

EXOIL LIMITED

ABN 40 005 572 798

ANNUAL REPORT

FOR THE YEAR ENDED 30 JUNE 2006

DIRECTORY

BOARD OF DIRECTORS

J.M. Willis (Chairman)
E.G. Albers
G.A. Menzies
P.J. Albers
A Rechner (resigned 14 February 2006)

SECRETARY

E.G. Albers
Level 25,
500 Collins Street,
Melbourne, Victoria 3000

REGISTERED OFFICE AND PRINCIPAL ADMINISTRATION OFFICE

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AUDITOR

PKF
Chartered Accountants
Level 11, CGU Tower
485 La Trobe Street
Melbourne, Victoria 3000

INCORPORATED IN VICTORIA

13 March 1980

WEBSITE

www.exoil.net

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FORWARD LOOKING STATEMENTS

This Financial Report includes certain forward-looking statements that have been based on current expectations about future acts, events and circumstances. These forward-looking statements are, however, subject to risks, uncertainties and assumptions that could cause those acts, events and circumstances to differ materially from the expectations described in such forward-looking statements.

These factors include, among other things, commercial and other risks associated with the meeting of objectives and other investment considerations, as well as other matters not yet known to the company or not currently considered material by the company.

CHAIRMAN'S REVIEW

Exoil Limited has made solid progress during the year, which has included participating in a significant new seismic survey in the Browse Basin, commencing a sophisticated geophysical project to better understand our prospects in Vic/P53, successfully farming out part of our interest in Vic/P45, disposing of a participating interest in one of our Browse permits, and acquiring two new permits in the Otway Basin.

However, the most important question we are continuing to address is the source of funding for our future exploration activity, particularly relating to seismic acquisition and drilling operations. This is an ongoing challenge. Most of our decisions and actions are directed toward the pursuit of opportunities that will result in third party funding of our operations or will reduce our forward exploration commitments.

To this end, in March 2006, we entered into a farmout with Apache Northwest Pty Ltd in relation to our interest in Vic/P45. We have transferred a 33.3334% interest (out of our 50% interest), leaving us with 16.6666%. In return, Apache has agreed to meet 100% of the costs of the first two wells to be drilled in Vic/P45. Apache may elect to withdraw after drilling the first well, but will have to reconvey the farmout interest to us. Our estimate of the value to us of the expenditure relating to this farmout (in terms of money saved) is as much as \$15 million, consequently valuing our remaining interest at \$7.5 million. Subject to rig availability, our expectation is for the first of the wells to be drilled later this year.

Another significant funding initiative was the sale by our wholly owned subsidiary, Hawkestone Oil Pty Ltd, of its 35% interest in WA-341-P, one of the Browse Joint Venture permits. This sale provided a significant cash injection to the Exoil group. While we no longer hold any residual interest in WA-341-P, the transaction provided us with working capital which has been applied to our remaining interests, including funding the acquisition of seismic data in Vic/P53 and the Braveheart seismic survey in the remaining three Browse Joint Venture Blocks. Within these blocks is the Cornea gas/oil accumulation. We have recently undertaken reprocessing of almost 1,000 kms² of 3D data over Cornea and have initiated scoping studies to assess whether potential exists for development of Cornea.

During 2006 year, we conducted negotiations with a major international group who showed interest in a package of our interests or the Company as a whole. We spent considerable time and effort in encouraging the approach but no tangible proposal, capable of acceptance, was forthcoming. We receive approaches from third parties from time to time but, so far, these approaches have not reached a stage where any concrete proposal has been made to us. We continue to field expressions of interest from third parties contemplating farmins.

Operationally, the most significant activity was the shooting in late 2005 of the first stage of the Braveheart 2D seismic program in WA-332-P and WA-333-P. This seismic has now been processed and will be incorporated into our existing 2D Browse Basin seismic data bank. The early indications are encouraging, as a number of leads have been identified.

We have continued to build our data base in the Otway Basin, offshore South Australia. We were successful in bidding for two newly gazetted areas immediately adjacent to our existing EPP34 permit. One of these new permits, EPP33, contains the Troas gas occurrence where intermittent hydrocarbon shows were seen over a more than 1,000m interval.

Since the close of the year, we have commenced a sophisticated depth conversion study of our prospects in Vic/P53. This will have a significant bearing on our understanding of our prospects within this permit and its complicated geology. The outcome of these studies will enable us to rank various prospects for drilling.

In the Bass Basin, we continue to reassess our seismic requirements in light of our unfolding understanding of the complexity of this basin. The joint venture has undertaken studies of the Pelican Gas/Condensate discoveries as well as carrying out a detailed assessment of the hydrocarbon potential of our two permits, T37P and T38P.

In Vic/P61, in the Victorian sector of the Otway Basin, we continue to acquire and load available data. A 3D seismic data acquisition program over the southern end of Vic/P61 is being planned, subject to joint venture approval.

As noted above, a significant challenge for the company is its sources of funds and the priorities for the use of limited funds. During the year we raised funds through the sale of the company's interest in WA-341-P and through the sale of shares following the exercise of options. Once our requirements are better understood in relation to

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Vic/P53, we shall make a decision about future funding and how we should proceed. An equity raising is under consideration as is further farmout of our interests.

We like to think we take a pragmatic approach to our requirements. You can be assured any decision we make will be predicated on what we see as being in the best interest of all shareholders.

Thank you for your past support.

Yours sincerely

A handwritten signature in black ink, appearing to read 'J.M.D. Willis', with a large, stylized initial 'J'.

J.M.D. Willis
Chairman
31 January 2007

DIRECTORS' REPORT

The directors present their report together with the financial report of Exoil Limited ("the Company") for the year ended 30 June 2006 and the auditor's report thereon.

DIRECTORS

The directors of the Company in office throughout the year and to the date of this report are as follows:

JMD Willis LL.M (hons) Dip Acc

Chairperson

Independent Non-Executive Director

Mr Willis has been a partner in a leading New Zealand law firm, Bell Gully, since 1982. His practice speciality is in the upstream oil and gas area, particularly relating to issues concerning gas contracting and the development of oil and gas reserves, joint ventures and upstream petroleum related acquisitions. He acts for the leading participants in the upstream petroleum industry in New Zealand. With Mr Albers he was co-founder and later a director of Southern Petroleum, a successful New Zealand explorer and partner, now wholly owned by Shell. Director since 2004.

EG Albers LL.B FAICD

Director, Company Secretary

Mr Albers is a company director with over thirty five years experience as a lawyer and administrator in corporate law, petroleum exploration and resource sector investment. During this period Mr Albers has sponsored the formation of companies that have made the original Maari (Moki) oilfield discovery in New Zealand, the Yolla Gas/Condensate discovery in Bass Strait, the Evans Shoal gasfield discovery/appraisal in the Timor Sea, the SE Gobe oilfield development in Papua New Guinea and the Oyong oil/gas discovery in Indonesia. Mr Albers is Chairman of Moby Oil & Gas Limited, Octanex NL, Strata Resources NL and a director of Bass Strait Oil Company Ltd and Cue Energy Resources Ltd. He is also a director of various other private and unlisted public companies. He is a member of the Petroleum Exploration Society of Australia. Director since 1981.

GA Menzies LL.M

Independent Non-Executive Director

Mr Menzies is a barrister and solicitor. He graduated from Melbourne University in 1971 and qualified for admission to the degree of Master of Laws in 1975. He was admitted to practice in 1972. Since 1987 he has carried on practice as a sole practitioner under the name of Menzies & Partners. In the course of his legal practice, Mr Menzies has been involved in a wide range of activities, including takeovers, litigation in respect thereof, numerous capital raisings and corporate reconstructions. He has been involved in the listing of a large number of public companies ranging from junior exploration to substantial mining companies. Over recent years, his activities have focused primarily on corporate reconstructions and capital raisings. Director since 2004.

PJ Albers

Non-Executive Director

Mrs Albers has had more than thirty five years of commercial experience including co ownership and management of a significant primary production operation. She has been a director of a number of corporations, including public companies, over the last fifteen years. Mrs Albers has a background in human resources, health and safety, and in public relations. Director since 1984.

A Rechner BSc. M AusImm

Independent Non-Executive Director (resigned 14 February, 2006)

Mr Rechner holds a Bachelor of Science degree in Geology and Physics from the University of Adelaide, South Australia. He is a Member of the Australasian Institute of Mining and Metallurgy and a past committee member of PESA, with over thirty five years experience in Australia and overseas working in petroleum search and exploration.

After gaining extensive basin exploration experience in Western Australia he was appointed Seismic Operations Supervisor for West Australian Petroleum (WAPET) and was seconded to Chevron overseas as part of a three man

DIRECTORS' REPORT (Continued)

expatriate team in Sudan, Northern Africa. Returning to Perth, Mr Rechner established one of WA's largest petroleum exploration consultancies before assuming various management positions in listed Australian Public Companies. Mr Rechner has been Chairman and Managing Director of Eagle Bay Resources since foundation in 1986. Director since 2004 and resigned February 2006.

DIRECTORS' MEETINGS

The number of directors' meetings and number of meetings attended by each of the directors of the Company during the financial year were:

Director	Board meetings attended	Board meetings held
EG Albers	3	3
JMD Willis	3	3
GA Menzies	3	3
PJ Albers	2	3
A Rechner	1	1

DIRECTORS' INTERESTS

At the date of this report the relevant interest of each of the directors in the Company is as follows:

<i>Ordinary shares</i>		<i>Options over ordinary shares</i>	
EG Albers	40,059,992	EG Albers	100,000
JMD Willis	1,156,250	JMD Willis	200,000
GA Menzies	-	GA Menzies	200,000
PJ Albers	40,059,992	PJ Albers	100,000

ENVIRONMENT, HEALTH AND SAFETY

The Company has adopted an environmental, health and safety policy and conducts its operations in accordance with the APPEA Code of Practice.

