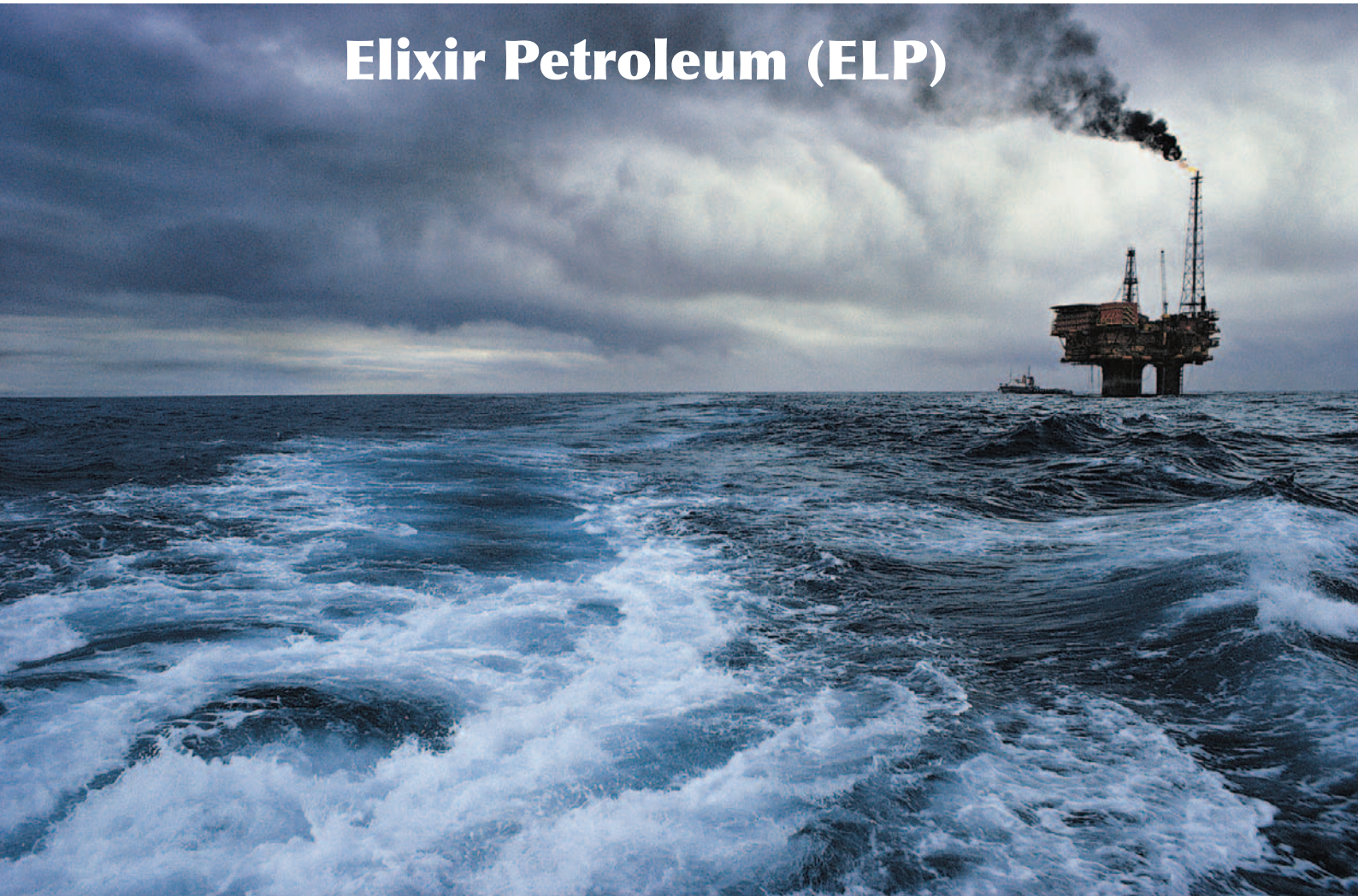


2 May 2006

Price: 18.5p
Oil & Gas Sector

Elixir Petroleum (ELP)



Initiation Report

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I certify that this report represents my own opinions.

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Key Points

With much of the once prolific UK North Sea having matured, the future of oil exploration in the UK demands a different breed of operators. Larger companies in the UK North Sea are gradually being replaced by a new generation of nimble operators. Their theme is the cost-effective development of smaller fields with a focus on productivity and yield enhancement. Elixir represents this new generation.

KEY POINTS

- **Fields may have matured but all is not over in the North Sea**

While easily accessible North Sea oil fields appear to have matured, there are still new fields with sufficient reserves to rekindle interest. The Oil and Gas Journal (OGJ), has estimated the North Sea region to have 14.8 billion barrels of proven oil reserves in 2005, with Norway and the UK accounting for over 80% of these. However, the economics of North Sea oil exploration now suits smaller players. Recent success stories such as Oilexco and Paladin Resources bear testament to the continued potential for oil exploration.

- **UK government is keen to develop its reserves**

The UK Department of Trade and Industry (DTI) has taken several initiatives to develop the North Sea oil reserves. Exploration companies have greeted these initiatives and subsequent licencing rounds with enthusiasm. The new licensing regime however seeks lower upfront financial commitment from exploration companies with exploration milestones to be met within specific time periods. Elixir has been able to meet its exploration milestones so far. The company is planning to apply for future licensing rounds as well.

- **The prospect inventory resembles a portfolio of venture investments**

Elixir's strategy of working up prospect inventory resources to be 'farmed-out' to a larger company for subsequent development resembles the time-tested merchant banking model. The management intends to move from one drill programme to another, with each being treated as an individual venture investment. A series of such divestments would eventually leave Elixir with a portfolio of residual holdings, which could potentially be sold en-bloc to another company. Rewards of this model will be at the time of Elixir's exit through asset sales.

- **Prospects to be exploited by farming out to larger companies**

Elixir intends to develop its prospects through a series of farm-outs to other companies. This entails the latter funding a major part of the development cost in return for a working interest in the underlying well. Its farm-out strategy reduces Elixir's financial commitment while ensuring risk diversification.

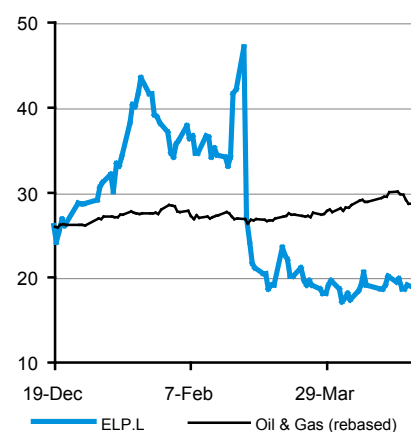
- **High risks are underlined by recent disappointments**

Disappointing results at Elixir's Jaguar well reiterates the risky nature of North Sea oil exploration. Elixir's loss is limited owing to its farm-out strategy. In the long run however, the company may look beyond the North Sea and seek exploration opportunities in other regions such as North Africa.

- **Recent tax hike will undoubtedly affect valuations**

Even after the recent 10% hike, the effective tax rate on UK Oil and Gas companies remains lower than that in other jurisdictions, which usually involve production sharing agreements and royalty charges in addition to regular corporate taxes. However, the tax hike suggests a degree of uncertainty over future tax policy that will undoubtedly affect valuations – particularly when Elixir attempts to sell its proven-up wells/licences in the future.

Price chart – ELP



Our valuation

Entity value:	US\$39.1m
Value per share:	32p

Company details

Quote	
- London AIM	ELP.L
- ASX	EXR.AX
- Berlin SE	EZJ.BE
- US Pink sheets	ELXP.PK
Hi-Lo last 12-mos. (p)	49.00-17.00
Shares issued (m)	63.71
Market Cap'n (£m)	11.79
Nominated Advisor:	RFC Corporate Finance www.rfc.com.au
Stockbroker:	Ambrian Partners www.ambrian.com +44 (0)20 7776 6400
Financial PR:	Bankside Consultants www.bankside.com +44 (0)20 7367 8888
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Overview

Elixir Petroleum – a new generation North Sea oil company

Elixir is an Australian company engaged in the Exploration and Production (E&P) of oil and gas in the United Kingdom Continental Shelf region (UKCS) of the North Sea. The company intends to develop its prospects to “drill-ready” status and advance successful discoveries to commercial production, through a strategy of farm-out partnerships. The company plans to, and in fact has already participated in, both farm-outs and farm-ins to provide shareholders with wider exploration exposure. Last year’s £6.5 million equity financing along with an AIM listing in London has placed Elixir on a strong footing to explore its prospects.

Elixir prospect inventory

Licence Areas	Prospts	Elixir Net (m bbl)	
		Unrisked Res.	Risked Res.
Northern North Sea 211/18b, 211/8b	2	312	78
Central North Sea 13/19, 13/24c, 13/25, 14/14b, 14/8a, 14/9a, 9/26a, 16/1b, 16/2c, 9/22, 9/23c	12	348	82
Southern North Sea 43/7, 44/27b	3	37	6
Total	17	697	166

Source: Elixir Petroleum

Mature North Sea oil fields have become less economical for majors.....

