



and controlled entities
ABN 51 108 230 995

**Financial Report for the year ended
30 June 2009**



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Directors

Mr Jonathan Stewart – Executive Chairman
Mr Andrew Ross – Managing Director
Mr Iain Knott – Executive Director, Exploration
Dr John Robertson – Non-Executive Director

Company Secretary

Mr David Lim

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Barclays Bank plc
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Stock Exchange Listing

Australian Securities Exchange
Home Exchange: Perth, Western Australia
Code: EXR

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Directors' Report

Your Directors present their report on the consolidated entity consisting of Elixir Petroleum Limited ("Company" or "Elixir") and the entities it controlled during the financial year ended 30 June 2009 ("Consolidated Entity" or "Group").

Directors

The names of the Directors of the Company in office during the financial year and at the date of this report are:

Mr Trevor Benson (*resigned 30 June 2009*)

Mr Iain Knott

Dr John Robertson

Mr Andrew Ross

Mr Jonathan Stewart

Unless otherwise stated, all Directors were in office for the entire reporting period.

Principal activities

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

Summary review of operations

Results

For the financial year ended 30 June 2009, the Consolidated Entity recorded a net loss after tax of \$28,564,000 (2008: \$6,414,000) after charging as expenses, amortisation costs of \$8,835,000 (2008: \$9,544,000), exploration and evaluation costs of \$1,187,000 (2008: \$2,501,000), impairment expenses of \$18,386,000 (2008: Nil) and a discontinued operations loss of \$1,215,452 (2008: Nil).

Corporate

During the financial year the Group's United Kingdom and West African operations were restructured to establish more transparency in the operation of the relevant license interests. The restructure was undertaken to separate the intellectual property aspect of the business from the project interests. As part of the restructure the existing employees and non-exploration assets of Elixir Petroleum (UK) Ltd ("EP(UK)") were transferred to a wholly owned "shared services" entity, Elixir Petroleum (Technical Services) Ltd ("EP(TS)"). The role of EP(TS) is to provide technical and administration services to other operating entities within the Group. As part of the restructure the oil and gas license interests located in the UK were transferred from EP(UK) to Elixir Petroleum (Europe) Ltd ("EP(EU)"), both wholly owned subsidiaries of Elixir at the time of the restructure.

In January 2009 the Company redeemed \$3,000,000 of convertible notes held by Macquarie Bank Limited. At the date of this report the Consolidated Entity had no outstanding financing debt.

Gulf of Mexico

During the financial year the Company maintained production from four wells at two projects in the Gulf of Mexico. Operations at the High Island project were suspended from September 2008 to January 2009 due to damage caused to a regional gas export pipeline as a result of Hurricane Ike. At the Pompano project production from well ATO #1 diminished in October 2008. A remedial workover to restore production from that well commenced in September 2009. No safety incidents were reported at either project during the financial year.

Elixir's share of revenue from these projects for the year to 30 June 2009 was \$5,556,000 (2008: \$9,120,000). The lower revenues for the financial period were due largely to the extended period of shut-in at the High Island Project and the significant decline in natural gas prices achieved during the year.

North Sea

Elixir's objective in the North Sea is to acquire interests in exploration licences which are considered to have high prospectivity, to work-up attractive prospects in a cost-effective manner and to farm these prospects out to drill. During the financial year a licence in respect of Block 211/12b was awarded to EP(EU), together with a southern extension to the Mulle field. Farmout activities continued with respect to the Leopard prospect in Block 211/22b and the Mulle project in Block 211/18b. Following a strategy review conducted in conjunction with the corporate restructuring exercise undertaken in the year, several non-core licence interests were disposed of or relinquished during the year.



Directors' Report

Sierra Leone

On 30 April 2009, the Company completed the sale of EP(UK) to Prontinal Ltd. The only assets of EP(UK) on the completion of the sale was its interest in Block SL-4 offshore Sierra Leone and 100% of the issued share capital of a wholly owned subsidiary, Emporian Pacific Inc, which itself had no assets. As part of the sale and purchase agreement, Prontinal Ltd paid to the Company US\$254,662 in cash and executed a royalty agreement with the Company with respect to the Block SL-4 license. Under the terms of the royalty agreement, the Company has been granted a 2.5% production royalty calculated by reference to any economic discovery and subsequent production within the Block SL-4 license area. The royalty is capped at a maximum cumulative value of US\$5,000,000.

Significant changes in state of affairs

Other than those events noted above, there were no other significant changes in the state of affairs of the Group during the year requiring separate disclosure.

Financial Position

The net assets of the consolidated group have decreased by \$25,272,000 from 30 June 2008 to \$14,400,000 in 2009. This is primarily as a result of the loss incurred for the year and impairment of oil and gas properties.

The group's working capital, being current assets less current liabilities, has decreased from \$8,291,000 in 2008 to \$7,921,000 in 2009.

The directors believe the group is in a strong and stable financial position to expand and grow its current operations.

Directors

Mr. Jonathan Stewart – Executive Chairman

Qualification – B.Com, CA

Board Committees: Member of Remuneration and Nomination Committees and Audit Committee

Mr. Stewart was appointed a director of the Company on 12 November 2007. Mr. Stewart began his career as a Chartered Accountant and since leaving the profession has held several executive management positions working in a number of countries in several industries. Mr. Stewart has extensive experience in the international oil and gas sector.

Mr. Stewart holds a Bachelor of Commerce and is a member of the Institute of Chartered Accountants.

Other current directorships of Australian listed public companies:

Aurora Oil & Gas Limited.

Former directorships (of Australian listed public companies) in last three years:

Gawler Resources Ltd.

Interests in shares and options over shares in Group companies:

281,250 fully paid ordinary shares, and 2,500,000 share options in Elixir Petroleum Ltd (excludes 24,000,000 Fully Paid Ordinary Shares held by Aurora Oil & Gas Limited)

Mr Andrew Ross – Managing Director

Qualifications – LLB, B.Com, GAICD

Board Committees: Member of Audit Committee

Mr. Ross was appointed Managing Director of the Company on 12 November 2007 following the successful completion of the merger between Elixir and Gawler Resources Limited. Prior to this, Mr. Ross was Managing Director and co-founder of the privately owned oil and gas group, Cape Energy. Prior to establishing Cape, Mr. Ross spent several years as a Director - Corporate Finance of a private merchant banking group based in London where he worked on a range of M&A transactions, public listings and fundraisings for clients in the upstream oil and gas industry as well as other industry sectors.

In April 2009 Mr. Ross also acted as Company Secretary for Elixir until Mr. Lim's appointment on 5 May 2009.

Mr. Ross is a qualified lawyer as well as holding a Bachelor of Commerce. Mr. Ross is a graduate of the Australian Institute of Company Directors and a member of the Society of Petroleum Engineers.



Directors' Report

Other current directorships of Australian listed public companies:
Nil.

Former directorships (of Australian listed public companies) in last three years:
Nil.

Interests in shares and options over shares in Group companies:
35,000 fully paid ordinary shares and 2,500,000 share options in Elixir Petroleum Ltd.

Mr Iain Knott – Executive Director

Qualifications – BSc (Hons), MSc

Mr Knott is a Petroleum Geologist who has over 26 years of North Sea and international oil and gas experience. After graduating from Kingston University in 1983, Mr Knott 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.

Mr. Knott holds a Bachelor of Science (Hons) and a Master of Science degree.

Other current directorships of Australian listed public companies:
Nil

Former directorships (of Australian listed public companies) in last three years:
Nil

Interests in shares and options over shares in Group companies:
2,500,000 share options in Elixir Petroleum Ltd.

Dr John Robertson – Non-Executive Director

Qualifications – BSc (Hons), PhD

Board Committees: Member of Audit, Remuneration and Nomination Committees

Dr. Robertson was appointed as a Non-Executive Director in May 2005, and held the position of Non-Executive Chairman until November 2007. He has a wealth of experience in the finance and oil and gas industries. Dr. Robertson joined the corporate banking department of Schroder's, a London merchant bank, in 1970 before working in the corporate finance section of Cannon Street Investments. Subsequently, he gained over 13 years experience in senior management positions with Ultramar, a leading international independent oil company until the early 1990s. Following this role he worked as a consultant before becoming the Director of Corporate Finance at Durlacher Ltd. From 1995 to June 2005 Dr. Robertson worked in the corporate advisory sector, where he provided capital raising and corporate advice to private and quoted companies in the United Kingdom, particularly in the oil and gas and mining sectors.

Dr. Robertson holds a Bachelor of Science (Eng.) (Hons) and a PhD in Engineering.

Other current directorships of Australian listed public companies:
Nil

Former directorships (of Australian listed public companies) in last three years:
Bonaparte Diamond Mines NL.

Interests in shares and options over shares in Group companies:
425,000 fully paid ordinary shares and 250,000 share options in Elixir Petroleum Ltd.

Mr Trevor Benson – Non-Executive Director (ceased directorship 30 June 2009)

Qualifications – Bachelor of Science

Board Committees: Chairman of Audit Committee (ceased 30/6/09)

Mr Benson has been involved in the financial services industry for over 19 years and has held several senior positions within the stockbroking industry, providing strategic investment advice, facilitating equity capital market transactions, and currently specialises in providing corporate finance services primarily to the oil and gas industry both in Australia and internationally. Prior to his involvement in stockbroking, Mr Benson worked in the treasury operations of several major Australian corporations.

Mr Benson holds a Bachelor of Science.



Directors' Report

Other current directorships of Australian listed public companies:

Nil

Former directorships (of Australian listed public companies) in last three years:

Gawler Resources Ltd

Sultan Corporation Ltd

Interests in shares and options over shares in Group companies:

As a result of Mr. Benson ceasing to be a director of the Company, share options held by him expired on 30 July 2009 in accordance with the terms of the employee share option scheme under which they were granted.

Company Secretary

Mr David Lim

Qualifications – B.Bus, CPA

Mr. Lim was appointed Company Secretary on 5 May 2009. Mr. Lim has over 10 years experience in accounting and company administration within the resource sector. Prior to his appointment Mr Lim was Company Secretary and CFO of Equigold NL, previously an ASX listed Australian gold producer.

Mr Lim holds a Bachelor of Business and is a CPA. Mr. Lim is a member of CPA Australia and an affiliate member of Chartered Secretaries Australia.

Interests in shares and options over shares in Group companies:

Nil

Mr Alex Neuling (ceased 9 April 2009)

Qualifications – B.Chem. (Hons.), CA

Mr. Neuling was appointed Company Secretary on 12 November 2007 and ceased holding this position on 9 April 2009. Mr. Neuling was a non-executive director of ASX listed Eureka Energy Ltd and RTL Corporation Ltd and was also Company Secretary of Aurora Oil & Gas Ltd. Prior to these positions, Mr. Neuling worked at a major international accounting firm in both London and Perth.

Mr. Neuling holds an honours degree in Chemistry from the University of Leeds in the United Kingdom, is a member of the Institute of Chartered Accountants of England and Wales, and the Institute of Chartered Secretaries and Administrators.

Meetings of Directors

The following table sets out the number of meetings of the Company's directors held during the year ended 30 June 2009, and the number of meetings attended by each director.

	Directors' Meetings		Committee Meetings	
	Eligible to attend	Attended	Audit	Remuneration
Mr. Trevor Benson	7	7	2	-
Mr. Iain Knott	7	6	*	*
Dr. John Robertson	7	7	2	-
Mr. Andrew Ross	7	7	2	*
Mr. Jonathan Stewart	7	7	+	-

* Not a member of the relevant committee.

+ Appointed a member of the relevant committee 19 August 2009.

Share options

At the date of this report the following unlisted options have been granted over unissued capital.

Type	Number	Exercise Price	Expiry Date	Date Granted
Ambrian Options (EXRAO)	637,148	\$0.600	16-May-10	16 May 2005
ESOP Tranche 1 (EXRAI)	1,750,000	\$0.250	31-Mar-11	26 June 2008*
ESOP Tranche 2 (EXRAI)	3,250,000	\$0.300	31-Mar-12	26 June 2008*
ESOP Tranche 3 (EXRAI)	2,750,000	\$0.350	31-Mar-13	26 June 2008*
	<u>8,387,148</u>			



Directors' Report

* In accordance with applicable AASB 2, the deemed grant date disclosed above is the date of shareholder approval for the grant of these options under the Elixir Employee Share Option Plan, rather than the actual dates of Offer and Acceptance under the Plan.

Remuneration Report (Audited)

This remuneration report outlines the director and executive remuneration arrangements of the Company and the Group in accordance with the requirements of the Corporations Act 2001 and its regulations. For the purposes of this report, key management personnel of the Group are defined as those persons having authority and responsibility for planning, directing and controlling the major activities of the Company and the Group, directly or indirectly, including any director (whether executive or otherwise) of the parent company, and includes the five executives in the parent company and the Group receiving the highest remuneration.

For the purposes of this report, the term 'executive' encompasses the chief executive, senior executives, asset managers and secretaries of the Parent and the Group.

Details of key management personnel (including the five highest paid executives of the Company and the Group)

(i) Directors

Jonathan Stewart	Executive Chairman
Andrew Ross	Managing Director
Iain Knott	Executive Director, Exploration
Trevor Benson	Non-Executive Director (<i>ceased 30 June 2009</i>)
John Robertson	Non-Executive Director

(ii) Executives

David Lim	Company Secretary and Chief Financial Officer (<i>commenced 28 April 2009</i>)
Alex Neuling	Company Secretary and Chief Financial Officer (<i>ceased 9 April 2009</i>)
James Stockley	Asset Manager, Europe

Remuneration committee

The remuneration committee of the board of directors of the Company is responsible for determining and reviewing remuneration arrangements for the directors and executives. The remuneration committee assesses the appropriateness of the nature and amount of remuneration of executives 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, high performing director and executive team.

