-	479,300
Don Maloney					
30 June 2006	21,000	-	-	-	21,000
Totals					
30 June 2007	890,423	-	-	2,160	892,583
30 June 2006	1,062,197	-	506,889	2,160	1,571,246

(i) Angus MacAskill resigned on 1 September 2006.

(ii) In the twelve months to 30 June 2007, fees of \$45,691 (30 June 2006: \$50,361) 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.

(iii) The options valued using the Black & Scholes valuation model and are disclosed above of \$506,889. 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 \$0.32) 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:

2007

Key Management Personnel	Number Granted	Number Vested	Grant date	Expiry date	Exercise price \$	Fair value at grant date \$
John Robertson	-	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

There were no share options granted during the financial year ended 30 June 2007.

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

(i) Option Valuation Calculation

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

Inputs into the model	2006
	Option series
	\$1.00 31 December 2007
Grant date share price	\$0.68
Exercise price	\$1.00
Expected volatility	65%
Option life	2.14 years
Dividend yield	-
Risk-free interest rate	5.50%

(e) Shares issued on exercise of compensation options

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

5. KEY MANAGEMENT PERSONNEL COMPENSATION (CONT.)**(f) Share Holdings****Number of Shares held by Key Management Personnel****30 June 2007**

	Balance at beginning of year	Received as Compensation	Options Exercised	Net Change Other *	Balance at end of year
Russell Langusch	250,000 (i)	-	500,000	-	750,000
Kent Hunter	250,000 (ii)	-	125,000	-	375,000
Angus MacAskill	-	-	-	-	-
Iain Knott	-	-	-	-	-
John Robertson	400,000	-	-	-	400,000
	<u>900,000</u>	<u>-</u>	<u>625,000</u>	<u>-</u>	<u>1,525,000</u>

* 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 indirectly by Mr K Hunter as Trustee for the Houndy Family Trust. Mr Hunter is a beneficiary of the Houndy Family Trust;

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
	<u>1,190,000</u>	<u>-</u>	<u>-</u>	<u>(290,000)</u>	<u>900,000</u>

* 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.

5. KEY MANAGEMENT PERSONNEL COMPENSATION (CONT.)**(g) Option Holdings****Number of Options held by Key Management Personnel****30 June 2007**

	Balance at beginning of year	Exercised During the Year	Net Change Other	Balance at end of year	Total Vested	Total Exercisable
Russell Langusch	3,500,000	(500,000)	-	3,000,000	3,000,000	3,000,000
Kent Hunter	125,000	(125,000)	-	-	-	-
Angus MacAskill (i)	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
	<u>7,875,000</u>	<u>(625,000)</u>	<u>(2,000,000)</u>	<u>5,250,000</u>	<u>5,250,000</u>	<u>5,250,000</u>

(i) Mr MacAskill resigned as a director on 1 September 2006.

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	-	(ii)250,000	-	250,000	250,000	250,000
	<u>7,875,000</u>	<u>250,000</u>	<u>(250,000)</u>	<u>7,875,000</u>	<u>7,875,000</u>	<u>7,875,000</u>

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

(ii) Refer to note (d) for terms of options granted to directors.

6. CASH AND CASH EQUIVALENTS

	CONSOLIDATED		THE COMPANY	
	2007	2006	2007	2006
	\$	\$	\$	\$
Cash at bank	428,332	93,836	52,795	93,836
Deposits at call (i)	<u>3,978,104</u>	<u>10,978,229</u>	<u>639,299</u>	<u>3,217,431</u>
	<u>4,406,436</u>	<u>11,072,065</u>	<u>692,094</u>	<u>3,311,267</u>

(i) The bank deposits are short term deposits maturing within 30 days, and pay interest at a rate between 4.7% and 5.6% per annum.