Production has been on the wane over the last five years from the North Sea’s mature oil fields. In addition, the smaller field sizes, high production costs, relatively lower yields and reduced life spans of North Sea oil fields have become less suitable for the business and operating model of larger oil companies. Their internal economics demand larger, high output fields. As oil majors shift their focus to emerging prospect destinations such as the former Soviet Union, a new generation of oil companies has taken their place in the North Sea. Elixir represents this new generation.

..... and now favour lean operators

While mature, the North Sea reserves are yet to be fully depleted. Due to the typically increasing exploration and development costs surrounding North Sea exploration, future development of these reserves requires a more flexible approach. They also demand innovative development strategies such as joint operations and farm-in/out partnerships. Technologically savvy operators with lean cost structures such as Elixir can generate returns in the North Sea oil and gas sphere where larger companies struggle.

The regulatory environment is favourable...

The new exploration companies also benefit from the Promote and Frontier Licencing Programmes. Provisions of these programmes considerably ease the initial financial burden on exploration companies as they provide enough time before the commencement of a drill programme to fully assess identified prospects. They also provide time to source financial and technical resources before drill commitments. This has considerably improved the risk-return profile of Elixir.

....but the Tax Regime is not

A matter of concern however is the uncertain tax regime surrounding the UK oil and gas sector. The recent 10% tax hike (effective January 2006), has taken the industry up to a marginal tax rate of 50%. While exploration companies such as Elixir are not affected at this stage, its future earnings and the terms under which it can farm-out its prospects will suffer if marginal tax rates continue to be uncertain and/or there are market concerns over the stability of taxation

Valuation

The business of exploration and development is fraught with both risk and opportunity. It is the ability to better estimate the chance of success that marks a successful exploration company. But it is also the nature of exploration endeavours that disappointments are hardly surprising – after all, the industry average is that only 15% of North Sea prospects will prove successful.

For investors, the value of an exploration company is in:

- the value of its current prospect portfolio;
- and its ability to successfully access and develop further licenses.

For specific prospects the use of Net Present Value (NPV) calculations is well established in the resource sector. However these models don't recognise the option value implicit in most resource projects. Consequently, it is well recognised that most resource projects trade well above their NPVs – particularly the more marginal or long term the project.

We have valued Elixir's existing resource interests using an option approach to estimate what the production value of its resource would be if commercial quantities of oil are discovered and developed¹. We have then adjusted for:

- exploration costs;
- geological risks (i.e., presence of suitable source rock, existence of a reservoir, adequate trap and seal and dynamics) – or simplistically speaking the likelihood of successfully finding oil;
- any dependency within the geological risks of the various prospects;
- and the applicable fiscal regime².

This approach provides a more accurate valuation of exploration resource projects. It explicitly accounts for Elixir's exposure to exploration risk, and the implicit optionality of volatile energy prices.

For our base case we have assumed that:

- global energy prices trend to more normal levels (in real terms) as risk and demand premiums dissipate over the coming decade;
- the higher levels of opex and capex seen in recent periods continue for the immediate future.

Based on our assumptions we value Elixir at 32p per share. The recent failure of the Jaguar prospect, the third "failure" that Elixir has been involved in, has caused the market to devalue Elixir's remaining prospect portfolio – presumably on the basis that they share many of the same geological risks. This is not a view shared by the company or by us.

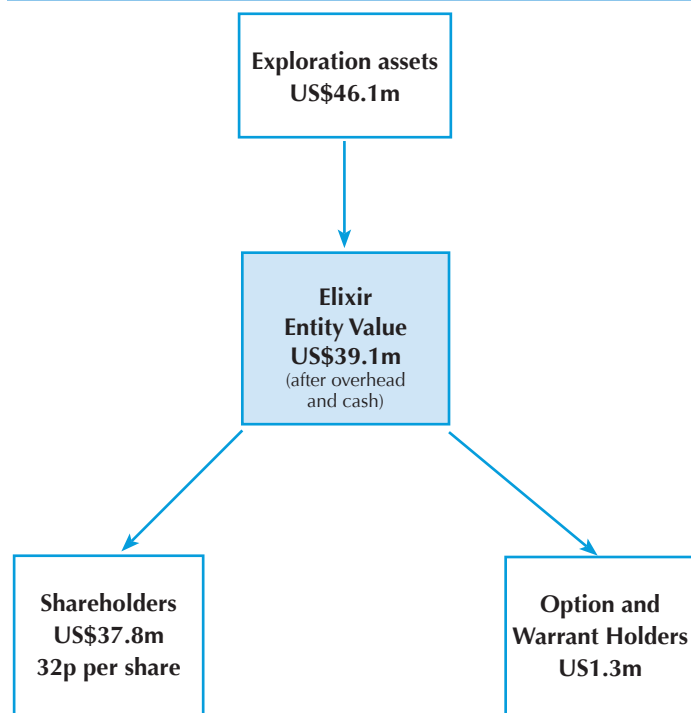
¹ Specifically, we have assumed energy prices are volatile but return to their long run mean eventually, i.e., they are mean-reverting.

² It is an approach taken by some to include in the valuation only those prospects that are planned to be drilled. In our opinion this ignores the potential value of the remaining prospects when they are developed or can be realized in a sale.

Valuation Summary

	£m
Total exploration assets	46.1
less: overhead	10.0
Total expected operating value	36.1
Add: Cash	3.0
Total enterprise value	39.1
Total value of equity claims	39.1
Less: Alternative Equity Claims	1.3
Value Attributable to equity holders	37.8
Outstanding shares (m)	63.7
Value per ordinary shares (US\$)	0.59
- in GBP	0.32

Components of Elixir's Entity Value



Summary of Elixir's Prospects

Prospect	Prospective Reserves				Total Exploration cost (US\$m)	Valuation of Prospect				Elixir's Share		
	Unrisked Reserves (m bbl)	Risked Reserves (m bbl)	Geological Risk	No. of projects		Potential Value of Res. (US\$m)	US\$ per unrisked bbl	After Geo. Risks & Expl. Costs (US\$m)	US\$ per risked bbl	Share of prospect	Elixir's share (US\$m)	US\$ per unrisked bbl
Northern North Sea 211/18b, 211/8b	390	98	25%	2	15	175	0.45	36	0.37	80%	29	0.09
Central North Sea 13/19, 13/24c, 13/25, 14/14b, 14/8a, 14/9a, 9/26a, 16/1b, 16/2c, 9/22, 9/23c	836	199	24%	12	90	350	0.42	38	0.19	42%	17	0.05
Southern North Sea 43/7, 44/27b	111	18	16%	3	23	44	0.40	0	0.00	33%	0	0.00
Total in £	1336	314	24%	17		570		74		52%	46 25.0	

Notes:

- Oil prices are assumed to be mean reverting with a long run average of US\$22.9/bbl with a period of about 4-years
- Cost assumptions of Development Capex US\$10/bbl, Opex + marketing of US\$13/bbl with an achieved discount of 10% to Benchmark

Analysis of assumptions

Expl. cost per prospect (US\$m)	6.50	7.00	7.50	8.00
Value (£/share)	0.34	0.33	0.32	0.31
Prodn Opex cost (US\$/bbl)	12.75	13.00	13.25	13.50
Value (£/share)	0.39	0.32	0.25	0.18
Dev. Capex cost (US\$/bbl)	9.00	9.50	10.00	10.50
Value (£/share)	0.69	0.50	0.32	0.15
Achieved Oil Price (Discount to Spot)	9%	10%	11%	12%
Value (£/share)	0.41	0.32	0.24	0.15

Oil market assumptions

Oil prices are mean reverting	
Long run level (1900 - now)	22.92 US\$/bbl
Avg time to revert	8 years
Volatility	23%
Inflationary price growth	2%

Key Risks

Key risks to the outlook of the company not inherent in the nature of its activities

Elixir's projects are still at exploration and assessment stage and much depends on successful drilling, reserve potential and its implementation ability. North Sea oil exploration is known to be challenging due to its often hostile weather conditions. In particular, Elixir faces a number of key operational and financial risks:

Project Risks:

Reserve Potential and Drilling Success: Elixir's fortunes depend upon its exploration success and their subsequent commercial production. While Elixir is confident of its reserve estimates, the company has not been able to prove those reserves so far. Recent disappointment related to the Jaguar well further indicates the uncertainties surrounding reserves and drilling success. Elixir has been involved in three drill programmes and all three attempted wells are now abandoned.

Cost Escalations: At this stage, it is difficult to estimate the capital expenditure and subsequent operating expenses to develop Elixir's prospects. Drilling and exploration costs have been rising over the last few years and costs in the North Sea are no exception. Cost escalations leading to cash flow difficulties and lower profitability may impair valuations.

Implementation Ability: Elixir's ability to successfully explore and develop its prospects depends upon the availability of infrastructure such as rigs at its oil exploration sites. Their availability, capacity utilization and cost are beyond the control of the company. Currently North Sea oil rigs are almost fully utilized and in great demand.