Remuneration philosophy

The performance of the Company, among other things, depends upon the quality of its management. To prosper, the Company must attract, motivate and retain highly skilled directors and executives. To this end, the charter adopted by the remuneration committee aims to align rewards with achievement of strategic objectives. The remuneration framework applied provides for a mixture of fixed and variable pay and a blend of short and long term incentives as appropriate.

Remuneration structure

In accordance with best practice corporate governance, the structure of non-executive director and executive remuneration is separate and distinct.

Non-executive directors

The maximum aggregate amount of fees that can be paid to non-executive directors is subject to approval by shareholders at a General Meeting. The Company's policy is to remunerate non-executive directors at market rates (for comparable companies) for time, commitment and responsibilities. Fees for non-executive directors are not linked to the performance of the Company. However to align directors' interests with shareholders' interests, directors are encouraged to hold shares in the Company. Non-executive directors are eligible to participate in the Elixir Share Option Plan.

Retirement benefits and allowances

No retirement benefits or allowances are paid or payable to directors of the Company (other than statutory or mandatory superannuation contributions, where applicable).



Directors' Report

Executives

› *Base pay*

Executives are offered a competitive level of base pay which comprises the fixed (unrisky) component of their pay and rewards. Base pay for senior executives is reviewed annually to ensure market competitiveness. There is no guaranteed base pay increases included in any senior executives' contracts.

› *Short term incentives*

Payment of short term incentives is dependent on the achievement of key performance milestones as determined by the remuneration committee. For the period ended 30 June 2009, these milestones required performance in relation to key strategic, non-financial measures linked to drivers of performance in future reporting periods.

Short-term bonus payments may be adjusted up or down in line with under or over achievement relative to target performance levels at the discretion of the remuneration committee. For the year ended 30 June 2009 no short term bonus payments were paid or payable to key management personnel of the Group (2008: \$23,970). There have been no forfeitures of bonuses by key management personnel during the current or prior periods and no cash bonuses remained unvested at year end.

Long term Incentive - Share-based compensation

Options over shares in the Company are granted under the Elixir Employee Share Option Plan ("ESOP") which was approved by shareholders at a general meeting on 26 June 2008. The ESOP is designed to provide long-term incentives for the Company's directors, employees and consultants to deliver long-term shareholder returns. Under the ESOP, participants are granted options subject to vesting conditions set by the Board. The terms may be related to periods of service or achievement of certain performance standards. Participation in the ESOP is at the board's discretion and no individual has a contractual right to participate in the ESOP or to receive any guaranteed benefits.

The terms and conditions of each grant of options affecting remuneration in the previous, this or future reporting periods are as follows:

Grant date*	Date vested and exercisable	Expiry date	Exercise price	Value per option at grant date
26-Jun-08	01-Jul-08	31-Mar-11	\$ 0.250	\$ 0.0965
26-Jun-08	31-Mar-09	31-Mar-12	\$ 0.300	\$ 0.1070
26-Jun-08	31-Mar-10	31-Mar-13	\$ 0.350	\$ 0.1202

* In accordance with applicable accounting standards, the deemed grant date above is the date upon which shareholders approved the grant of the relevant options, not the actual date of offer, acceptance or the record date.

Options granted under the ESOP carry no dividend or voting rights.

The ESOP rules at present contain no restriction on participants entering into transactions to remove the "at risk" aspect of the unvested equity instruments granted to them. During the year the board of directors resolved that future issues of options by the Consolidated Entity under an employee share option scheme will be structured to prevent the removal of the at risk component of the options without the approval of the board.

Details of options over ordinary shares in the Company provided as remuneration to each director and each of the key management personnel of the Consolidated Entity are set out below. When exercisable, each option is convertible into one ordinary share of the Company. Further information on the options is set out in notes 21 and 25 of the Financial Statements.

Group performance

At present, remuneration for key management personnel is not directly linked to common financial measures of the Consolidated Entity's performance such as share price, earnings per share or dividends.

The table set out below shows various commonly used measures of performance for each financial year since the Company listed on ASX in 2005:



Directors' Report

	Year ended 30 June			
	2006	2007	2008	2009
	\$'000	\$'000	\$'000	\$'000
Revenues and finance income	720	459	9,289	5,886
Loss after tax	3,871	3,085	6,414	27,349
	\$	\$	\$	\$
Share price at start of year	0.43	0.39	0.27	0.26
Share price at end of year	0.39	0.27	0.26	0.05
Change	(0.04)	(0.12)	(0.01)	(0.21)
Loss per share	(0.11)	(0.04)	(0.05)	(0.15)
Total Shareholder Return (TSR) ⁽ⁱ⁾	(0.15)	(0.16)	(0.06)	(0.36)

(i) Defined as the net change in share price (opening share price less the closing share price for the year), plus the loss per share for the year.

Service agreements

Remuneration and other terms of agreement for the Executive Chairman are formalised in a consultancy agreement with Epicure Capital Pty Ltd, an associated company of Mr. Jonathan Stewart.

Material terms of the contract with Epicure Capital Pty Ltd are as follows:

- Term of agreement – indefinite.
- Consultancy fee inclusive of superannuation and taxes, but excluding GST, currently \$80,000 per annum, to be reviewed annually by the board.
- Payment of a termination benefit on early termination by the Company, other than for gross misconduct, equal to three months consultancy fees.

Remuneration and other terms of employment for Mr. Iain Knott are formalised in a contract of employment, the material terms of which are as follows:

- Term of agreement – indefinite.
- Notice period or termination benefit in lieu of notice, other than for gross misconduct, on a sliding scale based on years of service, 6 months as at report date.

Remuneration and other terms of employment for Mr. James Stockley are formalised in a contract of employment, the material terms of which are as follows:

- Term of agreement – indefinite.
- Notice period or termination benefit in lieu of notice, other than for gross misconduct, on a sliding scale based on years of service, 3 months as at report date.

Remuneration and other terms of agreement with other named executives are not formalised in service agreements.

Directors' Report

Remuneration of key management personnel and the five highest paid executives of the Company and Consolidated Entity

2009	Cash salary and fees \$	Short-term benefits			Post-employment benefits		Share-based payment	Total \$	Performance-related %
		Cash bonus \$	Non-monetary benefits \$	Other ⁽⁴⁾ \$	Super-annuation \$	Retirement benefits \$	Options \$		
Non-executive directors									
<i>Current</i>									
John Robertson	30,943	-	-	-	-	-	-	30,943	-
<i>Former</i>									
Trevor Benson ⁽¹⁾	27,523	-	-	-	2,477	-	-	30,000	-
Sub-total non-executive directors	58,466	-	-	-	2,477	-	-	60,943	
Executive directors									
<i>Current</i>									
Jonathan Stewart	80,004	-	-	-	-	-	156,708	236,712	-
Andrew Ross	186,697	-	-	(1,887)	16,803	-	217,241	418,854	-
Iain Knott	344,401	-	-	5,855	-	-	156,708	506,964	-
Sub-total executive directors	611,102	-	-	3,968	16,803	-	530,657	1,162,530	
Other Executives									
David Lim ⁽³⁾	-	-	-	-	-	-	-	-	-
Alex Neuling ⁽²⁾	-	-	-	-	-	-	-	-	-
James Stockley	266,150	-	-	(6,817)	-	-	-	259,333	-
Sub-total other executives	266,150	-	-	(6,817)	-	-	-	259,333	
Total Key Management Personnel	935,718	-	-	(2,849)	19,280	-	530,657	1,482,806	

(1) Mr. Benson ceased being a director on 30 June 2009.

(2) Mr. Neuling ceased being an executive of the Consolidated Entity on 9 April 2009.

(3) Mr. Lim commenced as an executive of the Consolidated Entity on 28 April 2009.

(4) "Other" short term benefits include current year movements in leave and termination benefits.



Directors' Report

2008	Short-term benefits			Post-employment benefits		Share-based payment	Total	Performance-related
	Cash salary and fees	Other cash payment	Non-monetary benefits	Super-annuation	Retirement benefits	Options		
	\$	\$	\$	\$	\$	\$	\$	%
Non-executive directors								
<i>Current</i>								
Trevor Benson	13,761	-	-	1,239	-	24,125	39,125	-
John Robertson	59,926	-	-	-	-	24,125	84,051	-
<i>Former</i>								
Kent Hunter	8,800	-	-	792	-	-	9,592	-
Sub-total non-executive directors	82,487	-	-	2,031	-	48,250	132,768	
Executive directors								
<i>Current</i>								
Jonathan Stewart	40,000	-	-	-	-	74,482	114,482	-
Andrew Ross	96,789	-	-	8,711	-	2,868	108,368	-
Iain Knott	317,953	23,970	-	-	-	74,482	416,405	5.8
<i>Former</i>								
Russell Langusch	212,543	-	-	-	-	-	212,543	-
Sub-total executive directors	667,285	23,970	-	8,711	-	151,832	851,798	
Other Executives								
Alex Neuling	-	-	-	-	-	-	-	-
James Stockley	252,663	-	-	-	-	-	252,663	-
Total Key Management Personnel	1,002,435	23,970	-	10,742	-	200,082	1,237,229	

Compensation options: granted and vested during the year (Consolidated Entity)

No compensation options were granted during the financial reporting period ended 30 June 2009.

2008	Granted	Grant	Fair Value	Exercise Price	Expiry Date	Vesting Date	Vested	
	(number)	Date ⁽¹⁾	(Per Option) (cents)	(Per Option) (cents)			No.	%
Directors								
Jonathan Stewart	750,000	26 Jun 08	9.65	25	31 Mar 11	1 Jul 08	750,000	-
	1,000,000	26 Jun 08	10.70	30	31 Mar 12	31 Mar 09	1,000,000	-
	750,000	26 Jun 08	12.02	35	31 Mar 13	31 Mar 10	-	-
Andrew Ross	1,250,000	26 Jun 08	10.70	30	31 Mar 12	31 Mar 09	1,250,000	-
	1,250,000	26 Jun 08	12.02	35	31 Mar 13	31 Mar 10	-	-
Iain Knott	750,000	26 Jun 08	9.65	25	31 Mar 11	1 Jul 08	750,000	-
	1,000,000	26 Jun 08	10.70	30	31 Mar 12	31 Mar 09	1,000,000	-
	750,000	26 Jun 08	12.02	35	31 Mar 13	31 Mar 10	-	-
Trevor Benson ⁽²⁾	250,000	26 Jun 08	9.65	25	31 Mar 11	1 Jul 08	250,000	-
John Robertson	250,000	26 Jun 08	9.65	25	31 Mar 11	1 Jul 08	250,000	-

(1) In accordance with applicable Accounting Standards, the deemed Grant Date above is the date upon which shareholders approved the grant of the above options, not the actual date of offer, acceptance or record.

(2) As a result of Mr. Benson ceasing to be a director of the Company on 30 June 2009, the options held by Mr. Benson (250,000) lapsed on 30 July 2009 in accordance with the terms of the Elixir Share Option Plan under which they were issued.



Directors' Report

Options granted as part of remuneration

No share options were granted during the financial reporting period ended 30 June 2009.

Dividends

No dividends have been declared, provided for or paid in respect of the financial year ended 30 June 2009.

Subsequent events

There are no events subsequent to the balance date that require disclosure.

Likely developments

Due to the nature of the Consolidated Entity's business activities, the Directors are not able to state:

- likely developments in the entities' operations; or
- the expected results of these operations,

as to do so would result in unreasonable prejudice to the Consolidated Entity.

Environmental regulation

The Consolidated Entity has a policy of exceeding or at least complying with its environmental performance obligations.

During the financial year, the Consolidated Entity did not materially breach any particular or significant Commonwealth, State, Territory or other regulation in respect to environmental management.

Indemnification and insurance of Officers and Auditors

Since the end of the year, the Company has paid a premium in respect of a contract insuring the directors of the Company (as named above) and the Company Secretary, Mr David Lim, against liabilities incurred as such a director or officer of the Company to the extent permitted by the *Corporation Act 2001*. The contract of insurance prohibits disclosure of the nature of the liability and the amount of the premium. The Company has not otherwise, during or since the financial year, indemnified or agreed to indemnify an officer or auditor of the Company or of any related body corporate against a liability incurred as such an officer or auditor.

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.

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 *Corporation Act 2001*. The directors are satisfied that the services disclosed below did not compromise the external auditor's independence for the following reasons:

- The nature of the services provided does not compromise the general principles relating to auditor independence in accordance with *APES 110: Code of Ethics for Professional Accountants* set by the Accounting Professional and Ethical Standards Board.
- The directors are satisfied that no non audit services were provided to the Company by its auditors during the period ended 30 June 2009.

Auditor's Independence Declaration

The Auditor's independence declaration is included on page 13 of the financial report.

Rounding of amounts to the nearest thousand dollars

The Company satisfies the requirements of Class Order 98/0100 issued by the Australian Investments and Securities Commission relating to "rounding off" of amounts in the Directors' Report and the Financial Report to the nearest thousand dollars. Amounts have been rounded off in the Financial Report in accordance with that Class Order.



Directors' Report

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

A handwritten signature in black ink, appearing to read "Jonathan Stewart", written over a light grey horizontal line.

JONATHAN STEWART

Executive Chairman

Perth, Western Australia

25 September 2009

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**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 beliefs, during the year ended 30 June 2009 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 and Co.

MACK & Co

S S Fermanis

S S FERMANIS
PARTNER
WEST PERTH

DATE: 25th September 2009

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INDEPENDENT AUDIT REPORT TO THE MEMBERS OF ELIXIR PETROLEUM LIMITED

Report on the Financial Report

We have audited the accompanying financial report of Elixir Petroleum Limited (the Company), which comprises the balance sheets as at 30 June 2009, and the income statements, statements of changes in equity and cash flow statements for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration of the Consolidated Entity comprising the Company and the entities it controlled at year end or from time to time during the financial year.

Directors' Responsibility for the Financial Report

The directors of the Company are responsible for the preparation and fair presentation of the financial report in accordance with 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 the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on 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 controls relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

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

Independence

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

Auditor's Opinion

In our opinion:

- (a) the financial report of Elixir Petroleum Limited is in accordance with the Corporations Act 2001, including:
- (i) giving a true and fair view of the Company's and the Consolidated Entity's financial position as at 30 June 2009 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.