	CONSOLIDATED		THE COMPANY	
	As at 30 June 2007 \$	As at 30 June 2006 \$	As at 30 June 2007 \$	As at 30 June 2006 \$
7. TRADE AND OTHER RECEIVABLES				
CURRENT				
Other receivables (i)	116,351	171,735	20,543	-
Loan to Gawler Resources Limited (ii)	1,231,713	-	1,231,713	-
	<u>1,348,064</u>	<u>171,735</u>	<u>1,252,256</u>	<u>-</u>
NON CURRENT				
Amounts receivable from controlled entities (iii)	-	-	14,640,999	16,105,683
Provision for non-recoverability of intercompany loan	-	-	(9,020,028)	(6,216,536)
	<u>-</u>	<u>-</u>	<u>5,620,971</u>	<u>9,889,147</u>

(a) Terms and conditions

Terms and conditions relating to the above receivables:

- (i) Other debtors are non-interest bearing and are normally settled on 60 day terms.
- (ii) The loan to Gawler Resources Limited was made under a facility agreement dated 23rd March 2007. Interest is payable at 10% per annum and is payable on a monthly basis. The accrued interest will be capitalised on the outstanding loan balance to the facility limit. The loan is repayable 90 days from the date in which Elixir gives a written demand to Cottesloe Oil and Gas Inc, which cannot be made until the earlier of the Termination of the Merger Implementation Agreement or 30 November 2007. The loan is unsecured.
- (iii) 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.

8. OTHER CURRENT ASSETS

Prepayments	48,781	97,970	-	45,022
	<u>48,781</u>	<u>97,970</u>	<u>-</u>	<u>45,022</u>

9. FINANCIAL ASSETS**Available for sale financial assets****CURRENT**

Shares / warrants in listed corporations at fair value	221,152	437,978	-	-
	<u>221,152</u>	<u>437,978</u>	<u>-</u>	<u>-</u>

NON-CURRENT

Shares in listed corporations at fair value	4,408,088	-	4,408,088	-
	<u>4,408,088</u>	<u>-</u>	<u>4,408,088</u>	<u>-</u>

10. INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD

Investments in subsidiary entity	-	-	2	2
	<u>-</u>	<u>-</u>	<u>2</u>	<u>2</u>

	CONSOLIDATED		THE COMPANY	
	As at 30 June 2007 \$	As at 30 June 2006 \$	As at 30 June 2007 \$	As at 30 June 2006 \$
11. PLANT AND EQUIPMENT				
Plant and equipment				
- At cost	61,420	59,493	-	-
- Accumulated depreciation	(47,347)	(26,993)	-	-
Total plant and equipment	14,073	32,500	-	-

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	32,500	46,504	-	-
Additions	1,927	4,898	-	-
Depreciation expense	(20,354)	(18,902)	-	-
Carrying amount at the end of the year	14,073	32,500	-	-

12. 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	1,803,087	1,942,369	-	-
Opening balance	1,942,367	2,278,259	-	1,850,479
Exploration expenditure incurred	1,212,452	4,714,308	-	-
Written off in respect of areas of interest abandoned	(1,351,732)	(5,050,200)	-	(631,839)
Refund of well costs received	-	-	-	(75,116)
Licenses transferred (to) group company	-	-	-	(1,143,524)
Closing balance	1,803,087	1,942,367	-	-

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.

13. TRADE AND OTHER PAYABLES (CURRENT)

(Unsecured)

Trade payables 13(a)	207,117	444,575	16,689	14,373
Sundry payables and accruals 13(a)	107,190	103,678	21,348	24,883
	314,307	548,253	38,037	39,256
Aggregate amounts payable to related parties:				
Directors and director-related entities				
- directors	-	-	-	-

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.

14. ISSUED CAPITAL

		COMPANY AND CONSOLIDATED \$ As at 30 June 2007	COMPANY AND CONSOLIDATED \$ As at 30 June 2006
Issued and paid up capital			
		22,500,464	22,120,176
(a) Movements in shares on issue			
		\$	\$
At the beginning of the reporting period		22,120,176	19,773,149
Shares issued during the period:			
- Exercise of options at \$0.20 during the year	14(b)(i)	400,000	-
- Placement	14(b)(ii)	-	2,600,000
- Share issue costs		(19,712)	(252,973)
At end of reporting period		22,500,464	22,120,176
(b) Movements in shares on issue			
		Number	Number
At the beginning of the reporting period		70,224,791	63,724,791
Shares issued during the period:			
- Exercise of options at \$0.20 during the year	14(b)(i)	2,000,000	-
- Placement	14(b)(ii)	-	6,500,000
At end of reporting period		72,224,791	70,224,791

(i) During the financial year 2,000,000 options expiring 30 June 2007 were exercised at \$0.20 each raising at total of \$400,000.