Dependence on Key Personnel: More than most junior oil and gas companies engaged in exploration, the success of Elixir depends heavily on its management team. Continued availability of their services is not necessarily guaranteed and the loss of key personnel could lead to a perceived disruption of operations and exploration progress.

Regulatory and Environmental

Regulatory Developments: The UK government is under pressure to increase its tax revenue base. The recent tax hike (Supplementary Charge from 10% to 20%) by the Chancellor is one example. With high energy prices, oil exploration and production companies are a tempting target.

Environmental Regulations: Strict EU environmental laws and regulations could prove to be a burden on Elixir's operations. This is particularly the case with regard to standards to be maintained in natural gas storage, transportation and distribution through the national grid and pipelines. Environmental regulations can only be expected to tighten.

Elixir Petroleum

Elixir Petroleum Limited (ELP.L; ELP.AX) is an Australian company engaged in the Exploration and Production (E&P) of oil and gas in the United Kingdom Continental Shelf region of the North Sea ("UKCS"). The company is listed on both the Australian Stock Exchange (ASX) and on the London AIM market.

Elixir's strategy is to identify and develop a portfolio of prospects to "drill-ready" status and advance successful discoveries to commercial production through a strategy of farm out partnerships.

Elixir petroleum interests

Northern North Sea

211/22b	40%
211/18b	80%
211/8b	80%

Central North Sea

9/22 & 9/23c	33.3%
9/26a, 16/1b & 16/2c	33.3%
13/19, 13/24c & 13/25	50%
14/8 (part), 14/9 (part) & 14/14b	50%
15/13b	35%
21/6b	15%
21/4b	7%

Southern North Sea

43/7	33.3%
44/27b	33.3%

Source: Elixir Petroleum

Currently Elixir has 14 exploration licences covering 19 North Sea blocks, awarded over the last two years during the North Sea's 21st to 23rd Licensing rounds.

The company is planning to participate in a minimum of another five exploration wells over the next 24 months.

Elixir characterizes the changing operational landscape of North Sea oil. The area's fast maturing oil fields make operations uneconomic for larger companies yet remain attractive for smaller players. Future exploration and development is likely to be undertaken by companies such as Elixir, leading to commercial production in partnership with a larger company.

Despite its mature fields, the North Sea continues to offer potential for E&P companies. The Oil & Gas Journal and EIA estimate there are still 14.8 billion barrels of proven oil reserves in the region. In addition, the UKCS has an established oil and gas infrastructure, which will assist both exploration and subsequent operations.

Elixir also benefits from changes to the licensing regime in 2003 which have provided improved access for junior explorers. New provisions such as the Promote and Frontier licence programmes have reduced the financial burden on exploration companies as they provide a two-year window for technical evaluations before the commitment of capital. These have helped Elixir rapidly build a portfolio with exposure to meaningful and prospective targets in the region.

Historical Background

Elixir was listed in Australia in July 2004 with an interest in a single license covering Block 21/6b. The company was awarded interests in a further five licenses in September 2004 during the 22nd UK Licensing Round, followed by the purchase of another license in December 2004. Elixir received 6 more licenses in the 23rd UK Licensing Round. Subsequently it farmed into one more licence, thereby increasing its portfolio to interests in 14 UK exploration licenses covering 19 North Sea blocks.

Elixir prospect inventory

Licence Areas	Prospects	Mid Case Estimates				
		Gross			Elixir Net	
		STOIIP (m bbl)	Prosp. Resources (m bbl)	ELP %	Unrisked Resources (m bbl)	Risked Resources (m bbl)
Northern North Sea 211/18b, 211/8b	2	1,121	390	80%	312	78
Central North Sea 13/19, 13/24c, 13/25, 14/14b, 14/8a, 14/9a, 9/26a, 16/1b, 16/2c, 9/22, 9/23c	12	4,019	836	25-50%	348	82
Southern North Sea 43/7, 44/27b	3	145	111	33%	37	6
	17		1,336		697	166

With its May 2005 listing on the London AIM market, Elixir is now dual listed in the UK and Australia. The company raised £6.5 million during its London AIM listing, with proceeds expected to be utilised to finance its exploration programmes. Meanwhile, Elixir's working partner in explorations, Granby Oil & Gas plc also listed on the London AIM in June 2005. Both companies are currently well-capitalised.

Licences

Elixir's licences are in the Northern, Central and Southern North Sea and are flanked by producing oil fields. These licences are estimated to carry 697 million boe un-risked resources and 166 million boe risked resources. Elixir's interests in some of these blocks come under its alliance with Granby.

Elixir's six licences from the 23rd Licencing Round have considerably enhanced its portfolio. Two licences covering three blocks (Blocks 13/25, 14/8a & 9a) consolidate the Central North Sea position as they are adjoining the current acreage. Blocks 211/18b and 211/8b provide Elixir a foothold in the northern North Sea. Block 211/18b contains a prospect named Leopard. Blocks 43/7 and 44/27b establish an entry position in the Southern North Sea gas basin.

Key shareholders as of 29 August '05

Company	% Holding
Westpac Custodian Nominees	6.04%
Mellon Nominees (UK) Limited	5.75%
Granby Enterprises Limited	3.92%
The Bank of New York Nominees Limited	3.23%
Argonaut Capital Limited	3.14%
Caroline De Mori	2.35%
Nutraco Nominees Limited	2.35%
Nortrust Nominees Limited	1.97%
Nefco Nominees Limited	1.83%
National Nominees Limited	1.81%
	32.39%

Source: Elixir Petroleum

Options outstanding as of 30 April 2006

	Number issued	Exercise Price (A\$)	Expiry Date	Remarks
Granby performance	4,625,000	0.50	31-Dec-07	Out-of-the-Money
Unlisted options	2,000,000	0.20	30-Jun-07	In-the-Money
Hunter Farmin	500,000	1.00	31-Dec-07	Out-of-the-Money
Director Incentive	2,500,000	0.90	5-Oct-07	Out-of-the-Money
Director Incentive	2,500,000	1.30	5-Oct-07	Out-of-the-Money
Director Incentive	1,000,000	0.90	31-Dec-07	Out-of-the-Money
Director Incentive	1,000,000	1.30	31-Dec-07	Out-of-the-Money
RFC Options	500,000	0.90	16-May-08	Out-of-the-Money
Ambrian Options	637,148	0.59	16-May-10	Out-of-the-Money

Source: Elixir Petroleum

Corporate Strategy

Elixir's strategy is to advance its assets through systematic technical evaluations, seismic studies and reserve assessments predominantly using its own financial resources and technical expertise. Elixir will then seek other companies to participate in the subsequent exploration and development to production-ready stage through a "farm-out" arrangement.

The "farm out" model is widely used as a cost-effective mechanism for conducting exploration with the participation of another oil and gas company ("farminee"). The farminee finances part of the exploration, appraisal and possible development cost in return for a working interest in the licence. The extent of the working interest depends on the terms of the farm-out agreement. For instance, a 2-for-1 farm-out represents 100% investment to acquire a 50% interest in the prospect and licence.

Elixir will consider making investments in its farm out agreements with other companies, as it believes this strengthens its negotiating position. In addition, Elixir's investment as a partner to the farm-out agreement leads to a higher working interest in subsequent operations. Elixir's target working interest post farm-out agreement is typically 20-30%.

In some regards, Elixir's business model resembles that of a merchant bank, in which its prospects could be viewed as a portfolio of venture investments. Once a prospect is developed to production-ready status, Elixir could sell that prospect to a larger company thus sealing its exit mechanism. The company may sell the underlying prospect en-bloc or maintain a minority interest in the producing asset. A production-ready prospect with proven reserves naturally commands a higher premium leading to considerable gains at the time of exit.

Farm out agreements do not usually entail an equity stake in the company but rather a working interest in a licence or producing field. Elixir can enter into different farm-out arrangements with different companies. This potential diversity of farm-out agreements offers Elixir the flexibility to implement its "develop and exit at a profit" business model more effectively.

Elixir is actively looking to participate as a farm-in partner for the exploration and/or appraisal of prospects owned by other companies. However, Elixir's first farm-in venture with a 7% working interest in Licence 1104 (Block 21/4b) at the Muness prospect (Muness) was unsuccessful. Elixir acquired its 7% interest from the licence operator, Maersk Oil North Sea UK Limited (formerly Kerr-McGee North Sea Limited), by contributing a share of the costs to drill the well. The well was subsequently abandoned, as it failed to produce commercial volumes of hydrocarbon. Despite this disappointment, the management is on the look out for similar farm-in opportunities.

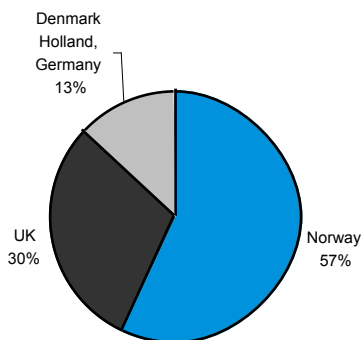
UK and North Sea Oil Exploration

Overview

The operational landscape of North Sea oil has entered a new phase. Larger players such as BP and Shell are being gradually replaced by a new generation of focused and more technologically savvy independent operators. Future North Sea oil exploration and production is likely to be dominated by these smaller players.