The Company's petroleum exploration and development activities are subject to environmental conditions specified in the Petroleum (Submerged Lands) Act, associated Regulations and Directions, as well as the Environment Protection and Biodiversity Conservation Act 1999. During the period there were no known contraventions by the Company of any relevant environmental regulations.

CORPORATE GOVERNANCE

As Exoil Limited is not a listed company it does not have to comply with the "Principles of Good Corporate Governance and Best Practice Recommendations" (the CGC Paper) which was issued by the ASX Corporate Governance Council (CGC). However, this statement does outline the main corporate governance practices in place throughout the financial year.

The Directors are responsible for the strategic direction of the Company, the identification and implementation of corporate policies and goals and monitoring of the business and affairs of the Company on behalf of its members. One of the key objectives of the Board is to ensure timely, transparent and accurate communication with all members and compliance with all regulatory requirements.

DIRECTORS' REPORT (Continued)

Given that the Company is small, with limited activities and limited resources, the Board has not established a series of committees to address specific areas of corporate governance such as strategic review, nominations, operations and remuneration. These issues will be dealt with by the Board as a whole with any interested directors abstaining or being absent as required either by Act or as necessary to avoid conflict or possible breach of their fiduciary duties.

PRINCIPAL ACTIVITY

The principal activity of the Company during the course of the financial year was to acquire and explore areas prospective for oil in offshore waters within the jurisdiction of Australia.

REVIEW AND RESULTS OF OPERATIONS*Company overview*

The Income Statement shows a consolidated profit of \$1,932,552 compared with a net loss of \$305,783 in 2005. The main reason for the year's result was the sale in February 2006 of the interest held in WA341P, a permit in the Browse Joint Venture. The consolidated entity's share of the proceeds was \$2.9m.

State of affairs

The Company is incorporated and domiciled in Australia and has no employees other than the directors.

The directors are not aware of any other matter or circumstance that has arisen during the financial year or since that has significantly affected or may significantly affect the operations of the Company, the results of those operations or the state of affairs of the Company in subsequent financial years, except as may be stated elsewhere in the financial report.

DIVIDENDS

No dividends have been paid, provided or recommended for payment by the Company during the year and to the date of this report.

SHARE CAPITAL

On June 30, 2006 the Company issued 5,000,000 shares to EJ Albers for \$1,000,000 on the exercise of options.

SHARE OPTIONS

No options were granted during the year or to the date of this report. 300,000 options previously issued to PJ Williams in the year to 30 June 2005 expired after he resigned in February 2006.

Unissued shares under option

At the date of this report unissued ordinary shares of the Company under options are:

Expiry date	Exercise price	Number of options
31 December 2009	\$0.30	1,175,000
31 December 2009	\$0.40	<u>675,000</u>
		<u>1,850,000</u>

These options do not entitle the holder to participate in any share issue of the company or any other body corporate and expire on the earlier of their expiry date or six months from the termination of the employee's employment

REVIEW OF PETROLEUM EXPLORATION ACTIVITIES

The recording of the 524 km² Bazzard 3D seismic survey by Exoil Limited, as the operator of Vic/P53 Joint Venture, was completed earlier in 2005, with processing completed late in 2005.

The shooting of high resolution 3D seismic data in Vic/P53 was an important milestone as it represented the first acquisition of a dedicated 3D seismic program over an area that, while located in the heart of the producing Gippsland Basin, is in many respects a frontier area. The Vic/P53 permit is considered to have the scope for the location of a high impact feature at top Latrobe level. This modern 3D seismic data, together with the considerable computing power now available to make depth conversion adjustments, are expected to deal with the complexities of Vic/P53.

The frontier nature of the Vic/P53 Permit is highlighted by the fact that, although it is in the core of the producing area, there has not been a well drilled within the permit area during the last 20 years. Over this period seismic technology and computer power have both improved dramatically. These aspects, when taken together with the strategic geological location of Vic/P53, support the view that there is potential to uncover new Top and intra Latrobe oil and gas plays.



DIRECTORS' REPORT (Continued)

One of the prime purposes of the Bazzard 3D seismic survey in Vic/P53 was to investigate the area to the northeast of Veilfin-1, a well which produced oil and gas shows. This is the area of the Bazzard Lead. Exoil continues the interpretation of the current prospects and leads. Work has proceeded and upgraded the previously identified leads West Cod, Updip Veilfin, Catfish and Bazzard, with some leads seen by previous explorers, such as Knifejaw, NE Cod and Cod Deep, being downgraded.

The Vic/P53 joint venture has offered the permit for farmout.

Prospects are unlikely to be drilled before late 2007 because of the tight market for offshore drilling rigs.

Vic/P45 - Offshore Gippsland - 16% interest – Apache is the operator

As Operator of Vic/P45, Exoil undertook a review of the prospects and leads portfolio in Vic/P45, drawing upon the modern, 1,100 km² high quality 3D seismic survey that covers most of Vic/P45. This data provided scope to locate medium size oil prospects within the Latrobe Group. A short list of possible drilling candidates was developed for this permit. They include Trident (Coelacanth), Scampi, Errol, Archaeopteryx and Archer Deep. Each has merit in its own right. Parts of Vic/P45 are located in an active shipping lane, so that selection of a final drilling target will be influenced not only by perceived geological merit, but also the time constraints and logistics associated with shipping lane matters.

The wells previously drilled in Vic/P45 have tested prospects in all three of the main play groups (top and intra-Latrobe and Golden Beach), with success in the intra-Latrobe and Golden Beach plays. The three hydrocarbon discoveries drilled at Anemone-1A, Archer-1 and Hermes-1 confirm the existence of working petroleum systems in the permit area and were suitably positioned to help define the extent of the prospective section in the Vic/P45 area.

In March 2006, Moby and Exoil entered into a farmout agreement with Apache Northwest Pty Ltd ("Apache") in respect to Vic/P45. The farmout transaction has received the necessary approvals from the regulatory authorities. Pursuant to the farmout agreement, Moby and Exoil have transferred an aggregate 66.6666% interest in Vic/P45 to Apache, reducing Exoil's interest from 50% to 16.6666%, with Moby holding the remaining 16.6666%. In return for the transfer, Apache will meet 100% of the costs of the first well to be drilled in Vic/P45 and 100% of the costs of the second well to be drilled in Vic/P45. However, Apache may withdraw from this commitment after drilling the first well by reconveying the whole of farmout interest (66.6666%) to Exoil and Moby. Any discovery location, as defined in the Petroleum (Submerged Lands) Act shall, at Apache's discretion, be excised from any such reconveyance (should there be one).

Apache has become Operator of Vic/P45 and will, in conjunction with Exoil and Moby, select a drilling location for the first well. This well is planned to be drilled after a suitable rig can be procured. While prospects are ready for drilling, the very tight market for offshore drilling rigs can be expected to push any Vic/P45 drilling activity well into 2007 or later. As part of the farmin process and subsequent to farming into the permit and taking over operatorship, Apache conducted regional and prospect/lead specific mapping and geological studies. Previously identified prospects and leads have been re-mapped and re-reviewed geologically and remain as robust prospects and leads in the permit. Continuing studies and mapping will now concentrate upon producing a ranking of these prospects and leads to prioritise drilling candidates.

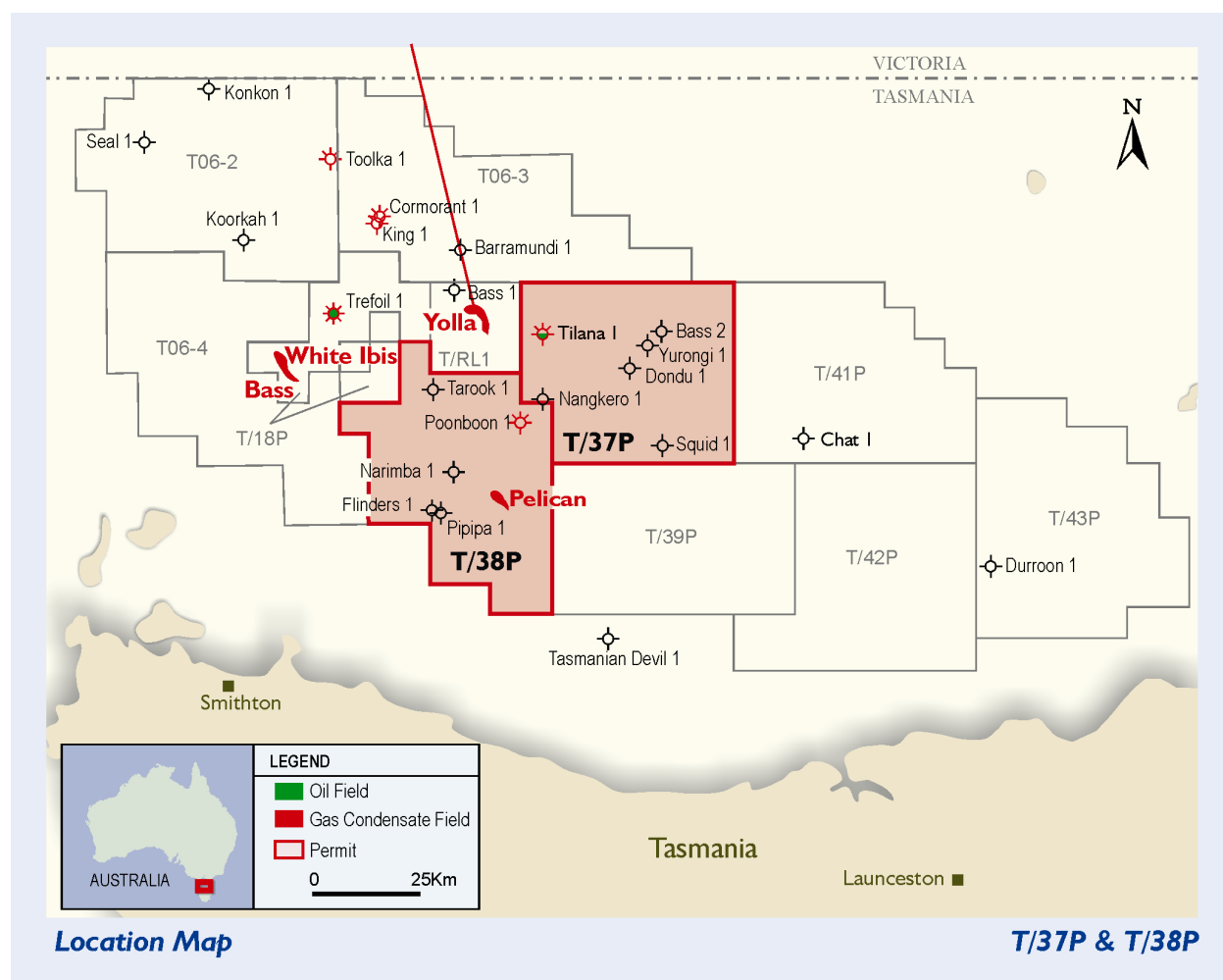
T/37P and T/38P Bass Basin, Offshore from Tasmania - 50% interest