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

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 2007, 26.5 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.

	Notes	CONSOLIDATED		THE COMPANY	
		Year Ended 30 June 2007 \$	Year Ended 30 June 2006 \$	Year Ended 30 June 2007 \$	Year Ended 30 June 2006 \$
15. RESERVES					
Option Premium Reserve	15(a)	1,690,384	1,690,384	1,690,384	1,690,384
Foreign Currency Translation Reserve	15(b)	(55,373)	529,067	-	-
Financial Assets Reserve	15(c)	1,785,713	(232,444)	1,785,713	-
TOTAL RESERVES		3,420,724	1,987,007	3,476,097	1,690,384

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		THE COMPANY	
		Year Ended 30 June 2007 \$	Year Ended 30 June 2006 \$	Year Ended 30 June 2007 \$	Year Ended 30 June 2006 \$
(a) Option Premium Reserve					
Balance at the beginning of the year		1,690,384	1,072,462	1,690,384	1,072,462
Options issued to Argonaut Investments Pty Ltd as partial consideration for broking services provided	15(a)(i)	-	111,033	-	111,033
Value of directors' options vested during the year	15(a)(ii)	-	469,158	-	469,158
Director options granted during the year	15(a)(iii)	-	37,731	-	37,731
Balance at end of the year		1,690,384	1,690,384	1,690,384	1,690,384
(b) Foreign Exchange Reserve					
Balance at the beginning of the year		529,067	-	-	-
Net foreign exchange gain loss on consolidation		(584,440)	529,067	-	-
Balance at end of the year		(55,373)	529,067	-	-
(c) Financial Assets Reserve					
Balance at the beginning of the year		232,444	-	-	-
Transfer to retained earnings on disposal of asset		(232,444)	-	-	-
Revaluation to market value of listed shares held		1,785,713	-	1,785,713	-
Write down to market value on assets held for sale		-	(232,444)	-	-
Balance at end of the year		1,785,713	(232,444)	1,785,713	-

15. RESERVES (CONT.)**(a) Option Premium Reserve (cont.)**

- (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.
- (ii) 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.

16. ACCUMULATED LOSSES

	CONSOLIDATED		THE COMPANY	
	Year Ended 30 June 2007 \$	Year Ended 30 June 2006 \$	Year Ended 30 June 2007 \$	Year Ended 30 June 2006 \$
Accumulated Losses				
Balance at the beginning of the year	(10,901,001)	(3,915,225)	(10,604,378)	(2,800,284)
Net loss attributable to members of Elixir Petroleum Limited	(3,084,813)	(6,985,776)	(3,436,809)	(7,804,094)
Balance at end of the year	<u>(13,985,814)</u>	<u>(10,901,001)</u>	<u>(14,041,187)</u>	<u>(10,604,378)</u>

17. STATEMENT OF CASH FLOWS**(a) Reconciliation of loss after tax to the net cash flows from operations:**

Net loss	(3,084,813)	(6,985,776)	(3,436,809)	(7,804,094)
Non cash items				
Depreciation of non-current assets	20,353	18,902	-	-
Profit from sale of shares	(230,677)	(21,137)	-	-
Fair value of share warrants	88,298	(129,276)	-	-
Unrealised foreign currency (gain)/losses	72,468	(98,990)	-	-
Write off exploration expenditure	1,351,732	5,050,204	-	631,839
Provision on non-recoverability of loan to group entity	-	-	2,803,492	6,216,536
Employee option valuation	-	506,889	-	506,889
Write down of investments to recoverable amount	-	(232,444)	-	-
Cash flows not in net loss				
Exploration and evaluation expenditure	(1,869,273)	(4,208,097)	-	(563,085)
Changes in assets and liabilities				
(Increase)/decrease in receivables	55,384	(84,720)	24,479	83,083
(Increase)/decrease in prepayments	49,009	(20,935)	-	(25,711)
Increase/(decrease) in payables and accruals	(233,948)	(1,117,728)	(1,132)	(63,013)
Net cash flows (used in) / from operating activities	<u>(3,781,467)</u>	<u>(7,323,108)</u>	<u>(609,970)</u>	<u>(1,017,556)</u>