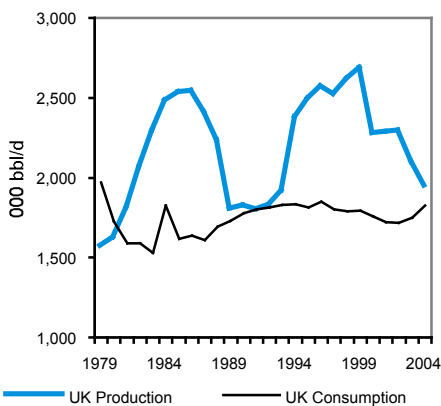
Although significant North Sea oil and natural gas reserves were discovered in the 1960's and 1970's, the North Sea did not emerge as major oil producing region outside the OPEC until the 1980s and 1990s. Oil and gas extraction in the North Sea demands sophisticated offshore technology as it involves challenging climatic conditions and occasionally significant depths. The North Sea consequently is an area of high-cost production. What makes it appealing however is its proximity to oil guzzling major European markets and the political stability of the region.

North Sea oil reserves



Source: EIA, DTI

UK production v. consumption



Source: EIA

According to the Oil and Gas Journal (OGJ), the five countries in the North Sea region had 14.8 billion barrels of proven oil reserves in 2005. Norway and the UK account for the bulk of these reserves (87 percent), with Denmark, Germany and Holland accounting for the remaining 13%.

The North Sea is the UK's main oil producing region...

The UKCS contains the bulk of the UK's oil reserves and accounts for much of UK oil production. Other UK oil reserves are located west of the Shetland Islands, with smaller amounts in the North Atlantic. In addition, the UK has the Wytch Farm field, the largest onshore oil field in Europe. Despite its own high demand, UK has remained a net oil exporter. The US is the main export market (over 30%) followed by continental Europe.

UK oil production has been falling

Total oil production (including condensates, natural gas liquids, and refinery gain) in the UK North Sea was 2.08 million bbl/d in 2004, a fall of 13% from 2003. This also represents a 30% fall from peak production in 1999.

Much of the decline in the UK oil production is attributable to the dwindling output from the UK North Sea oil fields. Having reached a peak of 5.9 million bbl/d in 1999, North Sea oil production has been falling and is now running at 4.8 million bbl/d, down 19% from its 1999 peak and 8.5% from the average production in 2004. Only a few discoveries of significance have been made since 2000 in the UK North Sea.

The decline in the UK North Sea oil production can, to a large degree, be attributed to the mature nature of its fields, high production costs, and the fast depletion rates due to the use of advanced technology. Amongst these, increasing costs in the UK have prompted most of the operators to shift their exploration focus to less

expensive areas such as the Former Soviet Union, West Africa etc. In addition, the higher reserve potential of those areas have made the UK North Sea a less attractive exploration target.

The decline in North Sea oil production has in fact been evident in almost all the major fields in the UK segment. Production from old fields such as the Forties Field and Brent Field has declined dramatically with some new oil fields, albeit with much lower outputs, having emerged in the UKCS landscape.

Larger companies are leaving

Much of this transformation can be attributed to the change in strategy of the bigger oil companies. As oil fields mature, companies generally focus more on increasing productivity and developing smaller, previously unexploited fields. Equally common are larger and more established companies selling their assets to focus on emerging high growth, low cost, international opportunities such as those in the Former Soviet Union. Companies such as BP, Shell, Kerr McGee etc have already begun selling some of their North Sea assets to develop fields elsewhere.

Only to be replaced by smaller, new generation companies

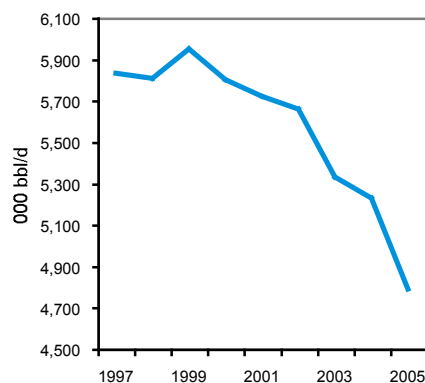
The interest however has not waned completely as there have been willing buyers as well. In 2003, U.S.-based Apache purchased BP's Forties Field for US\$630 million. In late 2004, EnCana completed the sale of its North Sea assets to Canadian-based Nexen for US\$2 billion. In 2005, Centrica and Maersk Olie og Gas AS, a subsidiary of A.P. Moller – Maersk A/S bought Kerr-McGee's assets for approximately US\$4 billion. Other independents including Talisman, Perenco, and EOG have also acquired significant producing assets in the UKCS.

It is interesting to note that the interest in North Sea oil is high amongst relatively new oil companies such as Talisman and EOG. Over less than a five-year period for instance, Talisman has become the second largest operator in the UKCS. The company has been one of the most aggressive acquirers of assets from bigger companies in the recent past.

And drilling continues

Maturing oil fields and reduced enthusiasm amongst the larger companies such as BP does not appear to have caused any slow down in drilling activity. The North Sea currently has the second highest off-shore rig utilisation, after the Mid-East Persian Gulf (98%). The current rig utilisation in the North Sea is 93% (66/71) as opposed to 82% (56/68) one year ago.

North Sea oil production



Source: EIA

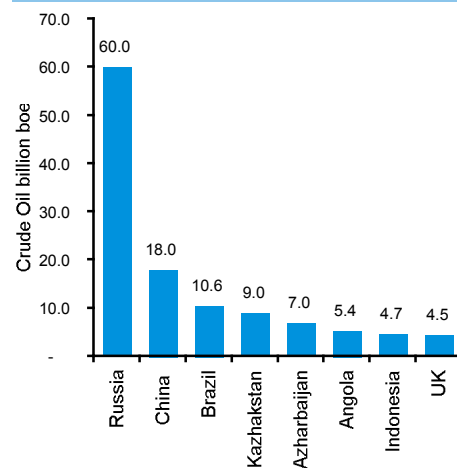
North Sea oil production by field

'000 tonnes p.a.

Field	2000	Rank	2004	Rank
Schiehallion	5,073	1	4,795	1
Foinaven	4,588	2	3,521	5
Harding	4,328	3	2,024	10
Alba	4,156	4	3,645	2
Nelson	4,089	5	2,255	8
Brent	3,538	6	766	30
Magnus	2,924	7	1,745	11
Scott	2,771	8	1,127	22
Forties	2,720	9	2,679	6
Andrew	2,540	10	865	26

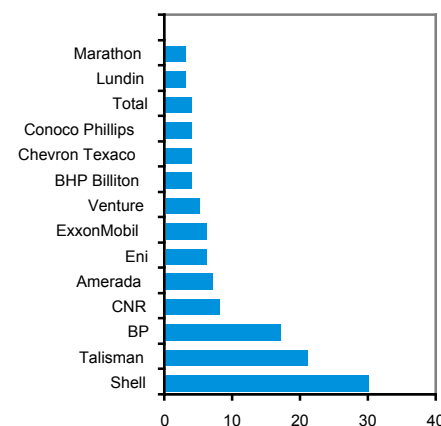
Source: DTI

Reserves - UK v. new territories



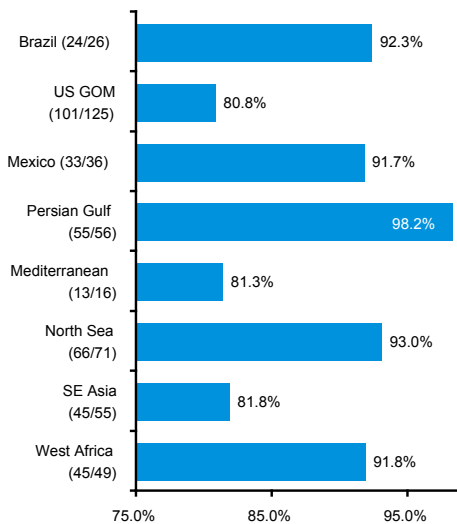
Source: EIA

Number of UK operated oil fields



Source: Talisman

Off-shore rig utilisation



Source: Rig Zone

We attribute the continued interest in the North Sea to the entry of new companies. Asset sales by larger companies as well as the encouraging regulatory environment have led to the entry of many small, independent operators into the UK oil sector. These smaller companies find smaller and maturing fields more economically viable than do the oil majors due to their lower overheads and more flexible approaches. They often employ newer production and recovery technologies.

Mature oil fields and the relatively high costs related to North Sea oil exploration demand certain characteristics from exploration companies. Companies with focus, access to technology and the ability to maintain a flexible operation with a lean cost structure are likely to succeed. With this backdrop, the departure of companies such as Kerr-McGee makes sense as does the entry of new, relatively small but focused players such as Oilexco, Faroe Petroleum plc and Elixir.