Exoil (50%) with Cue Energy Resources Ltd (50%), holds two petroleum permits, T/37P and T/38P, located in the Bass Strait region, north of Tasmania and east of King Island. Each area consists of 40 graticular blocks, covering areas of approximately 2,670 kms² (T/37P), and 2,655 kms² (T/38P). Water depths across the areas are less than 75 metres. The areas are adjacent to the Yolla Gas/Condensate Development and the Trefoil-1 gas/condensate discovery in exploration permit T/18P, both operated by Origin Energy Resources Limited.

DIRECTORS' REPORT (Continued)

The Bass Basin is a moderately explored basin with 33 wells drilled since 1965. The basin has a drilling density of approximately one well per 1,320 kms².

The Company's target in these Bass Basin permits is oil. Significantly, a number of wells in the Bass Basin have either found reservoir oil or encountered strong live oil indications.



Browse Basin, Offshore from Western Australia - 35% interest – Exoil is the operator

Exoil, through its wholly owned subsidiary, Hawkestone Oil Pty Ltd, now holds a 35% interest in three contiguous permits (WA-332-P, WA-333-P and WA-342-P) held by the Browse Joint Venture.

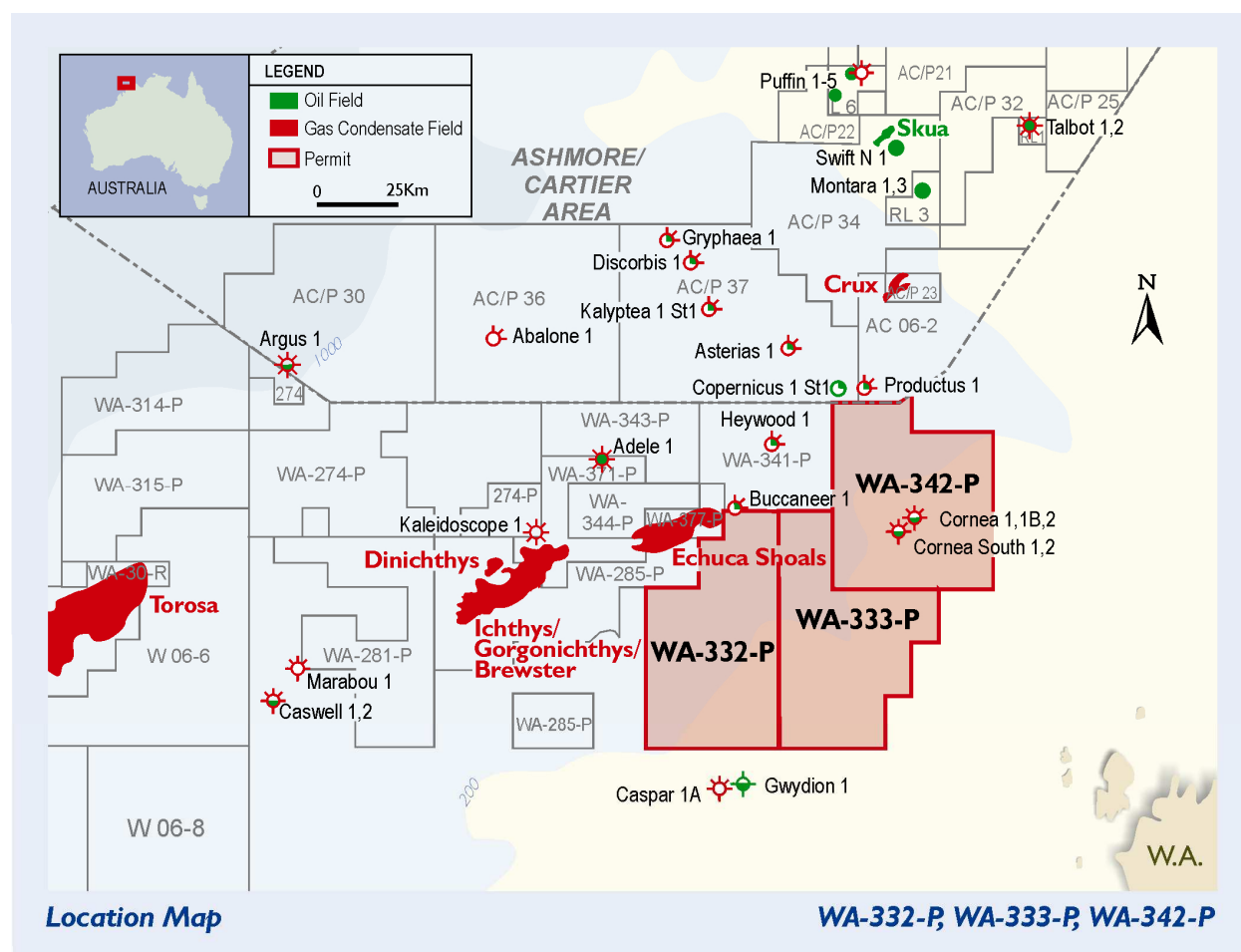
During the year the Browse joint venture sold WA-341-P providing a significant cash injection to the joint venture.

The Browse Basin region, off the coast of Western Australia, has a 40-year history of exploration. It is an established petroleum sub-province and it forms a part of the extensive series of continental margin sedimentary basins that, together, comprise the North West Shelf hydrocarbon province of Australia. The Browse Basin has been host to a series of major gas, gas condensate and oil discoveries which began with the 1971 discovery at Scott Reef-1. The first discovery at Scott Reef-1 was followed, over the years, by major discoveries at Brewster, Brecknock, and Brecknock South. In a later phase of exploration, oil discoveries were made at Gwydion and Cornea. The latest major discoveries in the Browse Basin have been made at Dinichthys, Titanichthys and Gorganichthys (the Ichthys Gas/Condensate Fields). The latter, a giant 556.02 MMBL condensate and 10.7 TCF gas field is approximately 50

DIRECTORS' REPORT (Continued)

kilometers to the west of the Permits. The Permits lie up-dip of these major central Browse Basin gas, and gas/condensate discoveries. For the most part they lie on trend with the Crux Field and with basin margin oil and gas accumulations at Gwydion and the Cornea. The permits are presently lightly explored. There is one well on the boundary of WA-332-P (Prudhoe-1), one well in WA-333-P (Rob Roy-1), two wells-Heywood-1 and Buccaneer-1 in WA-341-P, and a total of fourteen wells in WA-342-P, mostly associated with the undeveloped Cornea oil and gas accumulation.

The Browse Joint Venture shot the Braveheart 2D seismic program over WA-332-P and WA-333-P during the year. In the first three year term of the Permits, the Browse Joint Venture has committed to obtain available open file reports and basic 2D and 3D seismic data acquired by earlier efforts of previous explorers. This includes 2,000 km² of high quality 3D seismic known as the Cornea 3D survey which is held by the Browse Joint Venture. The data sets will be integrated with the acquisition and processing of the recent 1400 km² Braveheart 2D seismic survey to infill the existing grid of data, with lead specific coverage. Should the Browse Joint Venture so decide, it can elect to enter a second three year permit term and in which it has indicated it will drill one well in each permit. Geological and geophysical evaluation of the Permits is continuing.