18. 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 4. 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 directors, brokers and vendors during the current and prior year:

	2007		2006	
	Number of Options	Weighted Average Exercise Price \$	Number of Options	Weighted Average Exercise Price \$
At beginning of reporting period	16,512,148		25,262,148	
Granted during the period				
- Discovery options - reinstated	10,000,000	0.74	-	-
- Equity settled transactions	-		1,000,000	0.50
- Director remuneration	-		250,000	1.00
- Exercised during the period	(2,000,000)	0.20	-	-
Options cancelled during the period	-		(10,000,000)	0.74
Balance the end of reporting period	<u>24,512,148</u>		<u>16,512,148</u>	
Exercisable at end of reporting period	<u>14,512,148</u>		<u>16,512,148</u>	

- (i) The options outstanding at 30 June 2007 had weighted average exercise prices of \$0.74, \$0.90, \$1.00 and \$1.30.
- (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 \$nil (2006: \$506,889), that relates to employee equity-settled payment transactions.

Of those Elixir Options currently on issue, 10 million are discovery options held by Hunter Petroleum Limited. Those unlisted discovery options formed part of the consideration for the purchase of UKCS Block 211/22b by Elixir from Hunter Petroleum. Under the terms of issue the discovery options were exercisable only after the achievement of a commercial discovery on Block 22/22b by Elixir from Hunter Petroleum. The Jaguar well was drilled on this block in February 2006 and failed to find hydrocarbons in the primary Upper Jurassic objective. Elixir believes it is highly unlikely to drill another well on this block before the Options expire on 31 December 2007. Hence it is unlikely that a commercial discovery will be made in the requisite time frame to enable exercise of these Options, and accordingly, the options have not been designated a value.

19. 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 2.40 has been used to calculate the Australian equivalents for those amounts contracted in Pounds Sterling.

Elixir is required to make rental payments to the DTI of \$34,068 (£14,195) per annum to maintain its interest in the relevant licenses held.

	30 June 2007	30 June 2006
	\$	\$
(b) Operating lease commitments		
Minimum lease payments		
(i) - not later than one year	62,820	77,788
- 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	<u>62,820</u>	<u>77,788</u>

- (i) Elixir Petroleum (UK) Limited incurred costs totalling \$92,627 (£37,660) for office rent during the financial year to 30 June 2007. The company entered into an extended lease on 1 June 2006 for office premises at Golden Cross House, 8 Duncannon Street, London WC2N 4JF for a period of 6 months at \$12,564 (£5,235) per month.

20. 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 2007	\$	\$	\$	\$
Primary Reporting – Geographical Segments	United Kingdom	Australia	Eliminations	Consolidated
Revenues from ordinary activities	<u>517,309</u>	<u>173,453</u>		<u>690,762</u>
Segment result profit / (loss)	<u>(2,451,499)</u>	<u>(3,436,806)</u>	2,803,492	<u>(3,084,813)</u>
Segment assets	<u>5,897,242</u>	<u>11,973,411</u>	(5,620,972)	<u>12,249,681</u>
Segment liabilities	<u>276,270</u>	<u>38,037</u>		<u>314,307</u>
Acquisitions of plant and equipment, exploration and evaluation, and other non-current segment assets	<u>1,214,379</u>	<u>-</u>		<u>1,214,379</u>
Depreciation and amortisation	<u>20,354</u>	<u>-</u>		<u>20,354</u>
Other non-cash expenses/ (income)	<u>(88,298)</u>	<u>-</u>		<u>(88,298)</u>
30 June 2006	\$	\$	\$	\$
Primary Reporting – Geographical Segments	United Kingdom	Australia	Eliminations	Consolidated
Revenues from ordinary activities	<u>645,363</u>	<u>74,352</u>		<u>719,715</u>
Segment result (loss)	<u>818,319</u>	<u>(7,804,095)</u>	-	<u>(6,985,776)</u>
Segment assets	<u>10,398,144</u>	<u>13,245,438</u>	(9,889,147)	<u>13,754,435</u>
Segment liabilities	<u>(508,995)</u>	<u>(39,258)</u>		<u>(548,253)</u>
Acquisitions of plant and equipment, exploration and evaluation, and other non-current segment assets	<u>4,719,206</u>	<u>-</u>		<u>4,719,206</u>
Depreciation and amortisation	<u>(18,902)</u>	<u>-</u>		<u>(18,902)</u>
Other non-cash expenses	<u>-</u>	<u>-</u>		<u>-</u>

(b) Secondary Segment - Business Segments

Petroleum Exploration

The Economic Entity operates solely in petroleum exploration, with interests in 9 blocks situated in the UK sector of the North Sea.