The UK Offshore Operators Association (UKOOA) in its 2005 Economic Report confirms the strong interest amongst independent E&P companies in North Sea oil exploration with the following projections:

- incremental production at existing oil fields and new field developments is expected to reduce the rate of decline by 50% from 2005 to the end of the decade;
- the number of exploration and appraisal (E&A) wells; including side tracks is projected to reach 69 in 2005, representing a 10% increase over 2004;
- total production through the end of the decade is expected to increase by 2% over last year's forecast, primarily due to higher than expected oil output;
- based on the latest indicators, the PILOT vision of producing 3 million barrels per day of oil and gas is likely to be achieved. PILOT is the joint Oil and Gas Industry / Government body chaired by the Energy Minister, to secure the long-term future of the UK oil & gas industry;
- capital investment in 2005 is expected to reach US\$6.5 billion, up from US\$5.7 billion in 2004. This trend is expected to continue into 2006 and beyond;
- total cumulative Capex in the UKCS is expected to reach US\$22 billion by 2010. This represents an increase of 13% over last year's forecasts.

Regulatory and licencing framework remains conducive

Having recognised the increasingly important role independent E&P companies can play in UKCS North Sea oil exploration, the UK government has implemented several positive steps in its regulatory framework to attract investments to the region. In 2001, the PILOT scheme was introduced with a "develop or lose" provision to free up fallow acreage for exploration. This was followed by the introduction of the Promote and Frontier Licencing Programmes in 2003 and 2004 respectively under the following terms:

Promote Licenses – This is an innovative licensing programme which gives companies two years to assess the value of a field before committing resources to more extensive evaluation including drilling. Fees for promote licences were cut by 90% for the first two years thus making it more affordable for smaller companies. The programme offers greater flexibility to exploration companies by reducing the financial burden since there is no obligation to drill until they are completely satisfied that further investment is warranted. It also allows more time for companies to muster technical and financial capacity before embarking on a full-pledged drill programme.

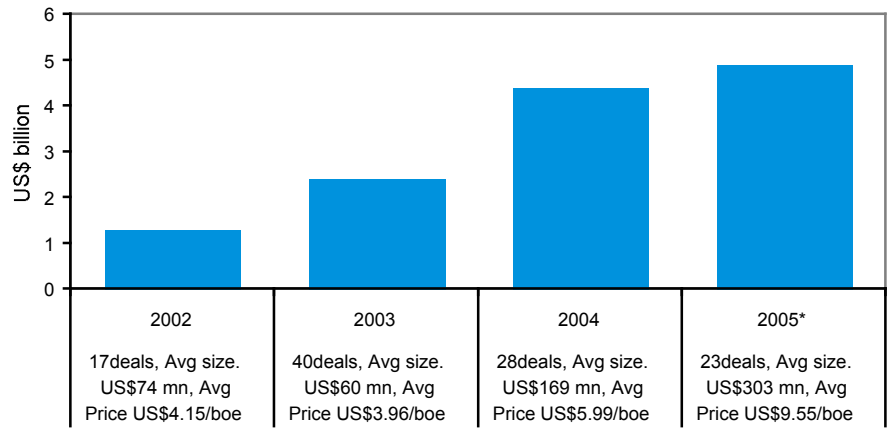
Frontier Licenses – The Frontier license was developed to attract increased exploration within specific areas of the UKCS such as the deep waters west of the Shetland Islands. The Frontier license allows companies to ascertain prospects over a larger acreage at a reduced cost. Companies are expected to assess the most prospective 25% of the allocated acreage and free-up the remaining 75%. Upon the lapse of a 4 year period, it reverts to the equivalent of the first term of a traditional license, which entails a further 50% relinquishment.

Compared to the Traditional Licencing terms, these new programmes appear to be particularly attractive and are well-suited for smaller E&P companies. The traditional licence allows an initial four year period for exploration, four more years to prepare a development plan, and approval for 18 years' production. The licence can be extended but after the first term the developer is required to relinquish at least 50% of the area licensed. After the second phase, the licensee is required to give up all areas not involved in the development of the field. The last phase involves actual production and can be extended beyond the usual 18 year period subject to negotiations with the DTI. However, the Traditional Licencing is more geared and suited to larger companies with considerable financial resources.

In addition to the restructuring of the licensing programme, the DTI has introduced incentives to attract new entrants as well as increase production. For instance, the Fallow Field Initiative is designed to resuscitate activity in dormant discoveries by permitting third parties to propose technical ideas that would stimulate exploration and development.

Collectively these incentives have attracted an unprecedented interest in the UKCS North Sea. For instance, the 23rd round of oil and gas licensing held in 2005 awarded a record 152 oil and gas licenses to 99 companies, of which 24 of them were new entrants. Of the 152 licenses, 76 were promote, 70 traditional and 6 frontier licenses. These results point to a strong interest in the future of oil and gas exploration in the UKCS.

UKCS oil company deals



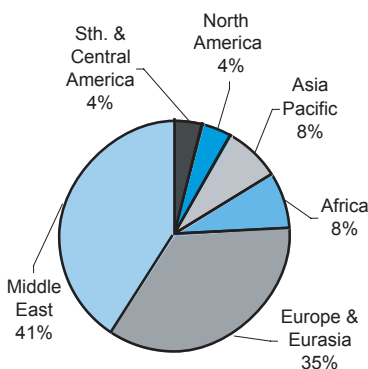
* Only upto Sept, 2005

Source: Harison Lovegrove

Meanwhile, the increasing presence of independents in the UKCS has resulted in a degree of consolidation. Super independents such as Talisman have been on a zealous buying spree including their most recent acquisition of Paladin Resources Plc. With more independents such as OilExco showing interest in establishing a stronger presence in the UKCS, we expect consolidation to continue as companies look to capitalize on economies of scale and boost production capacity.

The most important aspect of continued consolidation is the potential capital gains available for independent E&P companies. Once reserves are proven and prospects are developed to "drill or production-ready" status, they generally command premium prices. In addition, consolidation makes farming-in or farming-out more amenable and easy to implement.

World natural gas reserves - 2004



Source: EIA, BP

North Sea Natural Gas

The dynamics of the UK natural gas exploration and development space appear to be similar to those for oil exploration and development. Production also appears to be declining due to its fast maturing fields. While larger players are shifting their focus through asset sales new independent E&P companies such as Talisman have entered the region. Capital expenditure by these companies continues, confirming the attractiveness of the reserves. Exploration of natural gas in the North Sea UKCS is also likely to be dominated by smaller companies.

The OGJ estimates the five countries in the North Sea region to have an estimated 4,800 billion cubic meters (bcm) of proven natural gas reserves. An estimated three fourths of the reserves are accounted for by Norway and the Netherlands. The UK however remains the largest natural gas producer in the region.

The North Sea region is a significant source of natural gas to Europe and is second only to Russia in terms of exports to the European Union. The UK is the fourth largest producer of natural gas in the world behind Russia, US and Canada. Since

the early 1980's, the production of natural gas in the region has increased dramatically with production in 2000 reaching 4.2 trillion cubic feet (Tcf). However, UK natural gas production has been steadily falling since then.

The UK government has been encouraging the use of natural gas owing to its domestic reserves and environmental benefits, leading to an annual 4.6% growth in consumption since 1980. The share of natural gas in the UK's energy mix has also increased from 20% in 1980 to its current 40%. The UK natural gas sector is entirely privatised with British Gas, Centrica, and National Grid Transco (NGT) being the main players.

Much of the UK's natural gas reserves are located in three distinct areas: gas associated with the oil fields in the Central and Northern North Sea UKCS; the non-associated fields of the Southern Gas Basin (located adjacent to the Dutch Sector of the North Sea) and the non-associated fields in the Irish sector. Elixir's interests in the southern North Sea UKCS are expected to be natural gas prospects.

UK natural gas production is on the wane

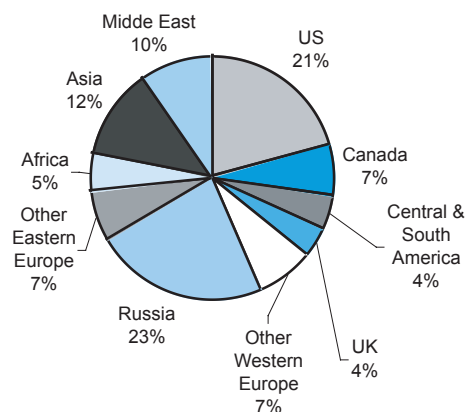
The UKOOA estimates the fall in gas production to be approximately 6% per annum in the near-term. New discoveries in the West of Shetland Islands and the North Sea offer some respite to the changing energy equation. The UKOOA projects new field developments to contribute a further 38.6 bcm in 2005 and 15.6 bcm in 2006. This also offers opportunities to new entrants such as Elixir.

The government is concerned over the possibility of the UK becoming overly reliant on imported natural gas for its energy needs. At present, UK sources over 90% of its natural gas needs locally. According to Ofgem, the UK energy regulator, UK's current 9.4% gas imports are set to increase sharply from 2007 onwards.