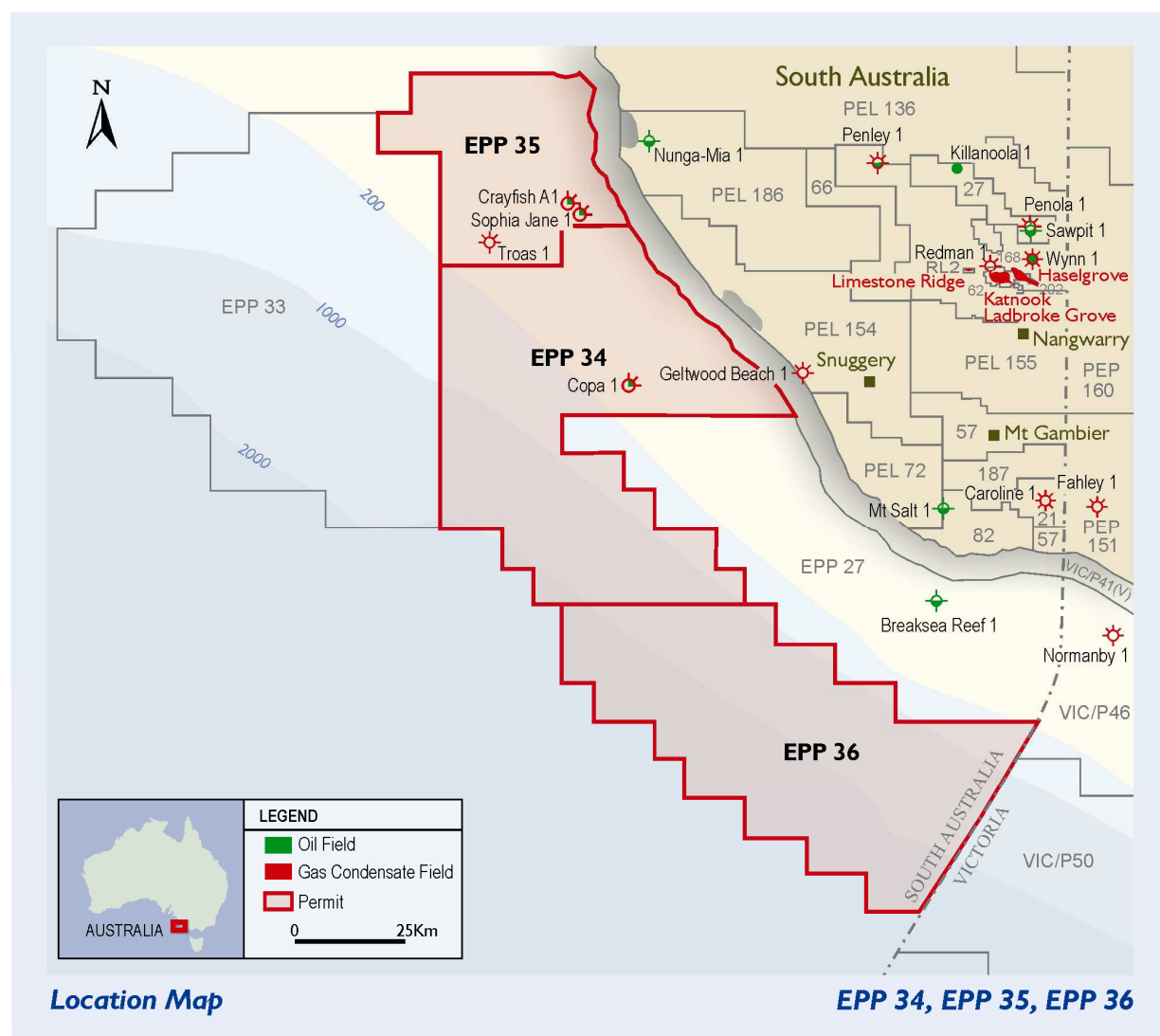
EPP34 Otway Basin, Offshore from South Australia - 25% interest – Exoil is the operator

Recent studies have highlighted the potential of the Morum Sub-basin, a large area beyond the shelf edge of the south eastern coast of South Australia. Permit EPP34 runs parallel and adjacent to a section of this Sub-basin. No wells have been drilled into this deep depocentre. Studies of geochemical analysis of an oil show from a well close to the edge of this depocentre suggest that the oil is a migrated oil with marine source affinity. The oil show is consistent with the modeled development of a significant oil prone source pod in the Morum Sub-basin.

DIRECTORS' REPORT (Continued)

Acquisition and loading of existing 2D digital seismic data from more than 10 surveys which have been shot within or adjacent to EPP34, continued during the year.

The planned 2D seismic survey in EPP34 was deferred to 2007 due to a lack of vessels available for the requisite time. The survey is planned to be shot in 2007.



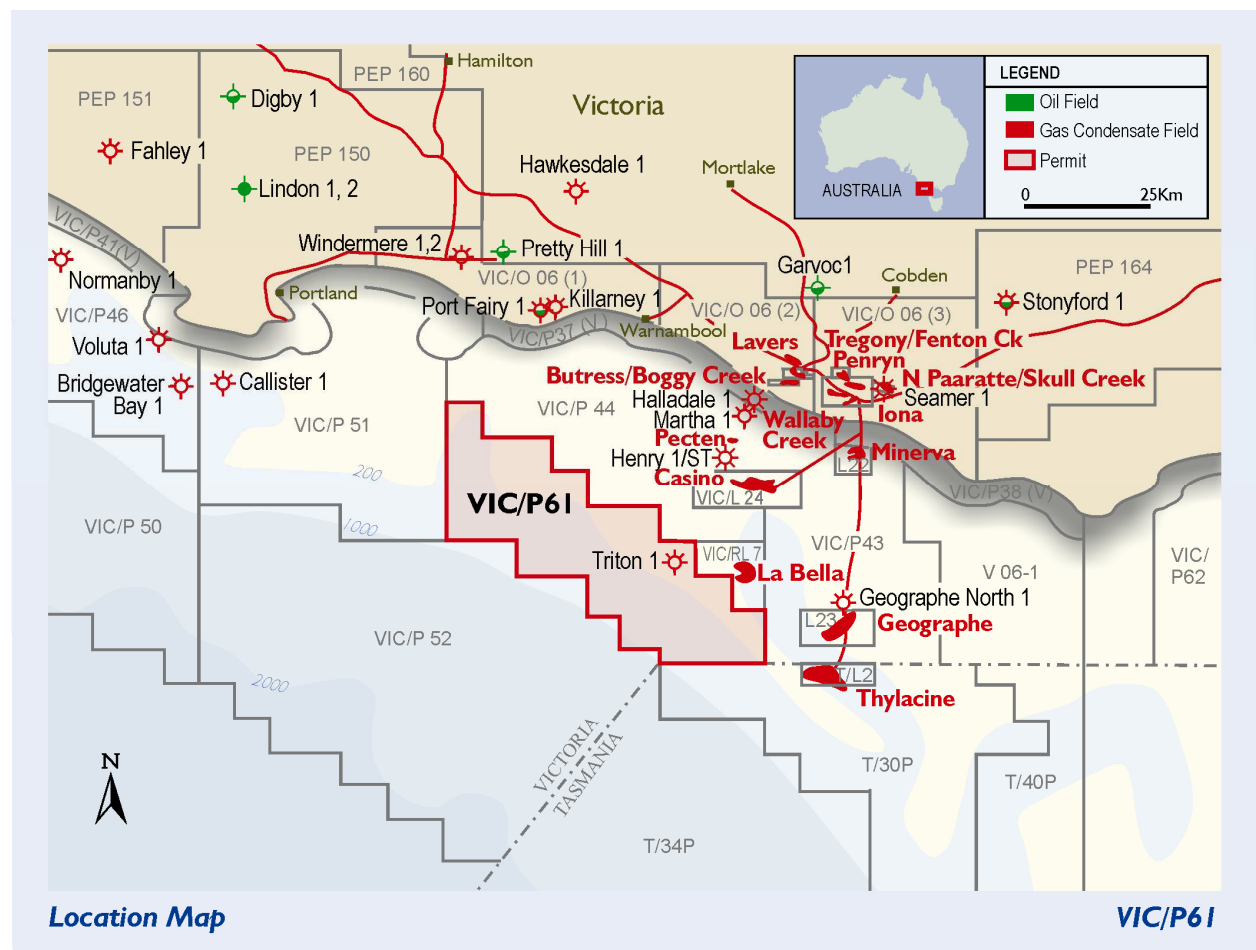
EPP35

A consortium in which Exoil holds a 30% interest has recently been awarded EPP35, a new oil and gas exploration permit adjacent to the west of EPP34. EPP35 contains the Troas gas occurrence, where gas indications were noted over more than 1,000 metres of sedimentary section. It therefore has a proven hydrocarbon system in place. The permit is endowed with a wide range of potential prospects in this thick section, with fair to good seismic and well data coverage. It is located approximately 100 km from the gas pipeline to Adelaide. The Consortium plans to shoot 350 km² of 3D seismic over the next three years.

EPP36

Vic/P61 Otway Basin, Offshore from Victoria - 30% interest – Exoil is the operator

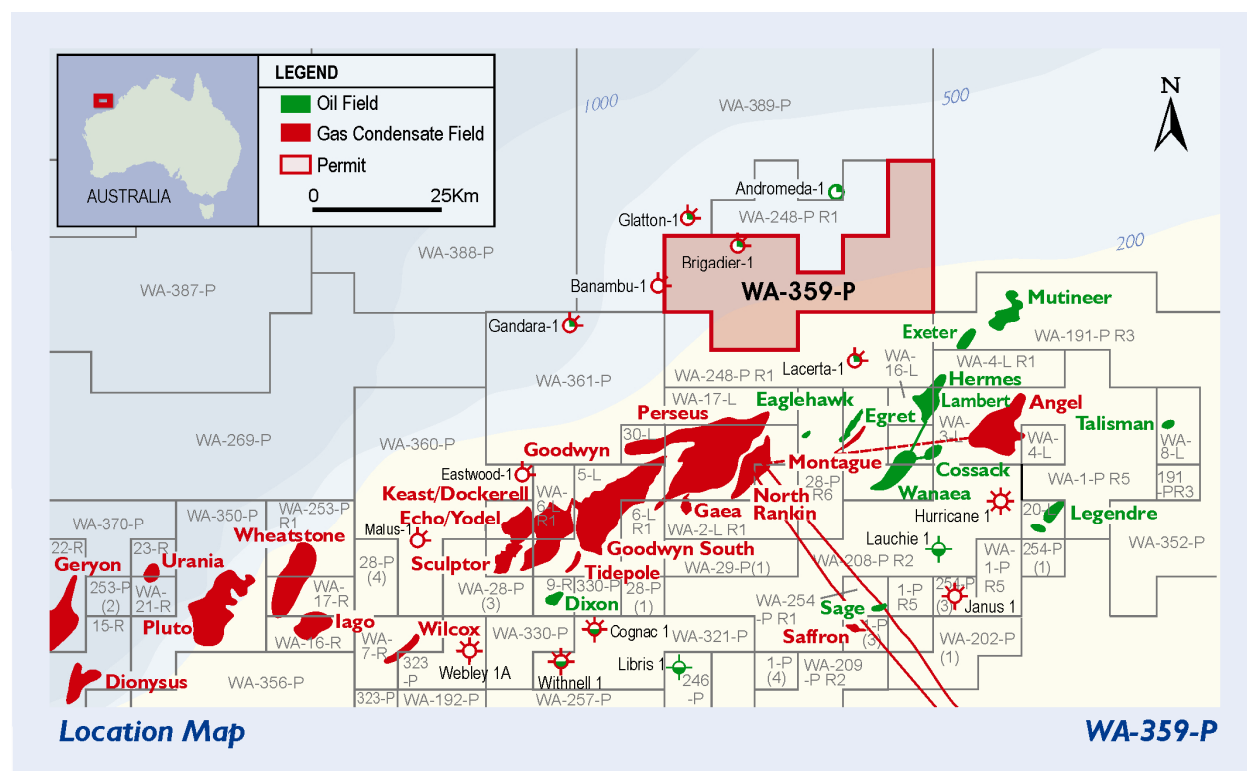
Exoil Limited (30%) has been appointed operator for Vic/P61, which is located in the offshore Otway Basin, some 50-60 kilometres southwest of Port Campbell. The area comprises 30 graticular blocks covering approximately 1874 Kms², and is situated on the shelf margin of the Otway Basin, where water depths vary between 80-500m. The block's eastern boundary is close to gas discoveries and new developments at Minerva, Geographe, Thylacine and Casino. Seismic surveys over the block are entirely 2D and vary in quality and extent.