Report on the Remuneration Report

We have audited the remuneration report included in the directors' report for the year ended 30 June 2009. The directors of the Company are responsible for the preparation and presentation of the remuneration report in accordance with section 300A of the Corporations Act 2001. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with Australian Auditing Standards.

Auditor's Opinion

In our opinion, the remuneration report of Elixir Petroleum Limited for the year ended 30 June 2009, complies with section 300A of the Corporations Act 2001.

Mack and Co.

MACK & CO

S S Fermanis

S S FERMANIS
PARTNER
WEST PERTH

DATE: 25th September 2009

Directors' declaration

In the Directors' opinion and having regard to the matters noted in Note 1(a) to the financial statements:

- (a) The financial statements and notes set out on pages 17 to 58 and the remuneration disclosure in the Directors' Report are in accordance with the *Corporations Act 2001*, including:
 - i. complying with Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements; and,
 - ii. giving a true and fair view of the Company's and Consolidated Entity's financial position as at 30 June 2009 and of their performance for the financial year ended on that date; and,
- (b) there are reasonable grounds to believe that the Company will be able to pay its debts as when they become due and payable; and,
- (c) at the date of this declaration, there are reasonable grounds to believe that the members of the Extended Closed Group identified in note 27 will be able to meet any obligations or liabilities to which the are, or may become, subject by virtue of the deed of cross guarantee described in note 27.

The Directors have been given the declarations by the Chief Executive Officer and Chief Financial Officer required by section 295A of the *Corporations Act 2001*.

Signed in accordance with a resolution of the directors made pursuant to s295(5) of the Corporations Act 2001.



Jonathan Stewart

Executive Chairman

Perth, Western Australia

25 September 2009



Income Statements
for the year ended 30 June 2009

	Note	Consolidated		Company	
		2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
Revenue from continuing operations					
Revenue from oil & gas sales	(4)	5,574	9,120	-	-
Other income	(5)	392	26	810	-
Total revenue		5,966	9,146	810	-
Operating and production costs					
Operating and production costs		(1,846)	(595)	-	-
General & administrative costs		(2,576)	(1,939)	(2,612)	(1,468)
Other costs	(7)	(611)	(730)	(697)	(126)
Total operating expense		(5,033)	(3,264)	(3,309)	(1,594)
EBITDAX ¹	(7)	933	5,882	(2,499)	(1,594)
Depreciation, depletion and amortisation expense					
Depreciation, depletion and amortisation expense	(6)	(8,845)	(9,555)	-	-
Exploration, evaluation & development costs expensed		(1,187)	(2,501)	18	(18)
Impairment of oil and gas properties		(18,386)	-	-	-
Impairment of net investment in subsidiaries		-	-	(25,489)	(4,941)
EBIT ²	(6)	(27,485)	(6,174)	(27,970)	(6,553)
Finance income	(4)	312	169	308	93
Finance costs	(6)	(176)	(409)	(176)	(409)
Loss before income tax		(27,349)	(6,414)	(27,838)	(6,869)
Income tax expense	(8)	-	-	-	-
Loss from continuing operations		(27,349)	(6,414)	(27,838)	(6,869)
Loss from discontinued operations		(1,215)	-	-	-
Net loss attributable to members of the Company		(28,564)	(6,414)	(27,838)	(6,869)
Earnings / (loss) per share					
Basic loss per share (cents per share)	(9)	(15.1)	(5.0)		
Diluted loss per share (cents per share)	(9)	(15.1)	(5.0)		

1 EBITDAX: Earnings before Interest, tax, depreciation, depletion and amortisation, Exploration & evaluation costs written off and provisions against group borrowings.

2 EBIT: Earnings before Interest and tax

The above income statements should be read in conjunction with the accompanying notes.



Balance Sheets
for the year ended 30 June 2009

	Note	Consolidated		Company	
		2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
Assets					
Current assets					
Cash and cash equivalents	(10)	8,081	10,604	5,536	6,823
Trade and other receivables	(11)	667	3,670	46	-
Total current assets		8,748	14,274	5,582	6,823
Non-current assets					
Receivables from subsidiaries	(11)	-	-	-	5,621
Investment in subsidiaries	(12)	-	-	9,371	31,248
Oil & gas properties	(13)	6,581	31,569	-	-
Other plant and equipment	(14)	87	10	-	-
Deferred exploration and evaluation expenditure	(15)	1,295	1,286	-	-
Total non-current assets		7,963	32,865	9,371	36,869
Total assets		16,711	47,139	14,953	43,692
Liabilities					
Current liabilities					
Trade and other payables	(16)	557	2,983	283	1,020
Borrowings	(17)	-	3,000	-	3,000
Provisions	(18)	270	-	270	-
Total current liabilities		827	5,983	553	4,020
Non-current liabilities					
Provisions	(18)	1,484	1,484	-	-
Total non-current liabilities		1,484	1,484	-	-
Total liabilities		2,311	7,467	553	4,020
Net Assets		14,400	39,672	14,400	39,672
Equity					
Contributed equity	(19)	60,644	58,609	60,644	58,609
Reserves	(20)	2,720	1,463	2,504	1,973
Accumulated losses	(20)	(48,964)	(20,400)	(48,748)	(20,910)
Total parent entity interest in equity		14,400	39,672	14,400	39,672

The above balance sheets should be read in conjunction with the accompanying notes.

Statement of Change in Equity
for the year ended 30 June 2009

	Share Capital \$'000	Option Premium Reserve \$'000	Share Based Payment Reserve \$'000	Financial Asset Reserve \$'000	Foreign Currency Translation Reserve \$'000	Accumulated Losses \$'000	Total \$'000
Consolidated							
Balance as at 1 July 2007	22,500	1,690	-	1,786	(55)	(13,986)	11,935
Share option expense	-	-	200	-	-	-	200
Unrealised foreign exchange gain/(loss)	-	-	-	-	(455)	-	(455)
Revenue/expenses recognised directly in equity	-	-	200	-	(455)	-	(255)
Current period loss	-	-	-	-	-	(6,414)	(6,414)
Total recognised income and expense	-	-	200	-	(455)	(6,414)	(6,669)
Issue of ordinary shares	36,450	-	-	-	-	-	36,450
Cost of share issue	(341)	-	-	-	-	-	(341)
Issue of options	-	2,951	-	-	-	-	2,951
Exercise of options	-	(2,868)	-	-	-	-	(2,868)
Transfer to cost of investment on gaining control of subsidiary	-	-	-	(1,786)	-	-	(1,786)
Balance as at 30 June 2008	58,609	1,773	200	-	(510)	(20,400)	39,672
Share option expense	-	-	531	-	-	-	531
Unrealised foreign exchange gain/(loss)	-	-	-	-	726	-	726
Revenue/expenses recognised directly in equity	-	-	531	-	726	-	1,257
Current period loss	-	-	-	-	-	(28,564)	(28,564)
Total recognised income and expense	-	-	531	-	726	(28,564)	(27,307)
Issue of ordinary shares	2,125	-	-	-	-	-	2,125
Cost of share issue	(90)	-	-	-	-	-	(90)
Balance as at 30 June 2009	60,644	1,773	731	-	216	(48,964)	14,400

The above statement of change in equity should be read in conjunction with the accompanying notes.

Statement of Change in Equity
for the year ended 30 June 2009

	Share Capital \$'000	Option Premium Reserve \$'000	Share Based Payment Reserve \$'000	Financial Asset Reserve \$'000	Accumulated Losses \$'000	Total \$'000
Company						
Balance as at 1 July 2007	22,500	1,690	-	1,786	(14,041)	11,935
Share option expense	-	-	200	-	-	200
<i>Revenue/expenses recognised directly in equity</i>	-	-	200	-	-	200
Current period loss	-	-	-	-	(6,869)	(6,869)
Total recognised income and expense	-	-	200	-	(6,869)	(6,669)
Issue of ordinary shares	36,450	-	-	-	-	36,450
Cost of share issue	(341)	-	-	-	-	(341)
Issue of options	-	2,951	-	-	-	2,951
Exercise of options	-	(2,868)	-	-	-	(2,868)
Transfer to cost of investment on gaining control of subsidiary	-	-	-	(1,786)	-	(1,786)
Balance as at 30 June 2008	58,609	1,773	200	-	(20,910)	39,672
Share option expense	-	-	531	-	-	531
<i>Revenue/expenses recognised directly in equity</i>	-	-	531	-	-	531
Current period loss	-	-	-	-	(27,838)	(27,838)
Total recognised income and expense	-	-	531	-	(27,838)	(27,307)
Issue of ordinary shares	2,125	-	-	-	-	2,125
Cost of share issue	(90)	-	-	-	-	(90)
Balance as at 30 June 2009	60,644	1,773	731	-	(48,748)	14,400

The above statement of change in equity should be read in conjunction with the accompanying notes.



Statements of Cash Flows
for the year ended 30 June 2009

	Note	Consolidated		Company	
		2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
Cash flows from operating activities					
Receipts from sales		8,301	4,915	-	-
Payments to suppliers and employees		(6,646)	(3,577)	(2,071)	(999)
Net cash inflow/(outflow) from operating activities	(23)	1,655	1,338	(2,071)	(999)
Cash flows from investing activities					
Cash acquired with subsidiary		-	3,304	-	-
Proceeds from sale of equity investments		-	210	-	-
Proceeds from sale of projects		326	-	-	-
Payments for exploration, evaluation and development		(3,015)	(6,049)	-	-
Interest received		275	169	275	93
Loans - controlled entity		-	(3,389)	3,241	(3,712)
Investment in subsidiary		-	(100)	(21)	(100)
Proceeds from sale of subsidiary		-	-	326	-
Cash flows from discontinued operations	(33)	(991)	-	-	-
Net cash inflow/(outflow) from investing activities		(3,405)	(5,855)	3,821	(3,719)
Cash flows from financing activities					
Proceeds from issues of shares		1,607	5,409	1,607	5,409
Rights issue proceeds received shares not issued		-	516	-	516
Convertible note		(3,000)	5,675	(3,000)	5,675
Underwriting costs - convertible note		-	(134)	-	-
Interest paid		(177)	(409)	(176)	(409)
Share issue costs		(90)	(342)	(90)	(342)
Net cash inflow/(outflow) from financing activities		(1,660)	10,715	(1,659)	10,849
Effect of changes in exchange rates		887	-	(1,378)	-
Net increase/(decrease) in cash and cash equivalents		(2,523)	6,198	(1,287)	6,131
Cash and cash equivalents at the beginning of the period		10,604	4,406	6,823	692
Cash and cash equivalents at the end of the period		8,081	10,604	5,536	6,823

The above cash flow statements should be read in conjunction with the accompanying notes.



Notes to the financial statements

For the year ended 30 June 2009

1. Summary of significant accounting policies

The financial report of Elixir Petroleum Ltd and its controlled entities, for the year ended 30 June 2009, was authorised for issue in accordance with a resolution of the Board of Directors on 25 September 2009.

The principal accounting policies adopted in the preparation of the financial report are set out below. These policies have been applied consistently to all the years presented, unless otherwise stated. The financial report includes separate financial statements for Elixir Petroleum Limited as an individual entity ("Company") and the consolidated entity comprised of Elixir Petroleum Limited and its subsidiaries ("Group" or "Consolidated Entity"). Elixir Petroleum Limited is a company limited by shares, incorporated and domiciled in Australia, and whose shares are publicly traded on the Australian Securities Exchange.

(a) Basis of preparation

This general purpose financial report has been prepared in accordance with Australian Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board, Urgent Issues Group Interpretations and the *Corporations Act 2001*.

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.

Compliance with International Financial Reporting Standards

Australian Accounting Standards include Australian equivalents to International Financial Reporting Standards (AIFRS). Compliance with AIFRS ensures that the financial report of the Group complies with International Financial Reporting Standards (IFRS).

Historical cost convention

These financial statements have been prepared under the historical cost convention. Expenditure is initially recognised at cost and revalued to fair value when required to do so by the application of Australian Accounting Standards.

Critical accounting estimates

The preparation of financial statements in conformity with AIFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 2.

(b) Principles of consolidation

(i) Subsidiaries

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Elixir Petroleum Limited as at 30 June 2009. The Company and its subsidiaries together are referred to in this financial report as the Group or the Consolidated Entity.

Subsidiaries are all those entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group (refer to note 1 (g)).

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are eliminated unless the transaction provides evidence of the impairment of the assets transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Consolidated Entity.

Investments in subsidiaries are accounted for at cost in the separate financial statements of the Company.



Notes to the financial statements

For the year ended 30 June 2009

1. Summary of significant accounting policies (continued)

(ii) Joint ventures

Jointly controlled assets

The Group's proportionate interests in the assets, liabilities and expenses of a joint venture activity are incorporated in the financial statements under the appropriate headings. Details of joint ventures are set out in note 24.

(c) Segment reporting

A business segment is identified for a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different to those of other business segments. A geographical segment is identified when products or services are provided within a particular geographic area that is subject to risks and returns that are different from those of segments operating in other geographic areas.

(d) Foreign currency translation

(i) Functional and presentation currency

Items in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are present in Australian dollars, which is Consolidated Entity's functional and presentation currency.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions, or at an exchange rate that approximates the spot rate, as allowed by AASB 121. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except when they are deferred in equity as qualifying cash flow hedges, qualifying net investment hedges or are attributable to part of the net investment in a foreign operation.

(e) Revenue recognition

(i) Sale of goods

Revenue from the sale of goods and disposal of other assets is recognised when the Consolidated Entity has transferred to the buyer the significant risks and rewards of ownership of the goods.

(ii) Other revenue

Dividend revenue is recognised on a receivable basis. Interest revenue is recognised on a time proportionate basis that takes into account the effective yield on the financial asset.