Indicative of this possibility is the hasty expansion in the UK natural gas infrastructure. In addition to ongoing LNG terminal expansion, new pipelines between the UK and continental Europe are currently under construction (between Norfolk and Balgzand in the Netherlands and the Langeland pipeline linking the Ormen Lange Norwegian gas field with Britain). The capacity of the UK-Belgian inter-connector has already been doubled to 16.5bcm. The need to develop the UK's natural gas reserves has become more important than ever.

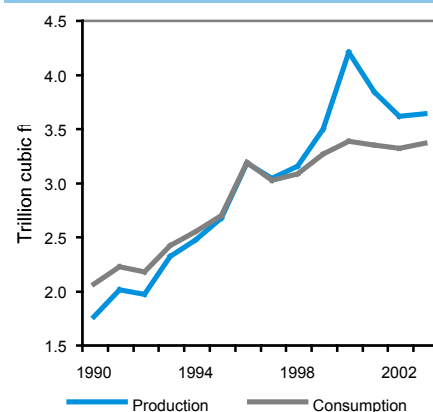
From the project economics perspective, we expect government concessions and incentives to continue in natural gas exploration as well. Given the importance of the energy sector and the role natural gas plays in the UK domestic economy, development of its natural gas fields in the UKCS is high on the government's agenda.

World natural gas producers - 2004



Source: EIA

UK natural gas product. v. consumpt.



Source: EIA

Recent developments in the European gas markets also make the development of its natural gas resources important to the UK. Gazprom's decision to cut the natural gas flow to Ukraine in January 2006 sent shock waves through European nations. The decision disrupted the natural gas supply to many other European nations including Hungary, and Poland who receive their supply through the Ukraine.

Europe is heavily dependent on gas and an alternative and reliable supply source such as the North Sea is considered to be important. The Gazprom incident is likely to make several European nations re-visit the North Sea as a potential natural gas reserves destination. This augurs well for companies operating in the North Sea, particularly smaller players such as Elixir.

The recent tax hike and its effects

Despite the tax hike, costs for companies engaged in UK North Sea exploration remain relatively low when compared to other jurisdictions such as those in Latin America. Petroleum exploration projects in those countries involve Production Sharing Agreements (PSA), which stipulate a certain percentage of output to be shared with the respective government. The government share can vary from 40% to 80% (depending on the jurisdiction, API reading etc). In addition, the exploration company is expected to make royalty payments and taxes (ranging from 25% to 40%). PSA terms, royalty charges and taxes could add up to well above a 50% equivalent tax rate. In that respect, the recent tax hike does not necessarily appear to be too high.

The difference is however, terms under a PSA are expected to remain unchanged over the licencing period while the UK Corporate Tax rate on oil and gas producers could see further increases. It is the uncertain tax regime that has caused more concern amongst UK oil and gas producers.

Although the decision has greater implications for producing companies, higher tax rates dampen prospects for junior exploration companies as well. While they continue to enjoy tax concessions during exploration, their earnings will be subject to a higher tax rate at the time of production. Higher taxes will consequently affect company valuations, due to reduced cash flow and lower earnings. This will be reflect in valuations of Elixir's licence areas as well, leading to lower premiums at the time of sale to a larger company for subsequent production following the prove-up of reserves. The compensating factor however is the rising energy prices.

Interestingly, the tax increase is not expected to make exploration ventures unviable. Most of the exploration companies such as Aberdeen-based Venture Production have based their project evaluations on an oil price of US\$25/bbl. The general reaction amongst industry leaders has so far been disappointment (of potentially lower profits) rather than devastation (of potential losses).

Prospects and Progress

Prospects and Progress

Elixir currently holds interests in 19 blocks in the UKCS, in the Northern North Sea (3 blocks), Central North Sea (14 blocks) and the Southern North Sea (2 blocks). Interestingly, Elixir's prospect inventory does not involve demanding depths. The order of exploration priority has so far been on the basis of reserve potential derived from seismic and other geological data.

Northern North Sea

Much of Elixir's recent exploration focus has been the advancement of its licence areas in the Northern North Sea. The company farmed out the exploration of its first licence area 211/22b (Jaguar well) to DNO ASA (DNO). DNO is a Norwegian independent oil and gas company, with operations in Northern Europe, the Middle East and Africa.

Block 211/22b

Under the farm-out agreement underlying the Jaguar well in Block 211/22b, DNO funded 92.5% of the Jaguar prospect drilling cost and in return secured a 60% interest. Elixir retained the remaining 40% interest and financed 7.5% of the drilling cost.

Confirming the risky nature of North Sea oil exploration, Elixir's Jaguar well failed to intersect commercial volumes of hydrocarbon. Consequently, the well was plugged and abandoned. During the drill programme however, Elixir has been able to confirm the existence of a working hydrocarbon system in the licence area. The Company expects that future drilling may assess the remaining prospects in the Middle Jurassic formations as well as identify alternative locations for reservoir sands in the Upper Jurassic level.

Disappointment at Jaguar follows similar results at Elixir's previous exploration endeavours at the Marquis and Muness wells. The Marquis well was plugged and abandoned in June 2005 after reaching a total depth of 1,954m as the well was found to be water bearing. Unlike Jaguar and Marquis, which were farm-outs, the Muness well was a project Elixir farmed into with a 7% interest. The Muness well was also plugged and abandoned after reaching 3,650m as it failed to produce commercial volumes of hydrocarbon.

This characterizes recent exploration endeavours at the North Sea and such disappointments are hardly surprising. Other companies engaged in North Sea oil exploration have encountered failures similar to Jaguar, Marquis and Muness wells. However, it reiterates the risk profile of Elixir and the dynamics of North Sea oil exploration. Investments in the North Sea exploration companies are likely to remain high risk and Elixir is no exception.

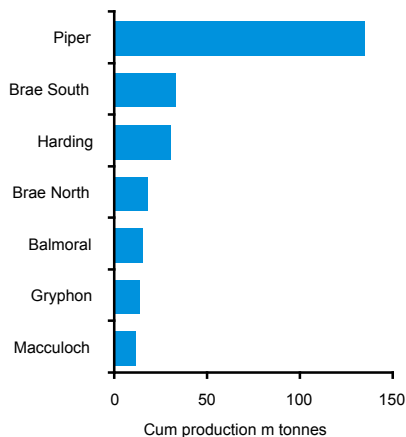
This also makes Elixir's farming-out strategy an important factor. Although it limits Elixir's ownership of the well, a farmed-out well considerably decreases Elixir's financial commitment. For instance, Elixir's financial commitment to Jaguar and Marquis have been 7.5% (US\$1.15 million) and 10% (£400,000) of well costs in return for its working interests of 40% and 15% respectively. Elixir's loss with Jaguar and other disappointments would have been much higher, if the company undertook the full exploration on its own. This is in line with Elixir's intent to maintain a diversified portfolio of venture investments, currently with the focus on the North Sea oil exploration.

Blocks 211/8b & 211/18b

Elixir has identified a prospect similar to Jaguar in Block 211/18b (Leopard prospect). The Leopard prospect is an Upper Jurassic stratigraphic play with a similar risk profile to Jaguar, and is considered to be of moderately lower risk. Block 211/8b in the Northern North Sea is close to the Magnus oil field which has been in production since 1983. The Magnus field is estimated to contain 1.65 billion boe.

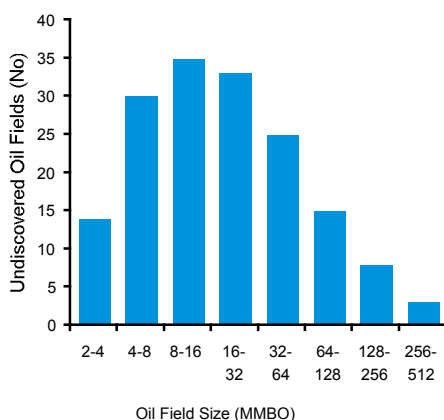
The geology of the Northern North Sea continues to indicate the presence of reservoir quality sands and hydrocarbon. There is evidence for stratigraphic and combination traps in both shallow marine and deep water settings (Source: DTI). Various 3D surveys have confirmed that blocks in the Northern North Sea contain an extension of the mapped Upper Jurassic high amplitude events. The amplitude modeling identifies the potential for substantial hydrocarbon bearing sands.