DIRECTORS' REPORT (Continued)

WA-359-P Dampier Basin / Rankin Trend, Offshore from Western Australia - 50% interest

WA-359-P, in the Dampier Basin offshore from Western Australia, covers an area of approximately 1,200 Kms² in water depths of less than 500m. Exoil has a 50% participating interest in a joint venture with Cue Energy Resources Limited, who is the Operator.



SIGNIFICANT EVENTS AFTER BALANCE DATE

There have been no significant transactions subsequent to 30 June 2006 that should be brought to account for the year then ended.

AUDITOR'S INDEPENDENCE DECLARATION

The auditor's independence declaration, as required under section 307C, is attached to this report.

Signed in accordance with a resolution of the Directors.

EG Albers
Director

Melbourne, 31 January 2007

DIRECTORS' DECLARATION

In accordance with a resolution of the directors of Exoil Limited, I state that:

In the opinion of the directors:

- (a) the financial statements and notes of the company and the consolidated entity are in accordance with the Corporations Act 2001 and:
 - (i) give a true and fair view of the company's and the consolidated entity's financial position as at 30 June 2006 and performance for the year ended on that date; and
 - (ii) comply with the Accounting Standards and Corporations Regulations 2001; and
- (b) there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

On behalf of the Board



E.G. Albers
Director

Melbourne, 31 January 2007

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INCOME STATEMENT YEAR ENDED 30 JUNE 2006

	NOTE	Consolidated		The Company	
		2006	2005	2006	2005
		\$	\$	\$	\$
Revenue	2	3,010,585	36,730	2,096,734	36,730
Finance Costs		(191,119)	(810)	(191,119)	(810)
Depreciation Expense		(9,132)	(6,538)	(9,132)	(6,538)
Other expenses	3	(788,215)	(335,165)	(311,664)	(334,960)
Profit/(loss) before income tax expense		2,022,119	(305,783)	1,584,819	(305,578)
Income tax expense	5	(89,567)	-	-	-
Profit/(loss)for the year		1,932,552	(305,783)	1,584,819	(305,578)

The Income Statement is to be read in conjunction with the Notes to the Financial Statements

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BALANCE SHEET

AT 30 JUNE 2006

	NOTE	Consolidated		The Company	
		2006	2005	2006	2005
		\$	\$	\$	\$
CURRENT ASSETS					
Cash and cash equivalents		490,612	36,602	240,100	36,602
Trade and other receivables	6	169,789	323,571	163,086	322,574
TOTAL CURRENT ASSETS		660,401	360,173	403,186	359,176
NON-CURRENT ASSETS					
Exploration costs	7	4,342,334	3,829,498	3,978,358	3,473,105
Property, plant and equipment	8	33,916	39,689	33,916	39,689
Other financial assets	9	84,781	116,751	311,031	343,001
Other receivables	6	-	133,779	-	185,131
TOTAL NON-CURRENT ASSETS		4,461,031	4,119,717	4,323,305	4,040,926
TOTAL ASSETS		5,121,432	4,479,890	4,726,491	4,400,102
CURRENT LIABILITIES					
Trade and other payables	10	441,142	2,821,538	293,141	2,741,726
Tax Liabilities		87,292	-	-	-
TOTAL CURRENT LIABILITIES		528,434	2,821,538	293,141	2,741,726
NON-CURRENT LIABILITIES					
Other payables	10	-	181	190,155	-
Deferred tax liabilities		2,275	-	-	-
TOTAL NON-CURRENT LIABILITIES		2,275	181	190,155	-
TOTAL LIABILITIES		530,709	2,821,719	483,296	2,741,726
NET ASSETS		4,590,723	1,658,171	4,243,195	1,658,376
		=====	=====	=====	=====
EQUITY					
Contributed equity	11	2,892,252	1,892,252	2,892,252	1,892,252
Reserves	12	81,277	121,533	81,277	121,533
Retained Profits/(Accumulated losses)		1,617,194	(355,614)	1,269,666	(355,409)
TOTAL EQUITY		4,590,723	1,658,171	4,243,195	1,658,376
		=====	=====	=====	=====

The Balance Sheet is to be read in conjunction with the Notes to the Financial Statements

EXOIL LIMITED

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STATEMENT OF CHANGES IN EQUITY

YEAR ENDED 30 JUNE 2006

	Issued Capital	Reserves	Retained Profits	Total Equity
	\$	\$	\$	\$
CONSOLIDATED				
At 1 July 2005	1,892,252	121,533	(355,614)	1,658,171
Options exercised	1,000,000	-	-	1,000,000
Expired options	-	(40,256)	40,256	-
Profit for the period	-	-	1,932,552	1,932,552
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
At 30 June 2006	2,892,252	81,277	1,617,194	4,590,723
	=====	=====	=====	=====
At 1 July 2004	15,002	-	(49,831)	(34,829)
Shares issued	1,877,250	-	-	1,877,250
Loss for the period	-	-	(184,250)	(184,250)
Options granted to directors and executives	-	121,533	(121,533)	-
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
At 30 June 2005	1,892,252	121,533	(355,614)	1,658,171
	=====	=====	=====	=====
COMPANY				
At 1 July 2005	1,892,252	121,533	(355,409)	1,658,376
Options exercised	1,000,000	-	-	1,000,000
Expired options	-	(40,256)	40,256	-
Profit for the period	-	-	1,584,819	1,584,819
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
At 30 June 2006	2,892,252	81,277	1,269,666	4,243,195
	=====	=====	=====	=====
At 1 July 2004	15,002	-	(49,831)	(34,829)
Shares issued	1,877,250	-	-	1,877,250
Loss for the period	-	-	(184,045)	(184,045)
Options granted to directors and executives	-	121,533	(121,533)	-
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
At 30 June 2005	1,892,252	121,533	(355,409)	1,658,376
	=====	=====	=====	=====

The Statement of Changes in Equity is to be read in conjunction with the Notes to the Financial Statements

EXOIL LIMITED

ABN 40 005 572 798

CASH FLOW STATEMENT

YEAR ENDED 30 JUNE 2006

	NOTE	Consolidated		The Company	
		2006	2005	2006	2005
		\$	\$	\$	\$
CASH FLOWS FROM OPERATING ACTIVITIES					
Interest received		9,398	6,848	9,398	6,848
Management fee received		65,000	-	65,000	-
Payments to suppliers of exploration services		(513,066)	(2,803,272)	(513,066)	(2,730,266)
Payments to other suppliers and employees		(848,790)	(228,450)	(848,790)	(228,246)
Interest expense		<u>(16)</u>	<u>(810)</u>	<u>(16)</u>	<u>(810)</u>
Net cash used in operating activities	(i)	<u>(1,287,474)</u>	<u>(3,025,684)</u>	<u>(1,287,474)</u>	<u>(2,952,474)</u>
CASH FLOWS FROM INVESTING ACTIVITIES					
Payment for office & computer equipment		(3,359)	(46,227)	(3,359)	(46,227)
Proceeds from sale of tenement		2,936,186	-	-	-
Proceeds from sale of investments		1,480	2,404	1,480	2,404
Monies lent to other companies		<u>-</u>	<u>(228,658)</u>	<u>-</u>	<u>(280,010)</u>
Net cash from/(used in) investing activities		<u>2,934,307</u>	<u>(272,481)</u>	<u>(1,879)</u>	<u>(323,833)</u>
CASH FLOWS FROM FINANCING ACTIVITIES					
Proceeds from issue of shares		-	1,456,000	-	1,456,000
Payments to related entities		(1,413,071)	(116,642)	(1,161,049)	(116,642)
Receipts from related entities		<u>220,248</u>	<u>1,993,200</u>	<u>2,653,900</u>	<u>1,971,342</u>
Net cash from/ (used in) financing activities		<u>(1,192,823)</u>	<u>3,332,558</u>	<u>1,492,851</u>	<u>3,310,700</u>
Net increase in cash assets		454,010	34,393	203,498	34,393
Cash and cash equivalents at 1 July		<u>36,602</u>	<u>2,209</u>	<u>36,602</u>	<u>2,209</u>
Cash and cash equivalents at 30 June		<u>490,612</u>	<u>36,602</u>	<u>240,100</u>	<u>36,602</u>

(i) RECONCILIATION OF NET CASH WITH PROFIT/LOSS BEFORE INCOME TAX

Profit (loss) after income tax	1,932,552	(305,783)	1,584,819	(305,578)
<i>Adjusted for non cash items:</i>				
Depreciation of plant and equipment	9,132	6,538	9,132	6,538
Net movement in value of investments	31,971	(22,224)	31,971	(22,224)
Management fees	-	-	(1,140,000)	-
Share based payments	-	121,533	-	121,533
Payments on behalf of subsidiary ¹	438,343	-	-	-
Gain from sale of assets	(2,934,707)	(2,404)	(882,336)	(2,404)
Cost of sale of permit sold	474,028	-	-	-
<i>Changes in assets and liabilities:</i>				
Decrease (increase) in receivables	96,678	(36,154)	102,382	(36,155)
Increase (decrease) in payables	(822,635)	16,082	(488,189)	16,082
Decrease (increase) in exploration expenditure	(512,836)	(2,803,272)	(505,253)	(2,730,266)
Net Cash Used In Operating Activities	<u>(1,287,474)</u>	<u>(3,025,684)</u>	<u>(1,287,474)</u>	<u>(2,952,474)</u>

¹ Hawkestone Oil Pty Ltd has no bank account. The cash it holds is its share of the Browse Joint Venture's cash balance. Exoil Limited makes all payments on behalf of the consolidated entity.