	CONSOLIDATED		THE COMPANY	
	As at	As at	As at	As at
	30 June 2007	30 June 2006	30 June 2007	30 June 2006
	\$	\$	\$	\$
21. 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	(3,084,813)	(6,985,776)	(3,436,809)	(7,804,094)
Weighted average number of ordinary shares on issue used in the calculation of basic EPS (i)	71,248,764	64,098,764	71,248,764	64,098,764

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

22. 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.

23. INTEREST IN CONTROLLED ENTITIES

Controlled entities consolidated

Name	Country of Incorporation	Percentage owned	
		2007	2006
Elixir Petroleum (UK) Limited	United Kingdom	100%	100%

	CONSOLIDATED		THE COMPANY	
	Year Ended	Year Ended	Year Ended	Year Ended
	30 June 2007	30 June 2006	30 June 2007	30 June 2006
	\$	\$	\$	\$
24. 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	25,500	25,450	25,500	25,450
- preparation of income tax return	-	1,450	-	1,450
Amounts received or due and receivable by MGI Midgley Snelling for:				
- audit of the UK subsidiary accounts	42,427	23,200	-	-
	67,927	50,100	25,500	26,900

25. 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 2007	FLOATING INTEREST RATE	NON- INTEREST BEARING	FIXED INTEREST Maturing less than 1 year	TOTAL	AVERAGE EFFECTIVE INTEREST RATE
FINANCIAL INSTRUMENT	\$	\$	\$	\$	%
FINANCIAL ASSETS					
Cash and cash equivalents	428,332	-	3,978,104	4,406,436	4.85
Trade and other receivables	-	165,132	1,231,713	1,396,845	10.0
Total financial assets	428,332	165,132	5,209,817	5,803,281	
FINANCIAL LIABILITIES					
Trade and other payables	-	314,307	-	314,307	-
Total financial liabilities	-	314,307	-	5,488,974	
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 financial liabilities	1,163,774	(278,728)	9,908,291	10,793,337	

(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.

26. CONTINGENT ASSETS/ LIABILITIES

There are no contingent liabilities or assets requiring disclosure.

27. 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
P1212	15/13b	13.125%	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% (i)	Exploration for hydrocarbons
P1404	13/25	25%	Exploration for hydrocarbons
P1507	21/16b	40%	Exploration for hydrocarbons

The above joint venture operations represent \$1,803,087 of deferred exploration and evaluation expenditure as at 30 June 2007 (30 June 2006: 1,942,367).

(i) Post period-end, Elixir's interest has reduced to 56% upon completion of the RWE farm in into Block 211/18b.

28. 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.

29. COMPANY INFORMATION

The registered office of Elixir Petroleum Limited is:

Suite 32, Level 3,
22 Railway Road
Subiaco WA 6008, Australia
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

30. CONTINGENT ASSETS AND LIABILITIES

In the opinion of the directors, there were no contingent assets and liabilities at 30 June 2007, and the interval between 30 June 2007 and the date of this report.

31. SUBSEQUENT EVENTS

The Scheme documents for the proposed Elixir-Gawler merger were lodged with ASIC for review on 31 July 2007. Court approval will then be sought prior to convening a Gawler shareholders' meeting to vote on the Scheme.

To reflect developments that have occurred since the MIA and associated Loan Facility Agreement were signed on 23 March 2007, a number of minor changes were made to the agreements subsequent to balance date. The key amendments include:

- A change to the option Scheme previously announced such that Gawler option holders will receive 1 unlisted Elixir option exercisable at \$0.001 (previously 1 Elixir share) for every 5 Gawler options held at the record date. The Elixir options will expire three months after the Scheme record date.
- An increase in the loan facility provided by Elixir of approximately \$2.5 million to accommodate both the High Island and Pompano projects.
- The proposed demerger of Gawler's existing mineral exploration assets into NewCo to be owned by Gawler shareholders (including Elixir). It is intended that the new company will undertake an IPO and that Gawler shareholders will receive an in-specie distribution of shares in the new company along with a priority share allocation to subscribe for additional shares in the IPO.
- An extension of the merger completion date ("Scheme End Date") until 30 November 2007.