Central North Sea major fields



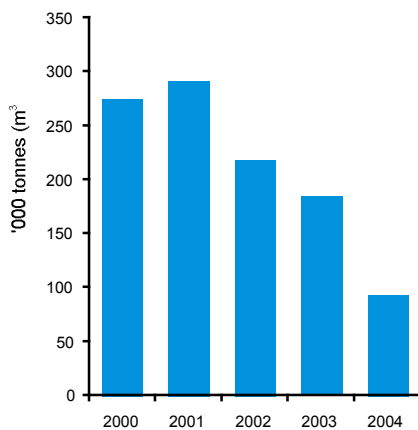
Source: DTI

Undiscovered field size distribution



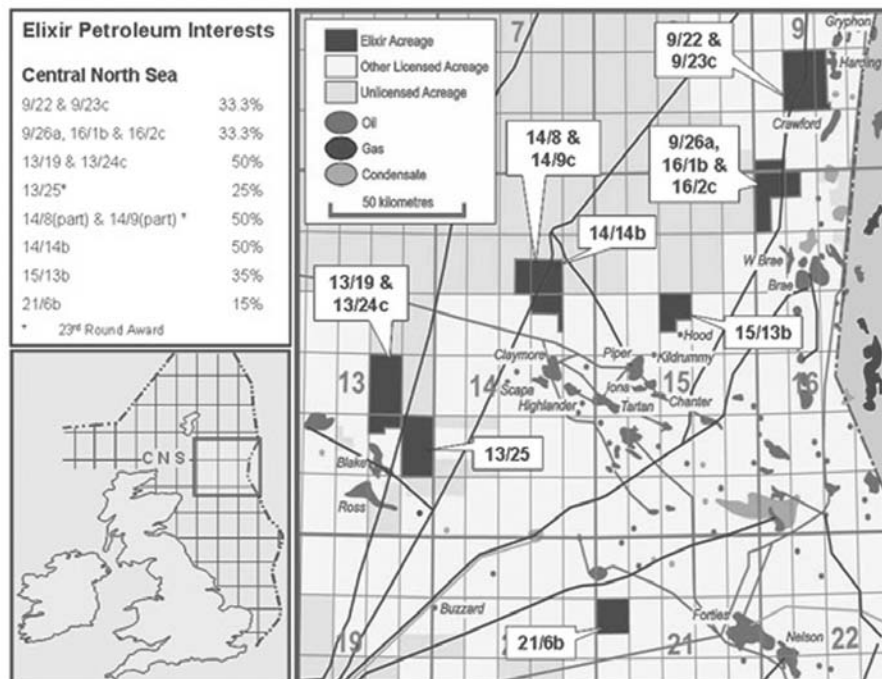
Source: US Geological Survey (USGS)

Balmoral Field oil production



Source: DTI, Oilexco Corp

Elixir Petroleum prospects – Central



Central North Sea

Most of Elixir's prospects are in the Central North Sea area, which has numerous producing oil and gas fields. They are located in areas including Viking Graben (16/1b, 16/2, 9/26, 9/22 & 9/23c), near the Piper Field (Block 15/13b), and near the Claymore and Scaapa Fields (14/8, 14b).

Balmoral, Macculloch, Blenheim, Donan, Brae, Harding, Gryphon, and Piper are also some of the prominent producing fields in the Central North Sea area. In addition to several junior oil exploration companies, these fields are operated by oil giants such as British Petroleum, Agip, and Marathon Oil and have produced billions of barrels of oil since their development.

The Central North Sea also contains the Brae Field which has attracted participants such as Kerr McGee, BP, Talisman, and Marathon Oil. This field contains oil and gas in the large sand bodies that accumulated at the foot of a steep submarine slope. This coarse sediment was deposited along the western edge of the buried rift valley, in the southern part of the Viking Graben. The organic mud of the Kimmeridge Clay source rock was deposited across the area. The Brae Field was discovered in 1977. Its oil is found deeper down than in most North Sea fields, within a maximum reservoir rock thickness of over 500 metres. (Source: UKOOA)

Blocks 16/1b, 16/2, 9/26, 9/22 & 9/23c

These blocks are located on the margin of Viking Graben, with Elixir holding a 33% interest in the licence area. They contain several Tertiary and Mesozoic prospects and leads, with proven confirmation of hydrocarbon migrations in the licences.

According to sources such as the US Geological Survey (USGS), the Viking Graben area is considered to be under-exploited. The actual source rocks are black shales that display high radioactivity and have Total Organic Carbon (TOC) contents of 2 to 15 percent. TOC greater than 2 percent is considered to be a rich resource base with the ability to establish an economic oil & gas field. The average TOC estimated at Viking Graben is 5%.

Block 15/13b

Block 15/13b is located on the Outer Moray Firth close to several producing fields such as Balmoral and Piper. The block contains Tertiary and Jurassic prospects, with geology similar to that of the Balmoral Field.

Oil in the Block 15/13b area is interpreted to be trapped within a tilted sandstone layer cut by faults. Kimmeridge Clay source rock overlies the oil-filled sandstone, acting as part of the seal. The oil could have migrated to the field area at some time after a mudrock seal. Oil is prevented from leaking out at the faults, or from the eroded edges of the sandstone, by this seal. Indicatively, about one cubic kilometre of the sand could hold 150 billion litres of oil over an area of 30 square kilometres. (Source: UKOOA)

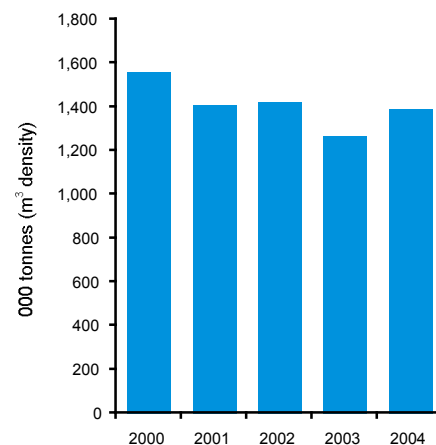
Blocks 14/8, 14/9, 14/14b

These blocks contain a Upper Jurassic prospect and are located close to the Claymore and Scapa Fields. Licence terms require the purchase of further 2D and 3D seismic work. While this requirement would reduce the exploration risk, exploration drilling of this block is likely to be deferred as a result.

The Claymore and Scapa Fields are currently in production, with cumulative production of 74 million and 15 million tonnes of crude oil respectively (UK share). Talisman Energy, Total, and Texaco are some of the prominent oil companies operating at the Claymore and Scapa Fields.

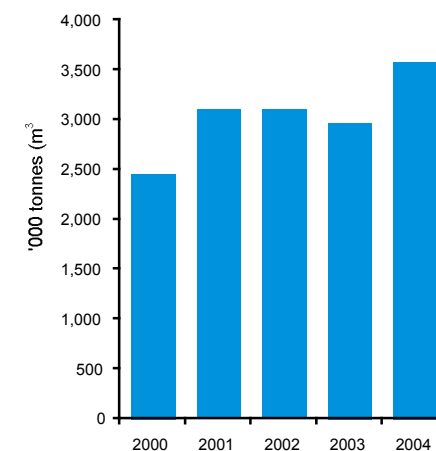
Given the proximity to the Claymore and Scapa fields as well as their location on a main hydrocarbon route, these blocks are considered to be of lower risk.

Claymore Field oil production



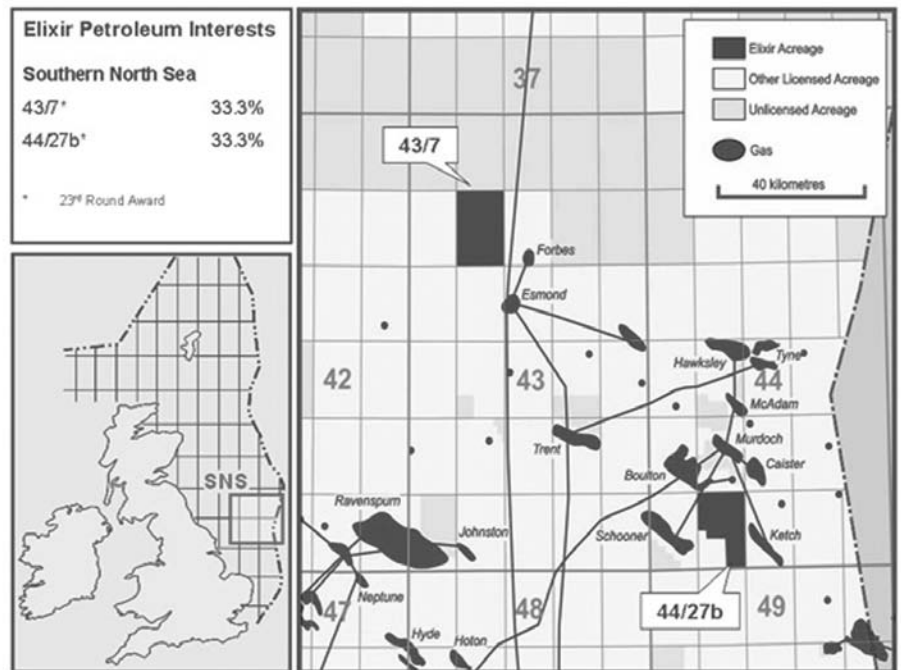
Source: DTI

Captain Field oil production



Source: DTI

Elixir Petroleum prospects – Southern North Sea



Blocks 13/19, 13/24c & 13/25

Prospects in these blocks are identified as Upper Jurassic and Lower Cretaceous, and are considered to be moderate risk. Elixir owns interests of 50% of 13/19 and 13/24c in partnership with Granby and 25% in partnership with Faroe and Granby of 13/25

Blocks are located close to the producing Blake and Captain Fields, which have so far recorded a cumulative production of 22 million and 6 million tonnes of crude oil respectively (UK share). These fields are operated by Chevron and XXX.