The Cash Flow Statement is to be read in conjunction with the Notes to the Financial Statements

NOTES TO THE FINANCIAL STATEMENTS**30 JUNE 2006****NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Exoil Limited is a company incorporated and domiciled in Australia with its registered office and principal place of business located at level 25, 500 Collins Street, Melbourne, Victoria 3000. The consolidated financial report of the company for the financial year ended 30 June 2006 comprise the company and its 100% owned subsidiary, Hawkestone Oil Pty Ltd (together referred to as the 'consolidated entity') and the consolidated entity's interest in associates and jointly controlled entities.

The principal activity of the entity during the year was to acquire and explore areas prospective for oil in offshore waters within the jurisdiction of Australia.

The financial report was authorised by the directors for issue on 31 January, 2007.

(a) Statement of compliance

The financial report is a general purpose financial report which has been prepared in accordance with Australian Accounting Standards adopted by the Australian Accounting Standards Board ('AASB') and the *Corporations Act 2001*. International Financial Reporting Standards ('IFRS') form the basis of Australian Accounting Standards, and for the purpose of this report are called Australian equivalents to IFRS ('AIFRS') to distinguish them from previous Australian generally accepted accounting principles ('AGAAP'). The financial reports of the company also comply with IFRS and interpretations adopted by the International Accounting Standards Board.

This is the consolidated entity's first annual financial report prepared in accordance with Australian Accounting Standards, being AIFRS and IFRS, and AASB 1 *First-Time Adoption of Australian Equivalents to International Financial Reporting Standards* has been applied.

(b) Basis of preparation

The financial report is presented in Australian dollars and has been prepared on an accruals basis and is based on historical costs modified by the revaluation of selected financial assets for which the fair value basis of accounting has been applied.

The preparation of a financial report in conformity with Australian Accounting Standards requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

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

Judgements made by management in the application of Australian Accounting Standards that have a significant effect on the financial report and estimates with a significant risk of material adjustment in the next year are discussed in note 1(p).

The accounting policies set out below have been applied consistently to all periods presented in the financial report and in preparing an opening balance sheet at 1 July 2004 for the purposes of the transition to AIFRS.

(c) Going concern

The consolidated entity has working capital of \$131,967 as at 30 June 2006. Its future is dependent upon obtaining external finance to fund exploration commitments and operations. The Directors believe such sources of finance will be available and have prepared the financial report on a going concern in accordance with the historical cost convention except for non-current listed investments which are measured at market value.

Expenditure commitments include obligations arising from farm-in arrangements, and minimum work obligations for the initial 3 year period of exploration permits and thereafter annually. Minimum work obligations, may, subject

NOTES TO THE FINANCIAL STATEMENTS**30 JUNE 2006****NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****(c) Going concern**

to negotiation and approval, be varied. They may also be satisfied by farmout, sale, relinquishment or surrender of a permit.

The consolidated entity has limited financial resources and will need to raise additional capital from time to time. Any such fund raisings will be subject to factors beyond the control of the consolidated entity and its Directors. When Exoil Limited and its subsidiaries require further funding for its programs then it is the consolidated entity's intention that the additional funds would be raised in a manner deemed most expedient by the Board of Directors at the time, taking into account working capital, exploration results, budgets, sharemarket conditions, capital raising opportunities and the interest of industry in co-participation in the consolidated entity's programs.

It is the consolidated entity's plan that this capital will be raised by any one or a combination of the following manners: placement of shares to excluded offerees, pro-rata issue to shareholders, the exercise of outstanding options, and/or a further issue of shares. Should these methods not be considered to be viable, or in the best interests of shareholders, then it would be the consolidated entity's intention to meet its obligation by either partial sale of its interests or farmout, the latter course of action being part of its overall strategy.

(d) Principles of consolidation

The consolidated financial statements have been prepared by Exoil Limited in accordance with paragraph Aus 9.1 of AASB 127, Consolidated and Separate Financial Statements.

(i) Subsidiaries

Subsidiaries are entities controlled by the company. Control exists when the company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable or convertible are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. Investments in subsidiaries are carried at their cost of acquisition in the company's financial statements.

(ii) Jointly controlled operations and assets

The interest of the company and of the consolidated entity in unincorporated joint ventures and jointly controlled assets are brought to account by recognising in its financial statements the assets it controls, the liabilities that it incurs, the expenses it incurs and its share of income that it earns from the sale of goods or services by the joint venture.

(e) Taxes*Income Tax*

Income taxes are accounted for using the comprehensive balance sheet liability method whereby:

- The tax consequences of recovering (settling) all assets (liabilities) are reflected in the financial statements;
- Current and deferred tax is recognised as income or expense except to the extent that the tax related to equity items or to a business combination;
- A deferred tax asset is recognised to the extent that it is probable that future taxable profit will be available to realise the asset;
- Deferred tax asset and liabilities are measured at the tax rates that are expected to apply to the period where the asset is realised or the liability settled.

Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the taxation authority. In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated with the amount of GST included. The net amount of GST recoverable from, or payable to, the ATO is included as a current asset or liability in the balance sheet.

NOTES TO THE FINANCIAL STATEMENTS**30 JUNE 2006****NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****(e) Taxes**

Cash flows are included in the cash flow statement on a gross basis. The GST components of cash flows arising from investing and financing activities which are recoverable from, or payable to, the ATO are classified as operating cash flows.

(f) Receivables

Trade and other receivables are stated at their amortised cost less impairment losses.

(g) Cash and cash equivalents

Cash and cash equivalents comprise cash balances and at call deposits. Bank overdrafts that are repayable on demand and form an integral part of the company's cash management are included as a component of cash and cash equivalents for the purpose of the cash flow statement.

(h) Payables

Trade and other payables are stated at their amortised cost. Trade payables are non-interest bearing and are normally settled on 60-day terms.

(i) Property, plant and equipment

Items of property, plant and equipment are stated at cost or deemed cost less accumulated depreciation and impairment losses.

Depreciation is charged to the income statement on a straight line basis over the estimated useful lives of each class of property, plant and equipment. The estimated useful lives in the current and comparative periods are as follows:

- Computer equipment 4 years
- Office equipment 4 - 20 years

(j) Investments

Financial instruments are classified as at fair value through the profit and loss. All resultant gain or loss is recognised in the current year's profit or loss.

The fair value of financial instruments is their quoted price at the balance sheet date.

(k) Share Capital

Ordinary share capital is recognised at the fair value of the consideration received by the company. Transactions costs arising on the issue of ordinary shares are recognised directly in equity as a reduction of the consideration received.

(l) Impairment

The carrying amounts of the consolidated entity's assets, other than deferred tax are reviewed at each balance date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated.

Calculation of recoverable amount

Recoverable amount is the greater of fair value less costs to sell and value in use. It is determined for an individual asset, unless the asset's value in use cannot be estimated to be close to its fair value less costs to sell and it does not generate cash inflows that are largely independent of those from other groups or assets, in which case, the recoverable amount is determined for the class of assets to which the asset belongs.

Reversals of impairment

Impairment losses are reversed when there is an indication that the impairment loss may no longer exist and there has been a change in the estimate used to determine the recoverable amount.

NOTES TO THE FINANCIAL STATEMENTS**30 JUNE 2006****NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****(l) Impairment**

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(m) Exploration costs

Exploration and evaluation costs, including the costs of acquiring licences, are capitalised as exploration and evaluation assets on an area of interest basis.

Exploration and evaluation costs are only recognised if the rights of the area of interest are current and either:

- (i) the expenditures are expected to be recouped through successful development and exploitation of the area of interest; or
- (ii) activities in the area of interest have not at the reporting date, reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves and active and significant operations in, or in relation to, the area of interest are continuing.

Exploration and evaluation costs are assessed for impairment if (i) sufficient data exists to determine technical feasibility and commercial viability, and (ii) facts and circumstances suggest that the carrying amount exceeds the recoverable amount.

(n) Restoration, Rehabilitation and Environment Expenditure

Restoration, rehabilitation and environmental costs necessitated by exploration and evaluation activities are provided for as part of the cost of those activities. Costs are estimated on the basis of current legal requirements, anticipated technology and future costs that have been discounted to their present value. Estimates of future costs are reassessed at each reporting date.

(o) Revenue

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the entity and the revenue can be reliably measured. Interest income is recognised when control of the right to receive the interest payment is attained.

(p) Accounting estimates and judgements

Management determine the development, selection and disclosure of the Company's critical accounting policies and estimates and the application of these policies and estimates. There are no estimates and judgements that are considered to have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

There is, however, a risk that actual expenditure to achieve minimum work obligations could differ from estimates disclosed in the notes to the financial statements (see Note 13). The estimated amounts represent the higher end of possible future expenditure. Work requirements achieved by farm-ins materially reduce the level of expenditure incurred by the Company to comply with work program commitments.

(q) New and Revised Accounting Standards

The consolidated entity has adopted all of the new and revised Accounting Standards issued by the Australian Accounting Standards Board (AASB) that are relevant to its operations and effective for annual reporting periods beginning on 1 July 2005. The Directors do not believe that new and revised standards issued by AASB that are not yet effective will have any material financial impact on the financial statements.