(f) Income tax

The income tax expense or benefit for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences, and to unused tax losses.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting or taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the reporting date and are expected to apply when the related deferred income tax assets is realised or the deferred income tax liability is settled.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax base of investments in controlled entities where the Company is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.



Notes to the financial statements

For the year ended 30 June 2009

1. Summary of significant accounting policies (continued)

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Current and deferred tax balances attributable to amounts recognised directly in equity are also recognised directly in equity.

(g) Business combinations

The purchase method of accounting is used to account for all business combinations, including business combinations involving entities under common control, regardless of whether equity instruments or other assets are acquired. Cost is measured as the fair value of the assets given, equity instruments issued or liabilities incurred or assumed at the date of exchange plus costs directly attributable to the acquisition. Where equity instruments are issued in an acquisition, the fair value of the instruments is their published market price as at the date of exchange unless, in rare circumstances, it can be demonstrated that the published market price at the date of exchange is an unreliable indicator of fair value and that other evidence and valuation methods provide a more reliable method of fair value. Transaction costs arising on the issue of equity instruments are recognised directly in equity.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the Group's share of the fair value of the identifiable net assets of the subsidiary acquired, the difference is recognised directly in the income statement, but only after a reassessment of the identification and measurement of the net assets acquired.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions.

(h) Impairment of assets

Goodwill and intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets other than goodwill that have been impaired are reviewed for possible reversal of the impairment at each reporting date.

(i) 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.

(j) Cash and cash equivalents

For cash flow statement presentation purposes, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions and other short-term, highly liquid investments with original maturities of three months or less.

(k) Trade receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest rate method, less provision for impairment. Trade receivables are generally due for settlement within 30 days.



Notes to the financial statements

For the year ended 30 June 2009

1. Summary of significant accounting policies (continued)

(l) Investments and other financial assets

Classification

The Group classifies its financial assets in the following categories: financial assets 'at fair value through profit or loss', 'held-to-maturity' investments, 'available-for-sale' financial assets, and 'loans and receivables'. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its investments at initial recognition and, in the case of assets classified as held-to-maturity, re-evaluates this designation at each reporting date.

(i) Available-for-sale financial assets

Available-for-sale financial assets, comprising principally marketable equity securities, are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the reporting date. Investments are designated as available-for-sale if they do not have fixed maturities and fixed or determinable payments and management intends to hold them for the medium to long term.

(ii) Held-to-maturity investments

Bills of exchange and debentures are recorded at amortised cost using the effective interest method less impairment, with revenue recognised on an effective yield basis. The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset, or, where appropriate, a shorter period.

Recognition and de-recognition

Regular purchases and sales of financial assets are recognised on trade date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value and transaction costs are expensed in the income statement. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

When securities classified as available-for-sale are sold, the accumulated fair value adjustments recognised in equity are included in the income statement as gains and losses from sale of investment securities.

Subsequent measurement

Loans and receivables and held-to-maturity investments are carried at amortised cost less impairment using the effective interest method.

Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value.

Details on how the fair value of financial instruments is determined are disclosed in note 29.

Impairment

The Group assesses at each balance date whether there is objective evidence that a financial asset or group of financial assets is impaired. In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of a security below its cost is considered as an indicator that the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss, measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss, is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments classified as available-for-sale are not reversed through the income statement.

(m) Property, plant and equipment (other than oil & gas properties)

Property, plant and equipment is stated at cost less accumulated depreciation and impairment. 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.



Notes to the financial statements

For the year ended 30 June 2009

1. Summary of significant accounting policies (continued)

Depreciation is provided on property, plant and equipment, including freehold buildings but excluding land. Depreciation is calculated on a straight line basis so as to write down the net cost or other revalued amount of each asset over its expected useful life to its estimated residual value. Leasehold improvements are depreciated over the period of the lease or estimated useful life, whichever is the shorter, using the straight line method.

The estimated useful lives, residual values and depreciation method are reviewed at the end of each annual reporting period. The following estimated useful lives are used in the calculation of depreciation:

Fixtures and fittings	5 years
Plant and equipment	5 - 15 years

(n) Non-operator interests in oil & gas properties

Exploration & evaluation expenditure

The Consolidated Entity's accounting policy for the cost of exploring and of evaluating discoveries is based on the "successful efforts" method.

This approach is strongly linked to the Group's oil and gas reserves determination and reporting process and is considered to most fairly reflect the results of the Group's exploration and evaluation activity because only assets with demonstrable value are carried on the balance sheet.

Once a decision has been made to develop an oil or gas prospect, accumulated exploration and evaluation costs for that prospect are transferred from Deferred Exploration, Evaluation to Development Projects. Once production commences capitalised costs associated with the producing well are transferred to Oil and Gas Properties and are amortised or depreciated over the useful life of the asset.

This method allows the costs of discovery, evaluation and development of a prospect to be aggregated on the balance sheet and matched against the benefits derived from production once this commences.

Costs

Exploration and evaluation expenditure is accounted for in accordance with the area of interest method. Exploration licence acquisition costs relating to greenfields oil and gas exploration provinces are expensed as incurred while these costs incurred in relation to established or recognised oil and gas exploration provinces are initially capitalised and then amortised over the shorter term of the licence or the expected life of the project.

All other exploration and evaluation costs, including general permit activity, geological and geophysical costs and new venture activity costs are charged as expenses as incurred except where:

- the expenditure relates to an area of interest that, at balance date, no assessment of the existence of economically recoverable reserves has been made; or
- where there exists an economically recoverable reserve and it is expected that the capitalised expenditure will be recouped through successful exploitation of the area of interest, or alternatively, by its sale.

Areas of interest are recognised at the field level. Subsequent to the recognition of an area of interest, all further costs relating to the area of interest are initially capitalised. Each area of interest is reviewed at least bi-annually to determine whether economic quantities of reserves exist or whether further exploration and evaluation work is required to support the continued carry forward of capitalised costs.

The costs of drilling exploration wells are initially capitalised pending the results of the well. Costs are expensed where the well does not result in the successful discovery of economically recoverable hydrocarbons. To the extent it is considered that the relevant expenditure will not be recovered, it is immediately expensed.

Transfer to development projects

Upon a decision being made to commercially develop an area of interest, accumulated expenditure for the area of interest is transferred to Oil & Gas Properties and amortised or depreciated over the useful life of the project.

Producing projects

Exploration, evaluation and development costs are initially capitalised as deferred exploration, evaluation and development expenditure and upon commencement of commercial operations are transferred to Oil & Gas Properties. Operating costs of projects in commercial production are expensed as incurred.



Notes to the financial statements

For the year ended 30 June 2009

1. Summary of significant accounting policies (continued)

Prepaid drilling and completion costs

Where the Group has a non-operator interest in an oil or gas property, it may periodically be required to make a cash contribution for its share of the operator's drilling and / or completion costs, in advance of these operations taking place.

Where these contributions relate to a prepayment for exploratory or early stage drilling activity, prior to a decision on the commerciality of a well having been made, the costs are capitalised as prepaid drilling costs within Deferred Exploration, Evaluation and Development Expenditure.

Where these contributions relate to a prepayment for well completion, these costs are capitalised as prepaid completion costs within Exploration, Evaluation and Development Expenditure.

As the operator notifies the Company as to how funds have been expended, the costs are reclassified from prepaid costs to the appropriate expenditure category.

Once a decision has been made to proceed with completion of a well, all costs are transferred from Exploration and Evaluation to Oil and Gas Properties, including any prepaid amounts.

Amortisation of producing projects

Upon commencement of production, the Consolidated Entity amortises the accumulated costs for the relevant area of interest over the life of the area according to the rate of depletion of the economically recoverable quantities of reserves. Estimates of recoverable reserve quantities include judgemental assumptions regarding commodity prices, exchange rates, discount rates, and production and transportation costs for future cash flows. It also requires interpretation of complex and difficult geological and geophysical models in order to make an assessment of the size, shape, depth and quality of reservoirs, and their anticipated recoveries. The economic, geological and technical factors used to estimate reserves may change from period to period. Amortisation charged for the year to 30 June 2009 was \$8,835,000 (2008: \$9,544,000).

Future restoration costs

The Consolidated Entity's aim is to avoid or minimise environmental impact resulting from its operations.

Work scope and cost estimates for restoration are reviewed annually and updated at least every three years.

Provision is made in the balance sheet for restoration of operating locations. The estimated costs are capitalised as part of the cost of the related project where recognition occurs upon acquisition of an interest in the operating locations. The costs are then recognised as an expense on a units of production basis during the production phase of the project.

The costs are based on the latest estimated future costs, determined on a discounted basis, which are re-assessed regularly and exclude any allowance for potential changes in technology or material changes in legislative requirements.

The Group accounts for changes in cost estimates on a prospective basis.

(o) Trade and other payables

Trade payables and other accounts payable are recognised when the Consolidated Entity becomes obliged to make future payments resulting from the purchase of goods and services.

(p) Employee benefits

Provision is made for benefits accruing to employees in respect of employee entitlements when it is probable that settlement will be required and these benefits can be measured reliably.

Provisions made in respect of employee entitlements expected to be settled within 12 months are measured at their nominal values using the remuneration rate expected to apply at the time of settlement.

Provisions made in respect of employee benefits which are not expected to be settled within 12 months are measured as the present value of the estimated future cash outflows to be made by the Consolidated Entity in respect of services provided by employees up to reporting date.

(q) Provisions

Provisions are recognised when the Consolidated Entity has a present obligation as a result of a past event, the future sacrifice of economic benefits is probable and the amount of the obligation can be reliably estimated.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognised as an asset if it is virtually certain that recovery will be received and the amount of the receivable can be measured reliably.



Notes to the financial statements

For the year ended 30 June 2009

1. Summary of significant accounting policies (continued)

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at reporting date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cashflows estimated to settle the present obligation, its carrying amount is the present value of those cashflows.

An onerous contract is considered to exist where the Consolidated Entity has a contract under which the unavoidable cost of meeting the contractual obligations exceed the economic benefits estimated to be received. Present obligations arising under onerous contracts are recognised as a provision to the extent that the present obligation exceeds the economic benefits estimated to be received.

Provision for restoration and rehabilitation

Provision is made in the balance sheet for restoration of operating locations. The estimated restoration and rehabilitation costs are initially recognised as part of the capitalised cost of the relevant project which gave rise to the future obligation. During the production phase of the project the capitalised restoration costs is amortised using the units of production method. Any actual costs incurred by the Consolidated Entity are allocated against the provision.

The provision for restoration and rehabilitation are based on the latest estimated future costs, determined on a discounted basis, which are re-assessed regularly and exclude any allowance for potential changes in technology or material changes in legislative requirements.

(r) Contributed equity

Ordinary shares are classified as equity. Mandatorily redeemable preference shares are classified as liabilities.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds. Incremental costs directly attributable to the issue of new shares or options for the acquisition of a business are not included in the cost of the acquisition as part of the purchase consideration.

If the Company reacquires its own equity instruments, e.g. as the result of a share buy-back, those instruments are deducted from equity and the associated shares are cancelled. No gain or loss is recognised in the profit or loss and the consideration paid including any directly attributable incremental costs (net of income taxes) is recognised directly in equity.

(s) Borrowing costs

Borrowing costs are expensed in the period in which they are incurred, except to the extent which they are directly attributable to the acquisition, construction or production of an asset and it is probable that they will result in future economic benefits to the entity and the costs can be measured reliably.

(t) Good and services tax

Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST), except:

- where the amount of GST incurred is not recoverable from the taxation authority, it is recognised as part of the cost of acquisition of an asset or as part of an item of expense; or
- for receivables and payables which are recognised inclusive of GST.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables. Cash flows are included in the cash flow statement on a gross basis. The GST component of cash flows arising from investing and financing activities which is recoverable from, or payable to, the taxation authority is classified as operating cash flows.

(u) Earnings per share

(i) Basic earnings per share

Basic earnings per share is calculated by dividing the profit (loss) attributable to equity holders of the Company, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares on issue during the financial year, adjusted for bonus elements in ordinary shares issued during the year.

(ii) Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.



Notes to the financial statements

For the year ended 30 June 2009

1. Summary of significant accounting policies (continued)

(v) Share-based payments

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 the Binomial 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.

(w) Rounding of amounts

The Company is of a kind referred to in Class order 98/0100, issued by the Australian Securities and Investments Commission, relating to the "rounding off" of amounts in the financial report. Amounts in the financial report have been rounded off in accordance with the class order to the nearest thousand dollars, or in certain cases, the nearest dollar.

(x) New accounting standards and interpretations

The following Australian Accounting Standards have been issued or amended but are not yet effective. The Consolidated Entity has decided against early adoption of these standards. A discussion of the future requirements of the amendments and their impact on the financial accounts of the Consolidated Entity follows:

AASB 3: Business Combinations, *AASB 127: Consolidated and Separate Financial Statements*, *AASB 2008-3: Amendments to Australian Accounting Standards arising from AASB 3 and AASB 127 [AASBs 1, 2, 4, 5, 7, 101, 107, 112, 114, 116, 121, 128, 131, 132, 133, 134, 136, 137, 138 & 139 and Interpretations 9 & 107]* (applicable for annual reporting periods commencing from 1 July 2009) and *AASB 2008-7: Amendments to Australian Accounting Standards — Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate [AASB 1, AASB 118, AASB 121, AASB 127 & AASB 136]* (applicable for annual reporting periods commencing from 1 January 2009). These standards are applicable prospectively and so will only affect relevant transactions and consolidations occurring from the date of application. In this regard, its impact on the Group will be unable to be determined. The following changes to accounting requirements are included:

- acquisition costs incurred in a business combination will no longer be recognised in goodwill but will be expensed unless the cost relates to issuing debt or equity securities;
- contingent consideration will be measured at fair value at the acquisition date and may only be provisionally accounted for during a period of 12 months after acquisition;
- a gain or loss of control will require the previous ownership interests to be remeasured to their fair value;
- there shall be no gain or loss from transactions affecting a parent's ownership interest of a subsidiary with all transactions required to be accounted for through equity;
- dividends declared out of pre-acquisition profits will not be deducted from the cost of an investment but will be recognised as income;
- impairment of investments in subsidiaries, joint ventures and associates shall be considered when a dividend is paid by the respective investee; and
- where there is, in substance, no change to Consolidated Entities interests, parent entities inserted above existing Consolidated Entity's shall measure the cost of its investments at the carrying amount of its share of the equity items shown in the balance sheet of the original parent at the date of reorganisation.