On 9 July 2007, Elixir also announced the proposed issue of 10.7 million convertible notes at a subscription price of \$0.25 to raise a total of approximately \$2.7 million before expenses. The funds are to be employed in an enlarged gas development program in the Gulf of Mexico by Gawler at High Island and Pompano.

The convertible note issue was arranged and underwritten by Argonaut Capital Limited. The issue was made to Macquarie Bank Limited, AFM Perseus Fund Limited and three other clients of Argonaut under Section 708 of the Australian Corporations Act. The convertible notes will not be quoted on the ASX or AIM.

Key terms of the notes include the following:

- On the basis that the proposed merger is approved by Gawler shareholders, the notes are, at the election of the noteholder, convertible into Elixir shares at a price of \$0.25 per share at any time up until 31 October 2008 or are redeemable at face value plus interest on 30 November 2008.

- Should the merger between Elixir and Gawler not proceed, the notes are redeemable at face value plus interest within 90 days or are convertible into Gawler shares (being Gawler shares held by Elixir) at a price of \$0.25 per share.

- The notes are unsecured and carry a coupon rate of 8% per annum.

The convertible notes were issued in full on 8th August 2007, pursuant to the receipt of \$2.7 million subscription funds.

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 14 August 2007 was as follows:

Number held as at 14 August 2007	Number of Holders	Class of Equity Securities
		Fully Paid Ordinary Shares
1-1,000	60	37,720
1,001 - 5,000	247	788,825
5,001 – 10,000	232	2,019,844
10,001 - 100,000	506	18,787,478
100,001 and over	96	50,590,924
TOTALS	1,141	72,224,791

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.

ADDITIONAL SHAREHOLDER INFORMATION (Cont.)**Twenty Largest Shareholders**

The names of the twenty largest ordinary fully paid as at 14 August 2007 are as follows:

Name	Number of Ordinary Fully Paid Shares Held	% Held of Issued Ordinary Capital
Chase Nominees Limited	6,948,500	9.62
Vidacos Nominees Limited	5,243,391	7.26
HSBC Global Custody Nominee (UK) Limited	5,212,962	7.22
Roy Nominees Limited	2,505,000	3.47
Argonaut Capital Limited	2,500,000	3.46
Citicorp Nominees Pty Ltd	1,880,067	2.60
Caroline De Mori	1,500,000	2.08
SDMO Australia Pty Ltd	1,400,000	1.94
Barclayshare Nominees Limited	1,249,652	1.73
National Nominees Limited	1,180,600	1.63
TD Waterhouse Nominees (Europe) Limited	991,129	1.37
ANZ Nominees Limited	986,423	1.37
Seawell Super Pty Ltd	760,000	1.05
Merrill Lynch (Australia)	756,377	1.05
HSDL Nominees Limited	750,718	1.04
SIAFU Securities Pty Ltd	750,000	1.04
Russel Langusch & Paula Langusch	750,000	1.04
HSBC Custody Nominees (Australia) Limited	623,163	0.86
Humboldt Capital Corporation	612,023	0.85
Mr Neven Nikola Botica	600,500	0.83
	37,200,505	51.51

**SCHEDULE OF UKCS LICENCE INTERESTS
AS AT 30 JUNE 2007**

Licence	Blocks	EXR Interest	Area (km²)	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
P1212	15/13b	13.1%	108	22nd	Trad	1-Dec-04
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% ⁽²⁾	66	23rd	Trad	22-Dec-05
P1404	13/25	25%	220	23rd	Prom	22-Dec-05
P1507	21/16b	40%	186	24th	Prom	01-Feb-07

Notes:

- (1) Trad = Traditional, Prom =Promote licenses
(2) Interest reducing to 56% post-RWE farmin completed 1 August 2007.

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 out 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 Advisory Services 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 Policyⁱ

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

2.2.3.1 Senior 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.

2.2.3.2 Non-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.