NOTES TO THE FINANCIAL STATEMENTS
30 JUNE 2006

	Consolidated		The Company	
	2006	2005	2006	2005
	\$	\$	\$	\$
NOTE 2 REVENUE				
Management fees	65,000	-	1,205,000	-
Interest income	9,398	6,848	9,398	6,848
Gain from sale of investments	-	2,404	-	2,404
Gain from sale of exploration tenement	2,934,707	-	880,856	-
Gain from sale of asset	1,480	-	1,480	-
Foreign exchange gains	-	5,254	-	5,254
Increase on revaluation of investments	-	22,224	-	22,224
	<u>3,010,585</u>	<u>36,730</u>	<u>2,096,734</u>	<u>36,730</u>
	=====	=====	=====	=====

NOTE 3 OTHER EXPENSES

Audit fees	15,000	12,500	15,000	12,500
Carrying value of tenement sold	476,467	-	-	-
Consulting fees	19,438	-	19,438	-
Directors Fees	50,000	-	50,000	-
Exploration costs	9,110	-	9,110	-
Legal fees	13,000	-	13,000	-
Management fees	52,155	122,685	52,155	122,685
Other expenses	28,130	25,489	28,046	25,284
Rent	93,434	52,958	93,434	52,958
Share based payments	-	121,533	-	121,533
Write down of investments	31,481	-	31,481	-
	<u>788,215</u>	<u>335,165</u>	<u>311,664</u>	<u>334,960</u>
	=====	=====	=====	=====

NOTE 4 AUDITORS' REMUNERATION

Fees for audit of the financial statements	15,000	12,500	15,000	12,500
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NOTE 5 INCOME TAX
Reconciliation between tax expense and pre-tax profit

Profit/ (loss) before tax	2,022,119	(305,783)	1,584,819	(305,578)
Income tax expense/(benefit) using statutory income tax rate of 30% (2005: 30%)	606,636	(91,735)	475,446	(91,673)
Tax effect of:				
Non deductible items	4,449	200	4,449	200
Deferred tax asset not brought to account	-	91,535	-	91,473
Benefit of tax losses recognised	(521,518)	-	(479,895)	-
Income tax expense	<u>89,567</u>	<u>-</u>	<u>-</u>	<u>-</u>
	=====	=====	=====	=====

NOTES TO THE FINANCIAL STATEMENTS
30 JUNE 2006

		Consolidated		The Company	
	NOTE	2006	2005	2006	2005
		\$	\$	\$	\$

NOTE 5 INCOME TAX (CONT'D)

Estimated potential future income tax benefit arising from tax losses and temporary differences calculated at a rate of 30% not brought to account at balance date as realisation of the benefit is not probable. calculated at a rate of 30% not brought to account

<u>600,468</u>	<u>1,119,713</u>	<u>600,468</u>	<u>1,080,363</u>
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NOTE 6 TRADE AND OTHER RECEIVABLES
CURRENT

Trade receivables		58,759	-	57,761	-
Receivables from director related entities	16	54,176	104,152	54,174	104,152
Other receivables		56,854	219,419	51,151	218,422
		<u>169,789</u>	<u>323,571</u>	<u>163,086</u>	<u>322,574</u>
		=====	=====	=====	=====

NON CURRENT

Receivable from subsidiary		-	-	-	51,352
Receivables from director related entities	16	-	133,779	-	133,779
		<u>-</u>	<u>133,779</u>	<u>-</u>	<u>185,131</u>
		=====	=====	=====	=====

NOTE 7 EXPLORATION COSTS

Exploration costs capitalised at beginning of year		3,829,498	193,052	3,473,105	193,052
Cost for the year		989,303	3,353,059	505,253	3,280,053
Acquisition of subsidiary		-	283,387	-	-
Disposal of tenement		(476,467)	-	-	-
		<u>4,342,334</u>	<u>3,829,498</u>	<u>3,978,358</u>	<u>3,473,105</u>
		=====	=====	=====	=====
Exploration costs capitalised at end of year	14				

Ultimate recovery of deferred exploration costs carried forward is dependent upon exploration success and/or the company maintaining appropriate funding to support continued exploration activities.

NOTE 8 PROPERTY, PLANT & EQUIPMENT
Office Equipment

At cost		16,494	14,494	16,494	14,494
Accumulated depreciation		(1,776)	(752)	(1,776)	(752)
		<u>14,718</u>	<u>13,742</u>	<u>14,718</u>	<u>13,742</u>
		=====	=====	=====	=====

Computer Equipment

At cost		33,092	31,733	33,092	31,733
Accumulated depreciation		(13,894)	(5,786)	(13,894)	(5,786)
		<u>19,198</u>	<u>25,947</u>	<u>19,198</u>	<u>25,947</u>
		=====	=====	=====	=====

Total property, plant and equipment		<u>33,916</u>	<u>39,689</u>	<u>33,916</u>	<u>39,689</u>
		=====	=====	=====	=====

NOTES TO THE FINANCIAL STATEMENTS
30 JUNE 2006

	NOTE	Consolidated		The Company	
		2006	2005	2006	2005
		\$	\$	\$	\$

NOTE 8 PROPERTY, PLANT & EQUIPMENT (CONT'D)

Reconciliations of each class of property, plant & equipment is set out below:

Office Equipment

Balance at beginning of year		13,742	-	13,742	-
Additions		2,000	14,494	2,000	14,494
Depreciation		(1,024)	(752)	(1,024)	(752)
Balance at end of year		14,718	13,742	14,718	13,742

Computer Equipment

-Balance at beginning of year		25,947	-	25,947	-
-Additions		1,359	31,733	1,359	31,733
-Depreciation		(8,108)	(5,786)	(8,108)	(5,786)
-Balance at end of year		19,198	25,947	19,198	25,947

NOTE 9 OTHER FINANCIAL ASSETS
Investments in controlled entities

Unlisted shares at cost	-	-	226,250	226,250
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Investments in other entities

Listed shares at cost	120,006	120,006	120,006	120,006
Provision for diminution in value	(35,225)	(3,255)	(35,225)	(3,255)

	84,781	116,751	84,781	116,751
Total financial assets	84,781	116,751	311,031	343,001

Listed shares comprise:

Rocky Mountain Minerals, Inc ^(1,2)	81,922	111,066	81,922	111,066
Moby Oil & Gas Ltd ⁽¹⁾	2,813	5,625	2,813	5,625
Other	46	60	46	60

⁽¹⁾ Director related entity of Mr EG Albers

⁽²⁾ Exoil has a 2.98% interest(2005:2.98%) in this company which is engaged in the acquisition, development, exploration and operation of natural resource properties. The company has no proven mineral or petroleum reserves.

NOTE 10 TRADE AND OTHER PAYABLES
CURRENT

Trade creditors and accruals		237,089	151,744	206,920	151,744
Director-related entity other payables	16	124,287	2,046,663	6,455	1,966,851
Payables to joint ventures		79,766	623,131	79,766	623,131
		441,142	2,821,538	293,141	2,741,726

NON CURRENT

Payable to subsidiary		-	-	190,155	-
Director-related entity other payables	16	-	181	-	-
		-	181	190,155	-

NOTES TO THE FINANCIAL STATEMENTS
30 JUNE 2006

			Consolidated		The Company	
	2006	2005	2006	2005	2006	2005
	Shares	Shares	\$	\$	\$	\$

NOTE 11 CONTRIBUTED EQUITY
Issued Capital

Ordinary shares fully paid	50,441,250	45,441,250	2,892,252	1,892,252	2,892,252	1,892,252
	=====	=====	=====	=====	=====	=====

Ordinary Shares

Ordinary shares on issue at 1 July	45,441,250	15,000,000	1,892,252	15,002	1,892,252	15,002
Options exercised	5,000,000	-	1,000,000	-	1,000,000	-
Shares issued	-	30,441,250	-	1,877,250	-	1,877,250
	=====	=====	=====	=====	=====	=====
Ordinary shares on issue at 30 June	50,441,250	45,441,250	2,892,252	1,892,252	2,892,252	1,892,252
	=====	=====	=====	=====	=====	=====

Terms and Conditions of Contributed Equity

Ordinary shares confer on the holder the right to receive dividends as declared and, in the event of winding up the company, to participate in the proceeds from the sale of all surplus assets in proportion to the number of shares held (irrespective of the amounts paid up on). Ordinary shares entitle their holder to one vote, either in person or by proxy, at a meeting of the company.

Options over Unissued Shares

The company has granted options over unissued shares in the company, each option conferring the right to subscribe for one fully paid ordinary share. The options do not confer the right to dividends or to vote at meetings of members. Shares allotted on exercise of the options will rank pari passu in all respects with other fully paid ordinary shares. Each option will entitle the holder to participate in new issues in which shares or other securities are offered to members on the prior exercise of the option.

During the year no options were granted, 5,000,000 options were exercised during the year and 1,906,250 expired. At balance date there were a total of 1,850,000 options over unissued shares outstanding with an expiry date of 31 December, 2009. 1,175,000 of the options are exercisable at 30 cents per share and 675,000 are exercisable at 40 cents per share.

NOTE 12 OPTION RESERVE

An option reserve was established to hold the value of options granted as remuneration to directors and executives of the Company. This treatment is in line with AIFRS requirements for share based payments to be recognised in the income statement when made.

NOTE 13 COMMITMENTS
Estimated joint venture work program commitments

Payable not later than one year	26,722,500	27,144,453	26,075,000	25,744,453
Payable after one year and before three years	16,577,500	14,182,807	5,902,500	14,182,807
	43,300,000	41,327,260	31,977,500	39,927,260
	=====	=====	=====	=====

Exploration commitments may, with approval, be deferred or varied, or avoided by sale, farmout or relinquishment of permit interests.