The Consolidated Entity will need to determine whether to maintain its present accounting policy of calculating goodwill acquired based on the parent entity's share of net assets acquired or change its policy so goodwill recognised also reflects that of the non-controlling interest.

AASB 8: Operating Segments and AASB 2007-3: Amendments to Australian Accounting Standards arising from AASB 8 [AASB 5, AASB 6, AASB 102, AASB 107, AASB 119, AASB 127, AASB 134, AASB 136, AASB 1023 & AASB 1038] (applicable for annual reporting periods commencing from 1 January 2009). AASB 8 replaces AASB 114 and requires identification of operating segments on the basis of internal reports that are regularly reviewed by the Consolidated Entities Board for the purposes of decision making. These changes are not expected to impact on the way the Consolidated Entity reports segment results or how it calculates impairment of assets.

AASB 101: Presentation of Financial Statements, *AASB 2007-8: Amendments to Australian Accounting Standards arising from AASB 101*, and *AASB 2007-10: Further Amendments to Australian Accounting Standards arising from AASB 101* (all



Notes to the financial statements

For the year ended 30 June 2009

applicable to annual reporting periods commencing from 1 January 2009). The revised AASB 101 and amendments supersede the previous AASB 101 and redefines the composition of financial statements including the inclusion of a statement of comprehensive income. There will be no measurement or recognition impact on the Consolidated Entity. If an entity has made a prior period adjustment or reclassification, a third balance sheet as at the beginning of the comparative period will be required.

AASB 123: Borrowing Costs and AASB 2007-6: Amendments to Australian Accounting Standards arising from AASB 123 [AASB 1, AASB 101, AASB 107, AASB 111, AASB 116 & AASB 138 and Interpretations 1 & 12] (applicable for annual reporting periods commencing from 1 January 2009). The revised AASB 123 has removed the option to expense all borrowing costs and will therefore require the capitalisation of all borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset. Management has determined that there will be no effect on the Consolidated Entity as a policy of capitalising qualifying borrowing costs has been maintained by the Consolidated Entity.

AASB 2008-1: Amendments to Australian Accounting Standard — Share-based Payments: Vesting Conditions and Cancellations [AASB 2] (applicable for annual reporting periods commencing from 1 January 2009). This amendment to AASB 2 clarifies that vesting conditions consist of service and performance conditions only. Other elements of a share-based payment transaction should therefore be considered for the purposes of determining fair value. Cancellations are also required to be treated in the same manner whether cancelled by the entity or by another party.

AASB 2008-2: Amendments to Australian Accounting Standards — Puttable Financial Instruments and Obligations Arising on Liquidation [AASB 7, AASB 101, AASB 132 & AASB 139 & Interpretation 2] (applicable for annual reporting periods commencing from 1 January 2009). These amendments introduce an exception to the definition of a financial liability to classify as equity instruments certain puttable financial instruments and certain other financial instruments that impose an obligation to deliver a pro-rata share of net assets only upon liquidation.

AASB 2008-5: Amendments to Australian Accounting Standards arising from the Annual Improvements Project (July 2008) (AASB 2008-5) and *AASB 2008-6:* Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project (July 2008) (AASB 2008-6) detail numerous non-urgent but necessary changes to accounting standards arising from the IASB's annual improvements project. No changes are expected to materially affect the Consolidated Entity.

AASB 2008-8: Amendments to Australian Accounting Standards — Eligible Hedged Items [AASB 139] (applicable for annual reporting periods commencing from 1 July 2009). This amendment clarifies how the principles that determine whether a hedged risk or portion of cash flows is eligible for designation as a hedged item should be applied in particular situations and is not expected to materially affect the Consolidated Entity as currently has not hedge instruments of the type dealt with by AASB 139.

AASB 2008-13: Amendments to Australian Accounting Standards arising from AASB Interpretation 17 — Distributions of Non-cash Assets to Owners [AASB 5 & AASB 110] (applicable for annual reporting periods commencing from 1 July 2009). This amendment requires that non-current assets held for distribution to owners be measured at the lower of carrying value and fair value less costs to distribute.

AASB Interpretation 15: Agreements for the Construction of Real Estate (applicable for annual reporting periods commencing from 1 January 2009). The Consolidated Entity doesn't operate in the business sector to which this interpretation applies, therefore Management expect this interpretation to have no impact on the accounts of the Consolidated Entity

AASB Interpretation 16: Hedges of a Net Investment in a Foreign Operation (applicable for annual reporting periods commencing from 1 October 2008). Interpretation 16 applies to entities that hedge foreign currency risk arising from net investments in foreign operations and that want to adopt hedge accounting. The interpretation provides clarifying guidance on several issues in accounting for the hedge of a net investment in a foreign operation and is not expected to impact the Consolidated Entity.

AASB Interpretation 17: Distributions of Non-cash Assets to Owners (applicable for annual reporting periods commencing from 1 July 2009). This guidance applies prospectively only and clarifies that non-cash dividends payable should be measured at the fair value of the net assets to be distributed where the difference between the fair value and carrying value of the assets is recognised in profit or loss.

The Group does not anticipate early adoption of any of the above reporting requirements and does not expect these requirements to have any material effect on the Group's financial statements.



Notes to the financial statements

For the year ended 30 June 2009

2. Critical accounting estimates & judgments

In preparing this financial report the Consolidated Entity has been required to make certain estimates and assumptions concerning future occurrences. There is an inherent risk that the resulting accounting estimates will not equate exactly with actual events and results.

(a) Significant accounting judgements

In the process of applying the Consolidated Entity's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

Functional currency of US-based subsidiary operations

The Group's US based subsidiaries are at this stage financed primarily by means of A\$ denominated loans and/or equity contributions. As such, the functional currency of these subsidiaries has been determined to be A\$, notwithstanding that they also conduct significant US\$ denominated transactions.

Exploration, evaluation and development expenditure (Oil & Gas Properties)

The Group's accounting policy for exploration, evaluation and development is set out at note 1(n). Application of this policy necessarily requires management to make certain estimates and assumptions as to future events and circumstances, in particular, the assessment of whether economic quantities of reserves exist. Any such estimates and assumptions may change as new information becomes available. If, after having capitalised expenditure under our policy, management conclude that it is unlikely that capitalised expenditure will be recovered by future exploitation or sale, the relevant capitalised amount will be written off to the income statement. As at 30 June 2009 the carrying amount of Oil & Gas Properties is \$6,581,000 (2008: \$31,569,000).

Deferred tax assets

The Consolidated Entity has carried forward tax losses which have not been recognised as deferred tax assets as it is not considered sufficiently probable that these losses will be recouped by means of future profits taxable in the appropriate jurisdictions.

In addition, the Consolidated Entity's interests in jointly controlled oil & gas operations are held through the Company's wholly-owned US entities (note 12 (b)). Taxation of oil & gas activities in the US allows a number of alternative treatments which are not available under Australian taxation legislation. In particular, companies may elect to:

- (i) claim an immediate deduction for Intangible Drilling Costs ("IDC"); and
- (ii) must use either the cost or percentage depletion method, whichever yields the largest tax deduction, when calculating applicable tax deductions in relation to the entities economic interest in it oil and gas properties.

The election to expense IDC applies to all expenditures incident to and necessary for the drilling of wells and the preparation of wells for the production of oil or gas. Once the election to expense IDC is made, the election is binding upon the taxpayer for the first taxable year for which it is effective and for all subsequent taxable years.

At balance date a determination had not been made as to whether the cost or percentage depletion method would apply for the current years US income tax calculation. The directors have not recognised or disclosed a deferred tax asset or liability in respect of this potential difference in the tax base of these properties as they do not believe it is capable of being reliably estimated at balance date.

(b) Critical accounting estimates

The carrying amounts of certain assets and liabilities are often determined based on estimates and assumptions of future events. The key estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of certain assets and liabilities within the next annual reporting period are:



Notes to the financial statements

For the year ended 30 June 2009

2. Critical accounting estimates & judgments (continued)

Amortisation

Upon commencement of production, the Company amortises the accumulated costs for the relevant area of interest over the life of the area according to the rate of depletion of the economically recoverable quantities of reserves. Estimates of recoverable reserve quantities include judgemental assumptions regarding commodity prices, exchange rates, discount rates, and production and transportation costs for future cash flows. It also requires interpretation of the quality of reservoirs, and their anticipated recoveries. The economic, geological and technical factors used to estimate reserves may change from period to period. Amortisation charge for the year ended 30 June 2009 was \$8,835,000 (2008: \$9,544,000).

Share-based payment transactions

The Consolidated Entity measures the cost of equity-settled transactions with employees and consultants 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 Binomial model, using the assumptions detailed in note 22.

Rehabilitation obligations

The Consolidated Entity estimates its share of the future removal and remediation costs of oil and gas platforms, production facilities, wells and pipelines at the time of acquisition or installation of the assets. In most instances, removal of assets occurs many years into the future. This requires judgemental assumptions regarding removal date, future environmental legislation, the extent of remediation activities required, the engineering methodology for estimating cost, future removal technologies in determining the removal cost, and asset specific discount rates to determine the present value of these cash flows. For more detail regarding the policy in respect of provision for rehabilitation refer to note 1(q). As at 30 June 2009 rehabilitation obligations have a carrying value of \$1,484,000 (2008: \$1,484,000).

Impairment of assets

In the absence of readily available market prices, the recoverable amounts of assets are determined using estimates of the present value of future cashflows using asset-specific discount rates. For oil & gas properties, these estimates are based on assumptions concerning reserves, future production profiles and costs. As at 30 June 2009, the carrying value of oil & gas properties is \$6,581,000 (2008: \$31,569,000).

3. Segment Information

Primary reporting – Geographical Segments

The Consolidated Entity operates in three main geographical segments, Australia, Europe & Africa and the United States of America.

Australia

Australia is the location of the central management and control of the Company and its principal administrative base. The Company through one of its wholly owned subsidiaries, Globe Resources Pty Ltd, holds mineral exploration licences located in the Northern Territory and South Australia. During the financial year the mineral exploration licences held in South Australia were relinquished.

Europe and Africa

The Consolidated Entity's North Sea and Africa exploration activities and license interests are located in the United Kingdom ("UK") and Sierra Leone, West Africa respectively. During the year the Consolidated Entity's UK and African operations were conducted through the following UK registered subsidiaries, Elixir Petroleum (UK) Ltd, Elixir Petroleum (Europe) Ltd and Elixir Petroleum (Technical Services) Ltd. During the current financial year the Consolidated Entity sold Elixir Petroleum (UK) Ltd along with the Sierra Leone licence (Block SL4) held by this entity.

USA

The Group's interest in the High Island and Pompano projects are held by a wholly-owned US subsidiary, Cottesloe Oil & Gas LLC.



Notes to the financial statements

For the year ended 30 June 2009

3. Segment information (continued)

2009	USA	Europe & Africa	Australia	Unallocated	Discontinued Operation	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Sales	5,556	18	-	-	-	5,574
Other revenue	-	-	-	704	966	1,670
Expenses	(30,484)	(726)	-	(2,417)	(2,181)	(35,808)
Loss before tax	(24,928)	(708)	-	(1,713)	(1,215)	(28,564)
Tax	-	-	-	-	-	-
Loss after tax	(24,928)	(708)	-	(1,713)	(1,215)	(28,564)
Total assets	7,191	2,137	-	7,383	-	16,711
Total liabilities	(1,602)	(150)	-	(559)	-	(2,311)
Depreciation and amortisation	8,835	10	-	-	-	8,845
2008	USA	Europe & Africa	Australia	Unallocated	Discontinued Operation	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Sales	9,120	-	-	-	-	9,120
Other revenue	-	-	-	195	-	195
Expenses	(10,686)	(2,892)	-	(2,151)	-	(15,729)
Loss before tax	(1,566)	(2,892)	-	(1,956)	-	(6,414)
Tax	-	-	-	-	-	-
Loss after tax	(1,566)	(2,892)	-	(1,956)	-	(6,414)
Total assets	36,673	2,596	-	7,870	-	47,139
Total liabilities	(2,574)	(759)	-	(4,134)	-	(7,467)
Depreciation and amortisation	9,544	11	-	-	-	9,555



Notes to the financial statements

For the year ended 30 June 2009

4. Revenue from continuing operations

	Consolidated		Company	
	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
Revenue from oil & gas sales	5,574	9,120	-	-
Interest received	312	169	308	93
	<u>5,886</u>	<u>9,289</u>	<u>308</u>	<u>93</u>

5. Other income

Profit on sale of investments	-	26	183	-
Consultancy fees – controlled entities	-	-	627	-
Unrealised foreign exchange gain	392	-	-	-
	<u>392</u>	<u>26</u>	<u>810</u>	<u>-</u>

6. Expenses

Loss before income tax is arrived at after deducting the following expenses:

Amortisation of oil & gas properties	8,835	9,544	-	-
Depreciation of plant and equipment	10	11	-	-
Employee benefits expense (including share-based payment)	1,748	1,123	1,407	157
Borrowing costs	176	409	176	409
Impairment of receivables from controlled entities	-	-	25,489	4,941
Exploration expenditure expensed	1,187	(2,501)	18	(18)
Impairment of oil and gas properties	18,386	-	-	-

7. Other expenses

Share based payments (note 22)	608	200	605	126
Fair value adjustment on warrants	-	29	-	-
Foreign exchange loss	3	501	92	-
	<u>611</u>	<u>730</u>	<u>697</u>	<u>126</u>