Prospects in these blocks are yet to be evaluated in full. While there are producing fields in the neighbourhood, trap definition and seal integrity are considered to be the main risks associated with the prospects.

Southern North Sea

Blocks 43/7 & 44/27b

The Southern North Sea represents a significant gas province and the area is better known for its gas reserves rather than oil reserves. Formations include fluvial channel sandstones, fine grained delta plain and alluvial overbank deposits. Producing fields in the area include the Leman Field and Hewett Field.

The Leman Field was discovered in 1966, and is the largest gas field in the southern North Sea, underlying an area of more than 30 km by 10 km off the Norfolk coast. The gas originates from the coal-bearing shales of the 300 million year-old Coal Measures. The thick, Late Permian salt beds in this area form a very efficient seal above the excellent reservoir rock of dune sands laid down in Early Permian times, around 270 million years ago. (Source: UKOOA)

Beneath Leman Field, however, the crust has been pushed upwards, lifting the Coal Measures back out of the gas-generating zone. At nearby Hewett Field these same upward movements have allowed gas to escape past the Permian salt seal, and then have migrated towards the surface but have been trapped again in two sandstone reservoirs of Early Triassic age, around 240 million years old. These have seals of shale and a thin salt layer. (Source: UKOOA)

Elixir owns 33% of these two blocks. However, the company has yet to fully evaluate their reserve potential. Tullow and Perenco are the main operators in the area.

Financials

Elixir's Balance Sheet

	6 months Ended		Year Ended	
	31-Dec-05	31-Dec-04	30-Jun-05	30-Jun-04
Current Assets				
Cash & Equivalents	13,378,220		16,044,627	964,562
Receivables	98,471		150,122	6,367
Other	65,845		76,855	153,707
Total Current Assets	13,542,536	-	16,271,604	1,124,636
Non-Current Assets				
Property Plant & Equipment	42,420		46,504	-
Investments	-		-	-
Receivables	-		-	-
Deferred Expl. & Eval. Costs	1,869,509		2,278,259	77,601
Total Non-Current Assets	1,911,929	-	2,324,763	77,601
Total Assets	15,454,465	-	18,596,367	1,202,237
Current Liabilities				
Payables	1,247,163		1,665,981	816,750
Total Current Liabilities	1,247,163	-	1,665,981	816,750
Total Liabilities	1,247,163	-	1,665,981	816,750
Net Assets	14,207,302	-	16,930,386	385,487
Equity				
Contributed Share Capital	19,757,030		19,773,149	430,001
Option Premium Reserve	1,007,307		378,516	-
Accumulated Losses	(6,557,035)		(3,221,279)	(44,514)
Total Equity	14,207,302	-	16,930,386	385,487

Elixir's Cashflow

	6 months ended		Year ended	
	31-Dec-05	31-Dec-04	30-Jun-05	30-Jun-04
Cash Flow From Operating Activity				
Paymnts to Suppl. & Empl.	(1,047,392)	(648,496)	(602,357)	(29,471)
Interest Received	312,123	74,700	174,583	-
Finance Costs	(3,035)	(47)	(4,242)	-
Paymnts for Expl. & Eval. Exp.	-	-	(1,706,388)	-
Net Cash Flow From Op.Activity	(738,304)	(573,843)	(2,138,404)	(29,471)
Cash Flow From Investing Activity				
Paymnts for Prop. Plant & Equip.	(4,996)	(16,775)	(54,489)	-
Paymnts for Expl. Licenses & Actv.	(1,879,849)	(1,035,806)	(691,193)	(149,367)
Paymnts for Subs., Net of Cash Acq.	-	(2)	-	-
Net Cash Flow From Investing Activity	(1,884,845)	(1,052,583)	(745,682)	(149,367)
Cash Flow From Financing Activity				
Proceeds from Issue of Shares	-	5,085,486	21,565,871	430,001
Proceeds Received and Held Awaiting				
Issue of Ordinary Shares/(Transferred)	-	-	(739,845)	739,845
Payment of Share Issue Costs	(110,283)	(497,374)	(2,636,761)	(26,446)
Net Cash Flow From Financing Activity	(110,283)	4,588,112	18,189,265	1,143,400
Net Increase in Cash Held	(2,733,432)	2,961,686	15,305,179	964,562
Opening Cash Balance	16,044,627	964,562	964,562	-
Eff. of Exch. Rate Changes on Cash	67,025	(159,625)	(225,114)	-
Closing Cash Balance	13,378,220	3,766,623	16,044,627	964,562

Elixir's Summary Profit and Loss

	6 months Ended 31-Dec-05	6 months Ended 31-Dec-04	Year Ended 30-Jun-05	Year Ended 30-Jun-04
Revenues from Ordinary Activities	295,935	80,238	187,767	569
Finance Costs	(3,035)	(1,846)	(4,242)	(153)
Depreciation & Amortization Expense	(9,080)	(766)	(7,985)	-
Travel & Accomodation	(86,920)	(128,766)	(201,606)	(24,215)
Compliance Expenses	-	-	(102,048)	-
Administration Expenses	(299,224)	(111,965)	(567,324)	(12,144)
Employee Benefits	(763,818)	(166,076)	(675,787)	-
Consultants Fees	(167,208)	(219,779)	(303,937)	(8,571)
Foreign Exchange Loss	5,087	(146,521)	(227,539)	-
Exploration Expense Written Off	(2,001,080)	-	(1,274,064)	-
Loss from Ordinary Activities Before Income Tax Expense	(3,029,343)	(695,481)	(3,176,765)	(44,514)
Income Tax Benefit (Expense) on Ordinary Activities	-	-	-	-
Net Loss	(3,029,343)	(695,481)	(3,176,765)	(44,514)

Appendix: Management

Russell D. Langusch, *Managing Director*

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

Angus MacAskill, *Executive Director - Business Development*

Mr MacAskill is a Petroleum Engineer who has accumulated over 23 years upstream oil & gas experience. After graduating from Edinburgh University in 1981 his career has spanned roles in engineering, marketing and business development. He spent five years with Schlumberger in Africa followed by ten years with Mobil working in the UK and Norwegian sectors of the North Sea. Between 1997 and 2002 he held several senior positions with Enterprise Oil plc including two years as Enterprise Oil plc's Business Development Manager for the US Gulf of Mexico based in Houston, Texas.

Iain Knott, *Executive Director - Exploration*

Mr Knott is a Petroleum Geologist who has over 20 years North Sea and international oil & gas experience. After graduating from Kingston University in 1983, Iain was employed in a number of geological roles by Core-Lab, Paleoservices and British Gas. Since 1996 Iain has held senior roles in the oil and gas and investment banking industries, firstly as an Assistant Director with NatWest Markets – Wood Mackenzie, then as Technical Director responsible for Northwest Europe for Burlington Resources, and most recently as Technical Director of Ingen. Ingen is an Aberdeen-based independent energy consultancy which successfully participated in the 21st and 22nd UKCS Licensing Rounds.

Kent Hunter, *Non Executive Director and Company Secretary*

Mr. Hunter is a Chartered Accountant with over 15 years corporate and company secretarial experience. He has been involved in the listing of eight mining companies and has been instrumental in the recent Elixir fund raising as well. Mr. Hunter is currently a non-executive director of Cazaly Resources Limited, Gryphon Minerals Limited and Scimitar Resources Limited and is company secretary of three other ASX listed companies.

Glossary

1P: proven oil

2P: Proven oil + Probable oil

bbl: barrel

bcf: billion cubic feet

boe: barrels of oil equivalent

Carboniferous: a geological period extending from 370 to 270 million years ago

Cretaceous: the last of the Mesozoic Ages. From 144 to 65 million years ago:

Farm-in: a process of acquiring working interest in a licence held by another party, upon financing part of the development cost. For instance, earning a 20% interest on a 2:1 basis means that farminee earns 20% interest after financing 40% of the cost.

Farminee: the company in a farm-in agreement that undertakes development

Fluvial: pertaining to rivers or streams and their action

Graben: a down-dropped block of the earth's crust resulting from extension, or pulling, of the crust

Mesozoic: the geological era between 247 and 65 million years ago

mmbbl/d: million barrels per day

Permian: unit of rocks, dominated by red beds and evaporites

ripping: the process by which the earth's crust is pulled apart and broken, resulting in the formation of new crust

Seismic: an interpretation of geologic strata through measurement and recording of sound wave transmission below the surface

Spud: to commence drilling operations

Stratigraphic: refers to the systematic definition and description of major and minor natural divisions of rocks and their arrangement according to their composition, distribution, correlation, and mutual relationships

Upper Jurassic: upper Jurassic (also known as Malm) was an epoch of the Jurassic geologic period. It lasted from 146 to 135 million years ago.

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As always, I welcome your comments and feedback on our research!

Gabriel Didham, CFA
Objective Capital

Sam Kiri, CFA

Sam has more than 13 years of international analytical research experience with a primary focus on resources and energy companies. He has previously served with Scotiabank and W.I. Carr in the Far East.

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