Notes to the financial statements

For the year ended 30 June 2009

8. Income tax

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

	Consolidated		Company	
	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
Prima facie tax benefit on loss at 30% (2008: 30%)	(8,205)	(1,925)	(8,351)	(2,061)
<i>Add tax effect of:</i>				
Foreign/overseas tax losses not recognised	7,178	1,961	-	38
Revenue losses not recognised	633	720	629	691
Effect of lower tax rate on overseas losses	(12)	297	-	-
Share based payments	182	60	182	38
Provisions against Group borrowings	-	-	7,647	1,482
Other non-allowable items	32	35	32	35
<i>Less tax effect of:</i>				
Other deferred tax balances not recognised	192	(1,148)	(139)	(223)
Income tax expense	-	-	-	-
The applicable weighted average tax rates are as follows:	0%	0%	0%	0%

The following deferred tax balances have not been recognised

Deferred tax assets

At 30%

Carry forward revenue losses	2,879	2,246	2,318	1,732
Carry forward foreign losses	-	123	-	95
Capital raising costs	115	310	109	310
Provisions and accruals	110	9	107	9
Other	-	26	-	26
	3,104	2,714	2,534	2,172
At 28% (United Kingdom)				
Carry forward overseas losses	3,338	3,173	-	-

The tax benefits of the above deferred tax assets will only be obtained if:

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



Notes to the financial statements

For the year ended 30 June 2009

8. Income Tax

	Consolidated		Company	
	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
Deferred tax liabilities: At 30%:				
Accrued income	<u>10</u>	<u>-</u>	<u>10</u>	<u>-</u>

The above deferred tax liabilities have not been recognised as they have given rise to carry forward tax losses for which no deferred tax assets has been recognised

9. Earnings/ (loss) per share

	Consolidated	
	2009	2008
	Cents	Cents
Basic / diluted loss per share		
Loss attributable to the ordinary equity holders of the company	<u>(15.1)</u>	<u>(5.0)</u>
Loss used in calculation of basic / diluted loss per share	\$'000	\$'000
Loss attributable to the ordinary equity holders of the company	<u>(28,564)</u>	<u>(6,414)</u>
Weighted average number of ordinary shares used as the denominator in calculating basic / diluted loss per share	<u>188,853,375</u>	<u>130,725,106</u>

The options on issue (note 21) and convertible notes (note 17) represent potential ordinary shares but are not dilutive as they would decrease the loss per share. Accordingly they have been excluded from the weighted average number of ordinary shares and potential ordinary shares used in the calculation of diluted earnings per share.

10. Cash and cash equivalents

	Consolidated		Company	
	2009 \$	2008 \$	2009 \$	2008 \$
Cash at bank and in hand	3,081	4,765	536	984
Deposits at call	<u>5,000</u>	<u>5,839</u>	<u>5,000</u>	<u>5,839</u>
	<u>8,081</u>	<u>10,604</u>	<u>5,536</u>	<u>6,823</u>

Cash at bank bears interest at market rate (floating). Short term deposits are made for varying periods of between one day and three months depending on forecast cash requirements of the Consolidated Entity and earn interest at the respective short term deposit rates.



Notes to the financial statements

For the year ended 30 June 2009

11. Trade and other receivables

Trade receivables	428	3,122	33	-
Other receivables and prepayments	239	335	13	-
Loans to other entities	-	213	-	-
	<u>667</u>	<u>3,670</u>	<u>46</u>	<u>-</u>

Non-current assets

Receivables from subsidiaries				
At cost	-	-	15,357	19,582
Less impairment write down	-	-	(15,357)	(13,961)
	<u>-</u>	<u>-</u>	<u>-</u>	<u>5,621</u>

Trade and other receivables are non-interest bearing and are normally settled on 30 days terms. Amounts receivable from group entities are non interest bearing, with no fixed terms of repayment.

12. Investment in subsidiaries

At cost	-	-	31,194	31,248
Provision for impairment	-	-	(21,823)	-
	<u>-</u>	<u>-</u>	<u>9,371</u>	<u>31,248</u>

(a) Wholly-owned Group

At balance date amounts receivable from controlled entities totaled \$15,357,000 (at cost) (2008:\$19,582,000). The transactions were made interest free with no fixed terms for repayment. Following recent guidance issued by the Australian Standards Board, this receivable has been included within the cost of investment in subsidiaries.

Details of interests in wholly-owned controlled entities are set out at part (b) of this note. Details of dealings with controlled entities are as follows:

Inter-company Account

Elixir Petroleum Limited provides working capital to its controlled entities. Transactions between Elixir Petroleum Limited and other controlled entities in the Consolidated Entity during the year ended 30 June 2009 consisted of:

- (i) Working capital advanced by Elixir Petroleum Limited.
- (ii) Provision of services by Elixir Petroleum Limited.
- (iii) Expenses paid by Elixir Petroleum Limited on behalf of its controlled entities.

The above transactions were made interest free with no fixed terms for the repayment of amounts advanced by Elixir Petroleum Limited.



Notes to the financial statements

For the year ended 30 June 2009

12. Investment in subsidiaries (continued)

(b) Investments in controlled entities

Name of Entity	Country of incorporation	Class of shares	Parent Equity holding	
			2009	2008
Elixir Petroleum (Australia) Pty Ltd	Australia	Ordinary	100%	100%
Transition Resources Ltd	Australia	Ordinary	100%	100%
Globe Resources Pty Ltd	Australia	Ordinary	100%	100%
Elixir Petroleum (UK) Ltd ⁽¹⁾	United Kingdom	Ordinary	-	100%
Elixir Petroleum (Europe) Ltd ⁽²⁾	United Kingdom	Ordinary	100%	100%
Elixir Petroleum (Technical Services) Ltd ⁽³⁾	United Kingdom	Ordinary	100%	-
Cottesloe Oil & Gas LLC	USA	Ordinary	100%	100%
Cottesloe Oil & Gas Inc	USA	Ordinary	100%	100%

(1) Discontinued Operations.

(2) Formerly Elixir Petroleum (RSL) Ltd.

(3) Incorporated in the current financial year.

(c) Ultimate Parent Company

Elixir Petroleum Limited, an ASX listed public company incorporated and domiciled in Australia, is the ultimate parent of the Consolidated Group.

(d) Corporate restructure

During the financial year the Consolidated Entity undertook a restructure of its UK and African exploration assets. The restructure resulted in the incorporation of a new UK registered entity, Elixir Petroleum (Technical Services) Limited. A decision was also made to sell Elixir Petroleum (UK) Limited, along with its interest in the Sierra Leone exploration licence, Block SL-4. Prior to the sale of Elixir Petroleum (UK) Limited, all assets and liabilities of the entity which were not related to the Block SL-4 licence were sold to other members of the Consolidated Entity as part of the Sale and Purchase Agreement between Elixir Petroleum Limited and Prontinal Ltd. At the date of sale, being 30 April 2009, Elixir Petroleum (UK) Ltd ceased to be a member of the Consolidated Entity as it no longer met the consolidation requirements of *AASB 127 Consolidated and Separate Financial Statements*. Financial information in relation to Elixir Petroleum (UK) Limited can be found in the discontinued operations information disclosed in note 33.



Notes to the financial statements

For the year ended 30 June 2009

13. Oil and gas properties

	Consolidated		Company	
	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
Producing projects				
At cost	40,958	41,113	-	-
Less amortisation	(18,379)	(9,544)	-	-
Impairment adjustment	(16,119)	-	-	-
	<u>6,460</u>	<u>31,569</u>	<u>-</u>	<u>-</u>
Development projects				
At cost	3,471	-	-	-
Less amortisation	-	-	-	-
Impairment adjustment	(2,266)	-	-	-
Written off	(1,084)	-	-	-
	<u>121</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total	<u>6,581</u>	<u>31,569</u>	<u>-</u>	<u>-</u>

A reconciliation of movements in oil & gas properties during the year is as follows:

	Tangible Costs \$'000	Intangible Costs \$'000	Prepaid Drilling & Completion Costs \$'000	Total \$'000
Producing Projects				
At Cost				
At 1 July 2007	-	-	-	-
Acquired with subsidiary	1,629	31,440	-	33,069
Additions	1,384	5,176	-	6,560
	<u>3,013</u>	<u>36,616</u>	<u>-</u>	<u>39,629</u>
Additions	(9)	(158)	-	(167)
Provision for impairment	-	(16,119)	-	(16,119)
Net movement in prepaid	-	-	12	12
	<u>3,004</u>	<u>20,339</u>	<u>12</u>	<u>23,355</u>



Notes to the financial statements

For the year ended 30 June 2009

13. Oil and gas properties (continued)

	Tangible Costs \$'000	Intangible Costs \$'000	Prepaid Drilling & Completion Costs \$'000	Total \$'000
Associated future restoration costs capitalised				
At 1 July 2007	-	-	-	-
Additions	-	1,484	-	1,484
At 1 July 2008	-	1,484	-	1,484
Additions	-	-	-	-
At 30 June 2009	3,004	21,823	12	24,839
Accumulated amortisation				
At 1 July 2007	-	-	-	-
Charge for the year	(700)	(8,844)	-	(9,544)
At 1 July 2008	(700)	(8,844)	-	(9,544)
Charge for the year	-	(8,835)	-	(8,835)
At 30 June 2009	(700)	(17,679)	-	(18,379)
At 1 July 2008	2,313	29,256	-	31,569
At 30 June 2009	2,304	4,144	12	6,460
Development projects				
At 1 July 2008	-	-	-	-
Additions	19	3,452	-	3,471
Provision for impairment	-	(2,266)	-	(2,266)
Written off	-	(1,084)	-	(1,084)
At 30 June 2009	19	102	-	121
Total oil & gas properties	2,323	4,246	12	6,581

14. Plant and equipment

	Consolidated		Company	
	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
Plant and equipment				
At cost	10	14	-	-
Additions	112	8	-	-
Accumulated depreciation	(34)	(11)	-	-
Foreign exchange movement	(1)	(1)	-	-
	87	10	-	-



Notes to the financial statements

For the year ended 30 June 2009

15. Deferred exploration & evaluation expenditure

	Consolidated		Company	
	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
Opening balance	1,286	1,803	-	-
Capitalised expenditure during the year	439	973	-	-
Written-off during the year	(376)	(1,211)	-	-
Foreign exchange movements	(54)	(279)	-	-
	<u>1,295</u>	<u>1,286</u>	<u>-</u>	<u>-</u>

The ultimate recoupment of exploration expenditure carried forward is dependent on successful development and exploitation, or alternatively sale, or the respective area of interest.

16. Trade and other payables

Trade payables ⁽¹⁾	513	2,441	259	478
Shares to be issued ⁽²⁾	-	518	-	518
Other payables ⁽³⁾	44	24	23	24
	<u>557</u>	<u>2,983</u>	<u>282</u>	<u>1,020</u>

(1) Trade payables are non interest-bearing and are normally settled on 30 day terms.

(2) Shares to be issued relate to proceeds from acceptances under the Company's 1 for 8 entitlement offer announced on 29 May 2008 which had been received as at balance date (30 June 2008).

(3) Other payables are non interest-bearing and are normally settled on 30 day terms.

17. Borrowings

	Company & Group		Company & Group	
	2009 \$ '000	2008 \$ '000	2009 Number	2008 Number
Convertible notes	-	3,000	-	8,571,429

On 1 February 2008 the Company issued 8,571,429 convertible notes to raise \$3,000,000 before associated costs. The convertible notes had the following terms:

- (i) unsecured;
- (ii) conversion price of \$0.35 per share;
- (iii) accrued interest at 10% of face value; and
- (iv) convertible at any time on or before 31 December 2008 or redeemable at face value plus interest on 31 January 2009.

The fair value of these borrowings at 30 June 2008 was equal to their carrying value of \$3,000,000.

During the current financial year the convertible notes were redeemed at a cost of \$3,000,000. Interest payable on the convertible notes up until the redemption date is included in finance costs on the income statement.



Notes to the financial statements

For the year ended 30 June 2009

18. Provisions

	Consolidated		Company	
	2009	2008	2009	2008
	\$ '000	\$ '000	\$ '000	\$ '000
Current				
Provision for annual leave	49	-	49	-
Provision for termination benefits	221	-	221	-
	<u>270</u>	<u>-</u>	<u>270</u>	<u>-</u>
Non-current				
Provision for restoration costs	<u>1,484</u>	<u>1,484</u>	<u>-</u>	<u>-</u>

The Consolidated Entity's policy with regard to providing for its share of future restoration costs for jointly controlled assets is documented in note 1(q). Movements in this provision during the current and prior year are as follows:

	2009	2008	2009	2008
Non-current				
Opening balance	1,484	-	-	-
Recognised on project acquisition or commencement	<u>-</u>	<u>1,484</u>	<u>-</u>	<u>-</u>
Closing balance	<u>1,484</u>	<u>1,484</u>	<u>-</u>	<u>-</u>

19. Contributed equity

Share capital	No.	No.	\$'000	\$'000
Fully paid ordinary shares	<u>188,988,472</u>	<u>181,117,922</u>	<u>60,644</u>	<u>58,609</u>

Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of the Company in proportion to the number of shares held. On a show of hands every holder of ordinary shares present at a meeting or by proxy, is entitled to one vote. Upon a poll every holder is entitled to one vote per share held.



Notes to the financial statements

For the year ended 30 June 2009

19. Contributed equity (continued)

Movements in share capital during the current and prior financial year are as follows:

Description	Date	Number of shares	Issue Price	\$'000
2008				
Opening balance	01 Jul 07	72,224,791		22,500
Conversion of convertible notes	09 Nov 07	10,700,000	\$0.250	2,675
Issued as consideration to acquire Gawler (at fair value)	14 Nov 07	69,312,992	\$0.365	25,299
Issued to advisor	21 Nov 07	1,000,000	\$0.200	200
Exercise of options	08 Feb 08	7,880,139	\$0.001	8
Transfer from option premium reserve for exercised options	08 Feb 08			2,868
Placement	10 Jun 08	20,000,000	\$0.270	5,400
Less: transaction costs				(341)
Balance	30 Jun 08	<u>181,117,922</u>		<u>58,609</u>
2009				
Rights issue	01 Jul 08	1,950,550	\$0.270	527
Placement	08 Jul 08	5,920,000	\$0.270	1,598
Less: transaction costs				(90)
Closing balance	30 Jun 09	<u>188,988,472</u>		<u>60,644</u>

The Consolidated Entity's objectives when managing capital are to safeguard its ability to continue as a going concern so that it can provide returns for shareholders and benefits for other stakeholders, and maintain a capital structure appropriate to the size, stage and nature of its activities whilst reducing the cost of capital where possible.

In order to maintain or adjust the capital structure, the Company may issue new shares, adjust future dividend payments, return capital to shareholders or sell assets.

During the year the Consolidated Entity retired \$3,000,000 of debt, in the form of convertible notes, through the cash settlement of the outstanding amount borrowed. At balance date the Consolidated Entity had no debt facilities in place (2008: \$3,000,000). In future periods the Consolidated Entity may seek to increase gearing levels if required.

The Company and its subsidiaries are not subject to any externally imposed capital requirements.



Notes to the financial statements

For the year ended 30 June 2009

20. Reserves and accumulated losses

	Consolidated		Company	
	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
Option premium reserve				
Balance 30 June	<u>1,773</u>	<u>1,773</u>	<u>1,773</u>	<u>1,773</u>
Foreign currency translation reserve				
Balance 30 June	<u>216</u>	<u>(510)</u>	<u>-</u>	<u>-</u>
Share-based payment reserve				
Balance 30 June	<u>731</u>	<u>200</u>	<u>731</u>	<u>200</u>
Accumulated losses				
Balance 30 June	<u>(48,964)</u>	<u>(20,400)</u>	<u>(48,748)</u>	<u>(20,910)</u>

The option premium reserve is used to record any premium received upon grant of options.

The share-based payment reserve is used to record the deferred expense in relation to share based payments.

The foreign currency translation reserve is used to record exchange differences arising on consolidation of subsidiaries with different functional currencies from the Company.

The financial assets reserve is used to record changes in the fair value of available-for-sale financial assets.

With respect to the payment of dividends (if any) by the Company in subsequent financial years, no franking credits are currently available, or are likely to become available in the next 12 months. No dividends were paid or declared during the current financial year.

21. Options

As at balance date, the Company and Consolidated Entity have the following classes of options on issue:

Type	2009 Number	2008 Number	Exercise Price (\$)	Expiry
Ambrian Options (EXRAO)	637,148	637,148	0.600	16-May-10
ESOP Tranche 1 (EXRAI)	2,000,000	2,000,000	0.250	31-Mar-11
ESOP Tranche 2 (EXRAI)	3,250,000	3,250,000	0.300	31-Mar-12
ESOP Tranche 3 (EXRAI)	2,750,000	2,750,000	0.350	31-Mar-13
	<u>8,637,148</u>	<u>8,637,148</u>		

These options are unlisted and carry no dividend or voting rights. Upon exercise, each option is convertible into one ordinary share to rank *pari passu* in all respects with the Company's existing fully paid ordinary shares.



Notes to the financial statements

For the year ended 30 June 2009

21. Options (continued)

There was no movement in the number of options on issue during the current financial year.

Date	Number
At 1 July	8,637,148
Movement	-
At 30 June	8,637,148

22. Share-based payments

Employee Share Option Plan

The granting of up to 15,000,000 options under the Elixir Employee Share Option Plan ("Plan") was approved by shareholders at a general meeting held on 26 June 2008. Under the terms of the Plan the Board may offer options to eligible persons (as determined by the Board) at such times and on such terms as the Board considers appropriate.

The fair value of options granted was calculated using the binomial option pricing model. An expense is recognised on a pro rata basis over the period from grant date to vesting date.

No options were granted during the current financial year. The weighted average fair value of options granted during the year was \$0.00 per option (2008: \$0.11), no options were forfeited during the year. Key inputs to the model used in the calculation were as follows (see also Directors' Report):

2009

No options were granted during the current financial year.

2008	Grant date*	ESOP Tranche 1	ESOP Tranche 2	ESOP Tranche 3
		EXRAI	EXRAI	EXRAI
		26-Jun-08	26-Jun-08	26-Jun-08
Expected price volatility		70%	70%	70%
Exercise price		\$0.25	\$0.30	\$0.35
Expiry Date		31-Mar-11	31-Mar-12	31-Mar-13
Share price at grant date		\$0.26	\$0.26	\$0.26

* In accordance with AASB2, grant date for accounting purposes has been deemed to be the date shareholders approved the grant of options under the Plan, rather than the actual dates of Offer and Acceptance under the Plan.

Vesting terms for the options granted under the Plan are as follows:

Tranche 1 – Not exercisable until 1 July 2008

Tranche 2 – Not exercisable until 31 March 2009

Tranche 3 – Not exercisable until 31 March 2010



Notes to the financial statements

For the year ended 30 June 2009

23. Reconciliation of loss after income tax to net cash outflow from operating activities

	Consolidated		Company	
	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
Operating loss from continuing operations after tax	(27,349)	(6,414)	(27,838)	(6,869)
Non-cash items				
Impairment write down of investment in controlled entities	-	-	25,489	4,941
Impairment write down of oil and gas properties	18,386			
Depreciation, depletion & amortisation	8,835	9,555	-	-
Exploration & evaluation costs written down	1,187	1,211	-	-
Share-based payment	530	200	605	126
Profit on sale of subsidiary	-	-	(326)	-
Net exchange rate differences	(445)	-	92	-
Non-operating cashflows				
Finance costs	176	409	176	409
Underwriting fee	-	134	-	-
Interest income	(279)	(169)	(275)	(93)
Movement in assets and liabilities				
Increase / (decrease) in current liabilities	(2,261)	1,048	(219)	467
(Increase) / decrease in current assets	2,605	(3,412)	(45)	20
Increase in provisions	270	-	270	-
Drilling costs netted against revenue	-	(1,224)	-	-
Net cash inflow / (outflow) from operating activities	<u>1,655</u>	<u>1,338</u>	<u>(2,071)</u>	<u>(999)</u>

24. Jointly controlled assets

At the balance date, the Consolidated Entity has working interests in joint operating agreements for the following projects:

Project	Blocks	Activity	Location	Working interest
High Island Project	268A	Oil & Gas field, production project	USA	30%
Pompano Project	446-L SE/4	Oil & Gas field, production project	USA	25%
Red Fish Prospect	479-L N/2 & NE/4	Oil & Gas, exploration project	USA	25%
Mulle Prospect	211/22b	Oil & Gas, appraisal project	UK	40%
Leopard Prospect	211/18b	Oil & Gas, exploration project	UK	56%
Bobcat Prospect*	21/16b	Oil & Gas, exploration project	UK	40%
Fat Cat Prospect	13/25	Oil & Gas, exploration project	UK	12.5%

*Bobcat Prospect – The tenement was relinquished in April 2009.

Details of capital commitments in respect of these jointly controlled assets are disclosed in note 31.



Notes to the financial statements

For the year ended 30 June 2009

25. Key management personnel disclosures

(a) The directors of Elixir Petroleum Limited during the year were:

2009

Mr Jonathan Stewart – Executive Chairman

Mr Andrew Ross - Managing Director

Mr Iain Knott - Executive Director

Mr Trevor Benson - Non-Executive Director (*ceased 30 June 2009*)

Dr John Robertson - Non-Executive Director

(b) Other key management personnel

Mr David Lim – Chief Financial Officer & Company Secretary (*commenced 28 April 2009*).

Mr Alex Neuling – Chief Financial Officer & Company Secretary (*ceased 9 April 2009*).

(c) Key management personnel compensation

	Consolidated		Company	
	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
Short term employee benefits	933	1,026	1,198	159
Post-employment benefits	19	11	19	11
Share-based payments	531	200	531	101
	<u>1,483</u>	<u>1,237</u>	<u>1,748</u>	<u>271</u>



Notes to the financial statements

For the year ended 30 June 2009

25. Key management personnel disclosures (continued)

(d) Equity instrument disclosures relating to Key Management Personnel

Option holdings

The number of options over ordinary shares in the Company held during the financial year by each director of Elixir Petroleum Limited and other key management personnel of the Consolidated Entity, including their personally related parties, are set out below.

	Balance at 1 July	Granted as compensation	Exercised during the year	Net other change	Balance when ceased to be a director	Balance at 30 June
2009						
Directors						
Current						
Jonathan Stewart	2,500,000	-	-	-	-	2,500,000
Andrew Ross	2,500,000	-	-	-	-	2,500,000
Iain Knott	2,500,000	-	-	-	-	2,500,000
Trevor Benson ⁽¹⁾	250,000	-	-	-	(250,000)	-
John Robertson	250,000	-	-	-	-	250,000
Other executives						
David Lim ⁽²⁾	-	-	-	-	-	-
	8,000,000	-	-	-	(250,000)	7,750,000
2008						
Directors						
Current						
Jonathan Stewart	-	2,500,000	-	-	-	2,500,000
Andrew Ross	-	2,500,000	-	-	-	2,500,000
Iain Knott	2,000,000	2,500,000	-	(2,000,000)	-	2,500,000
Trevor Benson	-	250,000	-	-	-	250,000
John Robertson	250,000	250,000	-	(250,000)	-	250,000
Former						
Russell Langusch	3,000,000	-	-	(3,000,000)	-	-
Kent Hunter	-	-	-	-	-	-
Other executives						
Alex Neuling ⁽³⁾	-	-	-	-	-	-
	5,250,000	8,000,000	-	(5,250,000)	-	8,000,000

(1) Mr. Benson ceased being a Director on 30 June 2009.

(2) Mr. Lim commenced as CFO on 28 April 2009 and was appointed Company Secretary on 5 May 2009.

(3) Mr. Neuling ceased as CFO and Company Secretary on 9 April 2009.

Details of options provided as remuneration and shares issued on exercise of such options, together with the terms and conditions of the options, can be found in the section of the Directors' Report titled "Remuneration Report".



Notes to the financial statements

For the year ended 30 June 2009

25. Key management personnel disclosures (continued)

Share holdings

The numbers of shares in the Company held during the financial year by each director of Elixir Petroleum Limited and other Key Management Personnel of the Consolidated Entity, including their personally related parties, are set out below. No shares were granted as compensation during the current reporting period.

	Balance at 01 July	Initial held when appointed	Exercised during the year	Net other change	Balance when ceased to be director	Balance at 30 June
2009						
Directors						
Current						
Jonathan Stewart ⁽¹⁾	281,250	-	-	-	-	281,250
Andrew Ross	35,000	-	-	-	-	35,000
Iain Knott	-	-	-	-	-	-
Trevor Benson	-	-	-	-	-	-
John Robertson	425,000	-	-	-	-	425,000
Other executives						
David Lim ⁽²⁾	-	-	-	-	-	-
Alex Neuling ⁽³⁾	-	-	-	-	-	-
	741,250	-	-	-	-	741,250
2008						
Directors						
Current						
Jonathan Stewart ⁽¹⁾	-	250,000	-	31,250	-	281,250
Andrew Ross	-	35,000	-	-	-	35,000
Iain Knott	-	-	-	-	-	-
Trevor Benson ⁽⁴⁾	-	-	-	-	-	-
John Robertson	425,000	-	-	-	-	425,000
Former						
Russell Langusch	750,000	-	-	-	750,000	-
Kent Hunter	375,000	-	-	-	375,000	-
Other executives						
Alex Neuling ⁽³⁾	-	-	-	-	-	-
	1,550,000	285,000	-	31,250	1,125,000	741,250

(1) The holding above excludes the 24,000,000 shares held by Aurora Oil & Gas Ltd (ASX:AUT). Mr. Stewart is Chairman of Aurora Oil & Gas Ltd which is not a related party under the Corporations Act.

(2) Mr. Lim commenced as CFO and Company Secretary on 5 May 2009.

(3) Mr. Neuling ceased as CFO and Company Secretary on 9 April 2009.

(4) Mr. Benson ceased being a Director on 30 June 2009.



Notes to the financial statements

For the year ended 30 June 2009

26. Related party transactions

Transactions with controlled entities are disclosed in note 12. Compensation and equity transactions with Key Management Personnel are disclosed in note 25 and in the section of the Directors' Report titled "Remuneration Report".

Details of other transactions with related parties during the current and prior financial year are set out below:

	Note	Consolidated		Company	
		2009	2008	2009	2008
		\$	\$	\$	\$
Payments for services	(i)	<u>163,492</u>	<u>94,184</u>	<u>163,492</u>	<u>94,184</u>
		163,492	94,184	163,492	94,184

(i) During the year an amount of \$163,492 (2008: \$94,184) was paid on commercial terms for office accommodation (rental & outgoings), car parking & office equipment to Epicure Administration Pty Ltd, a company of which Mr. Jonathan Stewart, Chairman, is also a director and beneficial shareholder.

27. Deed of cross guarantee

Elixir Petroleum Limited and Elixir Petroleum (Australia) Pty Ltd are parties to a deed of cross guarantee under which each company guarantees the debts of the other. By entering into the deed, the wholly-owned entities have been relieved from the requirement to prepare a financial report and directors' report under class Order 98/1418 (as amended) issued by the Australian Securities and Investments Commission.

(a) Consolidated income statements and a summary of movements in consolidated retained earnings

The above companies represent a "Closed Group" for the purposes of the Class Order, and as there are no other parties to the Deed of Cross Guarantee that are controlled by Elixir Petroleum Limited, they also represent the "Extended Closed Group".

Set out below is a consolidated income statement and a summary of movements in consolidated retained earnings for the year ended 30 June 2009 of the Closed Group consisting of Elixir Petroleum Limited and Elixir Petroleum (Australia) Pty Ltd.



Notes to the financial statements

For the year ended 30 June 2009

27. Deed of cross guarantee (continued)

(i) Income Statement for the year ended 30 June 2009

	Closed Group	
	2009	2008
	\$'000	\$'000
General & administrative costs	(2,628)	(1,507)
Share based payment expenses	(605)	(126)
Other income	810	-
EBITDAX	(2,423)	(1,633)
Exploration & evaluation costs written off	18	(11)
Provision against loans to Elixir Group companies (outside the Closed Group / Extended Closed Group)	(4,120)	(4,995)
EBIT	(6,525)	(6,639)
Finance income	312	102
Finance costs	(176)	(409)
Loss before income tax	(6,389)	(6,946)
Income tax expense / benefit	-	-
Net loss attributable to members of Closed Group	(6,389)	(6,946)
<u>Movement in accumulated losses for the year end 30 June</u>		
Closed Group accumulated losses at 1 July	(20,987)	(14,041)
Net loss of Closed Group for the year to 30 June	(6,389)	(6,946)
Closed Group accumulated losses as at 30 June	(27,376)	(20,987)



Notes to the financial statements

For the year ended 30 June 2009

27. Deed of cross guarantee (continued)

(ii) Balance sheet for the period ended 30 June 2009

	Closed Group	
	2009 \$'000	2008 \$'000
Assets		
Current assets		
Cash and cash equivalents	7,337	7,877
Trade and other receivables	47	-
Total current assets	7,384	7,877
Non-current assets		
Receivables	6,174	12,913
Investment in subsidiaries	22,775	22,828
Total non-current assets	28,949	35,742
Total assets	36,333	43,618
Liabilities		
Current liabilities		
Trade and other payables	290	1,023
Borrowings	-	3,000
Provisions	270	-
Total liabilities	560	4,023
Net assets	35,773	39,595
Equity		
Contributed equity	60,644	58,609
Reserves	2,504	1,973
Accumulated losses	(27,376)	(20,987)
Total parent entity interest in equity	35,772	39,595

28. Remuneration of auditors

During the year the following fees were paid or payable for services provided by the auditors of the Consolidated Entity, its related practices and non-related audit firms:

	Consolidated		Company	
	2009 \$	2008 \$	2009 \$	2008 \$
Mack & Co for:				
- an audit or review of financial reports and other audit work under the Corporations Act 2001	57,200	48,500	57,200	48,500
MacIntyre Hudson LLP for:				
- an audit of UK subsidiary accounts	28,854	31,597	-	-
Total remuneration for audit services	86,054	80,097	57,200	48,500



Notes to the financial statements

For the year ended 30 June 2009

29. Financial risk management

The Company's board of directors ("Board") performs the duties of a risk management committee in identifying and evaluating sources of financial and other risks. The Board seeks to balance the potential adverse effects of financial risks on the Consolidated Entity's financial performance and position with the "upside" potential made possible by exposure to these risks. The Board manages the risks facing the Consolidated Entity by regularly monitoring the various risks affecting the business and regularly reviewing the entities operating activities, financial performance and position both prospectively and retrospectively.

AASB 132 Financial Instruments Presentation and Disclosure requires the disclosure of information to assist users of the financial report in assessing the extent of risks related to financial instruments faced by the Consolidated Entity. These risks include financial risks such as market risks (including currency risk, fair value interest rate risk and commodity price risk), credit risk & liquidity risk. These disclosures are not, nor are they intended to be an exhaustive list of risks to which the Consolidated Entity is exposed.

(a) Market risk

(i) Commodity price risk

As a result of its operations, the Consolidated Entity is exposed to commodity price risk arising due to fluctuations in the prices of natural gas and crude oil. The demand for, and prices of, natural gas and crude oil are dependent on a variety of factors, including:

- Supply and demand;
- The level of consumer product demand;
- Weather conditions;
- The price and availability of alternative fuels;
- Actions taken by governments and international cartels; and,
- Global economic and political developments.

During the year the Board decided that it would not be beneficial for the Consolidated Entity to purchase forward contracts or other derivative financial instruments to hedge its commodity price risk. Factors which the Board considered in arriving at this position included the expense of purchasing such instruments, the low spot price of gas and the inherent difficulties associated with forecasting future production levels. The Board regularly monitors oil and gas prices and market factors that affect these prices. In future periods the Board may decide to enter into hedges to manage the Consolidated Entity's exposure to commodity price risk if it is beneficial to do so.

(ii) Foreign exchange risk

The Company's management is based in Australia, its shares are listed on the Australian Securities Exchange and the Consolidated Entity reports its financial performance and position in Australian dollars (\$A). The Consolidated Entity maintains a UK office and, as its activities include operations in the south of the USA, it also has significant United States dollar (\$US) denominated cash flows. As a result of these factors, the Consolidated Entity is exposed to foreign exchange risk arising from fluctuations in the \$A / \$US and \$A / £GBP exchange rates.

During the year the Board decided that it would not be beneficial for the Consolidated Entity to purchase forward contracts or other derivative financial instruments to hedge its foreign exchange risk. Factors which the board considered in arriving at this position included, the expense of purchasing such instruments, the inherent difficulties associated with forecasting the timing and quantum of \$US cash inflows and outflows, the natural hedge provided by \$US denominated production and the Consolidated Entity's \$US cash holdings. The Board regularly monitors the Consolidated Entity's foreign exchange requirements and its foreign exchange risk. The Board may in future periods enter into transactions to hedge its foreign exchange risk if it is beneficial to do so.



Notes to the financial statements

For the year ended 30 June 2009

29. Financial risk management (continued)

The Consolidated Entity's exposure to foreign currency risk at the reporting date was as follows:

	2009		2008	
	US\$'000	£'000	US\$'000	£'000
Cash	1,635	264	2,869	232
Trade and other receivables	318	110	3,204	161
Trade payables	(95)	(73)	(1,047)	(365)
	<u>1,858</u>	<u>301</u>	<u>5,026</u>	<u>28</u>

Group sensitivity

Based on the financial instruments held at reporting date, with all other variables assumed to be held constant, the table below sets out the notional effect on consolidated loss after tax for the year and equity at reporting date under varying hypothetical fluctuations in prevailing exchange rates:

	Consolidated	
	2009 \$'000	2008 \$'000
Hypothetical 10% strengthening of AU\$ relative to US\$ and £		
Increase / (decrease) in loss after tax	266	481
Increase / (decrease) in equity	(266)	(481)
Hypothetical 10% weakening of AU\$ relative to US\$ and £		
Increase / (decrease) in loss after tax	(325)	(588)
Increase / (decrease) in equity	325	588

(iii) Interest rate risk

As at, and during the year ended on balance date, the Consolidated Entity had no significant interest-bearing assets or liabilities other than liquid funds on deposit and convertible notes (fixed rate). As such, the Consolidated Entity's income and operating cash flows (other than interest income from funds on deposit) are substantially independent of changes in market interest rates. The Consolidated Entity's exposure to interest rate risk and the effective weighted average interest rate for each class of financial assets and liabilities is set out below.

	Consolidated		Company	
	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
Financial Assets				
Cash assets				
Floating rate*	<u>8,081</u>	<u>10,604</u>	<u>5,536</u>	<u>6,823</u>

Weighted average effective interest rate 2.8% (2008: 6.3%).



Notes to the financial statements

For the year ended 30 June 2009

29. Financial risk management (continued)

Company and Consolidated Entity sensitivity

Based on the financial instruments held at reporting date, with all other variables assumed to be held constant, the table below sets out the notional effect on consolidated loss after tax for the year and equity at reporting date under varying hypothetical changes in prevailing interest rates:

	Consolidated		Company	
	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
Hypothetical 80 basis point increase				
Increase / (decrease) in loss after tax	(65)	(85)	(44)	(55)
Increase / (decrease) in equity	65	85	44	55
Hypothetical 80 basis point decrease				
Increase / (decrease) in loss after tax	65	85	44	55
Increase / (decrease) in equity	(65)	(85)	(44)	(55)

(b) Credit risk

The Consolidated Entity seeks to trade only with recognised, trustworthy third parties and it is the Consolidated Entity's policy to perform credit verification procedures in relation to any customers wishing to trade on credit terms with the Consolidated Entity.

Notwithstanding the above, the Consolidated Entity is exposed to level of credit risk arising from the fact that a large proportion of its receivables and non-current oil & gas assets relate to its interests in projects operated by private companies.

The Board are of the opinion that the credit risk arising as a result of this concentration of the Consolidated Entity's assets is more than offset by the potential benefits to be gained through continuing to build on the Consolidated Entity's relationship with the operators of its existing projects.

The maximum exposure to credit risk at the reporting date is the carrying amount of the assets as summarised below, none of which are impaired. The Group has a number of recourse options available in the event of counterparty default, including but not limited to de facto security over jointly held assets.

	Consolidated		Company	
	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
Trade and other receivables	667	3,670	46	-
Total	667	3,670	46	-

(c) Liquidity risk

Prudent liquidity management involves the maintenance of sufficient cash, marketable securities, committed credit facilities and access to capital markets. It is the policy of the Board to ensure that the Consolidated Entity is able to meet its financial obligations and maintain the flexibility to pursue attractive investment opportunities through keeping committed credit lines available where possible, and ensuring that the Consolidated Group has sufficient working capital and preserving the 15% share issue limit available to the Company under the ASX Listing Rules.

Maturities of financial liabilities

Consolidated Entity - As at reporting date the Consolidated Entity had total financial liabilities of \$557,289 (2008: \$5,983,171), comprised of non interest-bearing trade creditors and accruals with a maturity of less than 6 months.

Company - As at reporting date the Company had total financial liabilities of \$282,422 (2008: \$4,019,548), comprised of non interest-bearing trade creditors and accruals with a maturity of less than 6 months.



Notes to the financial statements

For the year ended 30 June 2009

29. Financial risk management (continued)

(d) Net fair value

The carrying amount of financial assets and liabilities recorded in the financial statements approximate their fair value as at 30 June 2009.

30. Subsequent events

There are no significant events that have occurred since balance date requiring separate disclosure.

31. Commitments and contingencies

The Consolidated Entity has no contingent assets or liabilities at balance date and has no firm contractual commitments for expenditure not reflected in the financial statements other than:

	Consolidated		Company	
	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
Capital commitments				
Within one year	-	1,400	-	-
Total	-	1,400	-	-
Non-cancellable operating lease commitments				
Within one year	77	54	-	-
More than one year but less than five years	232	79	-	-
Total	309	133	-	-

During the year a rental lease to which Elixir Petroleum (UK) Ltd (*discontinued operation*) was party, was assigned to Elixir Petroleum (Technical Services) Ltd. At balance date the remaining lease term was 4 years (2008: 5 years).

32. Dividends

No dividends have been proposed or paid during the year (2008: Nil).

33. Discontinued operations

During the current financial year Elixir Petroleum (UK) Limited together with its interest in exploration licence, Block SL-4, located in Sierra Leone was sold. The decision to divest this licence was made on the basis that the continued involvement with the license was not in the best interest of the Consolidated Entity. Sale of Elixir Petroleum (UK) Limited, which held the interest in Block SL-4, to Prontinal Limited was completed on 30 April 2009. Prior to the sale of Elixir Petroleum (UK) Limited to Prontinal Ltd, interests held in exploration licences other than Block SL-4, along with various assets and liabilities held by the disposal company were acquired by other members of the Consolidated Entity.



Notes to the financial statements

For the year ended 30 June 2009

33. Discontinued operation (continued)

The financial performance and cash flows from the discontinued operation, Elixir Petroleum (UK) Limited, are set out below.

(i) Financial performance of discontinued operation

The financial performance information presented is for the 10 months to 30 April 2009 and the year ended 30 June 2008. This is the period when the Consolidated Entity controlled the discontinued operation.

	Consolidated		Company	
	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
Revenue from discontinued operation				
Interest earned	4	67	-	-
Gain on sale of assets	850	-	-	-
Gain on disposal of investment	-	26	-	-
Unrealised foreign exchange gains	112	-	-	-
Total Revenue	<u>966</u>	<u>93</u>	<u>-</u>	<u>-</u>
Expenses				
Other expenses	(930)	(1,620)	-	-
Depreciation and amortisation expense	-	-	-	-
Exploration & evaluation costs written off	(317)	(1,273)	-	-
Loss on disposal of subsidiary	(934)	-	-	-
	<u>(2,181)</u>	<u>(2,893)</u>	<u>-</u>	<u>-</u>
Loss before income tax	<u>(1,215)</u>	<u>(2,800)</u>	<u>-</u>	<u>-</u>
Income tax expense	-	-	-	-
Loss from discontinued operation	<u>(1,215)</u>	<u>(2,800)</u>	<u>-</u>	<u>-</u>
Earnings / (loss) per share				
Basic loss per share (cents per share)	(0.64)	(2.14)		
Diluted loss per share (cents per share)	(0.64)	(2.14)		



Notes to the financial statements

For the year ended 30 June 2009

33. Discontinued operation (continued)

(ii) Cash flows from discontinued operation

	Consolidated		Company	
	2009	2008	2009	2008
	\$'000	\$'000	\$'000	\$'000
Cash flows from operating activities				
Payments to suppliers	(1,282)	(1,436)	-	-
Net cash flows from operations	(1,282)	(1,436)	-	-
Cash flows from investing activities				
Payment for property, plant and equipment	(88)	(8)	-	-
Payment for exploration, evaluation and development	(647)	(980)	-	-
Proceeds from sale of intangible assets	-	255	-	-
Proceeds from sale of investments	-	201	-	-
Interest received	4	67	-	-
Net cash outflows from investing activities	(731)	(465)	-	-
Cash flows from financing activities				
Loans - related entities	608	(472)	-	-
Finance costs	(1)	-	-	-
Net cash inflows from financing activities	607	(472)	-	-
Effect of exchange rates on cash	415	(207)	-	-
Net decrease in cash and cash equivalents	(991)	(2,580)	-	-
Cash and cash equivalent at beginning of period	1,004	3,584	-	-
Cash and cash equivalent at end of period	13	1,004	-	-