Office lease commitments

Payable not later than one year	91,393	88,303	91,393	88,303
Payable after one year and before three years	31,173	122,566	31,173	122,566
	122,566	210,869	122,566	210,869
	=====	=====	=====	=====

EXOIL LIMITED

ABN 40 005 572 798

NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2006

NOTE 14 INTEREST IN JOINT VENTURES

The company has an interest in the assets, liabilities and output of joint venture operations for the exploration and development of petroleum in Australia. The company has taken up its share of joint venture transactions based on the company's contributions to the joint ventures. Expenditure commitments in respect of the joint ventures are disclosed in Note 13. Details of the company's interests in the joint ventures are:

Joint Venture	Note	Interest 2006	Interest 2005	Permits Held
Browse Basin	16	35%	35%	WA-332-P, WA-333-P & WA-342-P
T/37P & T/38P	16	50%	50%	
Vic/P45	16	16.7%	50%	
Vic/P53	16	50%	50%	
Vic/P61	16	30%	30%	
WA-359-P	16	50%	50%	EPP34
Western Otway Joint Venture	16	25%	25%	

Assets and liabilities of the joint venture operations are included in the financial statements as follows:

		Consolidated		The Company	
	NOTE	2006	2005	2006	2005
		\$	\$	\$	\$
CURRENT ASSETS					
Cash Assets		322,399	2,431	71,887	2,431
Trade & other receivables		18,173	23	12,469	23
NON-CURRENT ASSETS					
Exploration costs	7	4,342,334	3,829,498	3,978,358	3,473,105
Other financial assets		2,813	5,625	2,813	5,625
CURRENT LIABILITIES					
Trade & other payables		79,316	700,414	79,316	700,414

NOTE 15 DIRECTOR AND EXECUTIVE DISCLOSURES

Key management personnel disclosures

Non-executive Directors

PJ Albers

GA Menzies

A Rechner (resigned 14 February 2006)

JD Willis

Executive Director

EG Albers

Executive

M Muzzin

PJ Williams (resigned 10 February 2006)

Key management personnel remuneration

The Board of directors is responsible for determining and reviewing compensation arrangements for key management personnel.

Remuneration for key management personnel in the year ended 30 June 2006 totalled \$50,000 of accrued directors' fees. (2005: Options granted to key management personnel of \$121,533 constituted total remuneration to key management personnel). In addition to directors' fees, GA Menzies received \$10,000 in legal fees.

NOTES TO THE FINANCIAL STATEMENTS
30 JUNE 2006
NOTE 15 DIRECTOR AND EXECUTIVE DISCLOSURES (CONT'D)
Ordinary shares issued by Exoil Limited to Key Management Personnel

	Opening Balance	Received as Remuneration	Options Exercised	Other	Closing Balance
2006					
JMD Willis	1,156,250	-	-	-	1,156,250
EG Albers *	35,059,992	-	5,000,000	-	40,059,992
PJ Albers *	35,059,992	-	5,000,000	-	40,059,992
MA Muzzin	1,156,250	-	-	-	1,156,250
A Rechner	1,441,667	-	-	-	1,441,667
	38,814,159	-	5,000,000	-	43,814,159
2005					
JMD Willis	-	-	-	1,156,250	1,156,250
EG Albers *	15,000,000	-	-	20,059,992	35,059,992
PJ Albers *	15,000,000	-	-	20,059,992	35,059,992
MA Muzzin	-	-	-	1,156,250	1,156,250
A Rechner	-	-	-	1,441,667	1,441,667
	15,000,000	-	-	23,814,159	38,814,159

* Ordinary shares in which more than one director holds an interest.

No shares were granted to key management personnel during the reporting period as compensation.

Options (exercisable by 31 December 2009 at 30-40 cents per share)

	Opening Balance	Options Granted	Options Expired	Closing Balance	Option Value \$
2006					
JMD Willis	200,000	-	-	200,000	-
EG Albers	100,000	-	-	100,000	-
PJ Albers	100,000	-	-	100,000	-
GA Menzies	200,000	-	-	200,000	-
A Rechner	200,000	-	(200,000)	-	-
MA Muzzin	375,000	-	-	375,000	-
PJ Williams	300,000	-	(300,000)	-	-
	1,475,000	-	(500,000)	975,000	-
2005					
JMD Willis	-	200,000	-	200,000	17,272
EG Albers	-	100,000	-	100,000	8,636
PJ Albers	-	100,000	-	100,000	8,636
GA Menzies	-	200,000	-	200,000	17,272
A Rechner	-	200,000	-	200,000	17,272
MA Muzzin	-	375,000	-	375,000	29,461
PJ Williams	-	300,000	-	300,000	22,984
	-	1,475,000	-	1,475,000	121,533

No 31 December 2009 options were exercised in the years ended 30 June 2005 and 30 June 2006.

NOTES TO THE FINANCIAL STATEMENTS**30 JUNE 2006****NOTE 15 DIRECTOR AND EXECUTIVE DISCLOSURES (CONT'D)****Options (exercisable by 30 June 2006 at 20 cents per share)**

	Opening Balance	Options Expired	Options Exercised	Options Assigned ¹	Closing Balance
2006					
JMD Willis	681,250	-	-	(681,250)	-
EG Albers /PJ Albers	#3,250,000	-	#(5,000,000)	#1,750,000	-
A Rechner	500,000	(500,000)	-	-	-
MA Muzzin	984,375	-	-	(984,375)	-
	5,415,625	(500,000)	(5,000,000)	84,375	-
2005					
JMD Willis	681,250	-	-	-	681,250
EG Albers / PJ Albers	#3,250,000	-	-	-	#3,250,000
A Rechner	500,000	-	-	-	500,000
MA Muzzin	984,375	-	-	-	984,375
	5,415,625	-	-	-	5,415,625

Options in which more than one director holds an interest.

¹ 30 June 2006 options belonging to JMD Willis, MA Muzzin, and Conningsborough Nominees Pty Ltd (84,375) were assigned to EG and PJ Albers to enable them to exercise 5,000,000 30 June 2006 options.**Valuation of options**

Options were valued using the Black Scholes valuation modes. The term of the options was for 5 years with twenty percent of the options granted exercisable in the first year and an additional twenty percent exercisable in each subsequent year until the end of the term. The following inputs were used to determine the value of the options granted to key management personnel:

Exercise Price:	30 - 40 cents
Underlying share price:	20 cents
Maximum option life	5 years
Expected Volatility	84.05%
Risk free interest rate	5.1%

Since Exoil Limited is not listed, volatility of its share price by reference to past performance was not possible. Expected volatility was based on the average volatility of a peer group of five companies within the mining and exploration industry: Bass Strait Oil Company Ltd, Eagle Bay Resources NL, Moby Oil & Gas Ltd, Methanol Australia Ltd and Nexus Energy Limited. The average volatility of the companies was in the range of 0.67 to 1.25.

NOTE 16 RELATED PARTY DISCLOSURES**Ultimate Parent**

Great Australia Corporation Pty Ltd is the immediate parent company and its ultimate parent company is Sequest Petroleum Pty Ltd.

Transactions with Director Related Entities:*The Bass Basin Joint Venture*

EG Albers is a director and shareholder of Cue Energy Resources Ltd, which is a co-venturer with Exoil in T/37P and T/38P.

The Browse Basin Joint Venture

EG Albers is a director and indirect shareholder in each of the joint venture participants in the Browse Basin Joint Venture.

EXOIL LIMITED

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NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2006

NOTE 16 RELATED PARTY DISCLOSURES (CONT'D)

The EPP34 Joint Venture

EG Albers is a director and shareholder of each of the other participants in the joint venture, namely United Oil & Gas Pty Ltd, Moby Oil & Gas Ltd and National Energy Pty Ltd. GA Menzies is a director and shareholder of Moby Oil & Gas Ltd.

The Vic/P45 Joint Venture

EG Albers is a director and shareholder of Moby Oil & Gas Ltd which is a participant in the joint venture with Exoil Limited. GA Menzies is a director and shareholder of Moby Oil & Gas Ltd.

The Vic/P53 Joint Venture

EG Albers is a director and shareholder in each of the other joint venture participants with Exoil, namely Moby Oil & Gas Ltd and Cue Petroleum Pty Ltd. PJ Albers is a director and shareholder of Cue Petroleum Pty Ltd. GA Menzies is a director and shareholder of Moby Oil & Gas Ltd.

The Vic/P61 Joint Venture

EG Albers is a director and shareholder of Gascorp Australia Ltd, Southern Energy Pty Ltd and Otway Oil & Gas Pty Ltd which are co-owners with Exoil Limited. GA Menzies and JMD Willis are directors of Gascorp Australia Ltd.

The WA359P Joint Venture

EG Albers is a director and shareholder of Cue Energy Resources Ltd, which is a co-venturer with Exoil in WA359P.

Services provided by Setright Oil & Gas Pty Ltd

EG Albers and PJ Albers are directors of Setright Oil & Gas Pty Ltd (and directors of its ultimate parent entity, Sequest Petroleum Pty Ltd) which provides project, corporate and administrative services to Exoil and to each joint venture that Exoil is involved in. Such services are provided on an as and when required commercial basis. \$52,155 was charged for the year ended 30 June 2006 (2005: \$122,685).

Services provided by Great Missenden Holdings Pty Ltd

Great Missenden Holdings Pty Ltd, a director-related entity of EG Albers, provided no management services directly to the Company or its controlled entity for the year ended 30 June 2006. (2005: \$91,625 provided in management for all the Company's exploration tenements and the provision of computer services).

	Consolidated		The Company	
	2006	2005	2006	2005
	\$	\$	\$	\$
Related Party Receivables				
CURRENT				
<i>Receivables from Director Related Entities of EG & PJ Albers</i>				
Alpha Oil & Gas Pty Ltd	961	-	961	-
Australian Oil & Gas Corporation	123	121	121	121
Goldsborough Limited	-	14,534	-	14,534
United Oil & Gas Pty Ltd	14,946	6,680	14,946	6,680
<i>Receivables from Director Related Entities of EG Albers & GA Menzies</i>				
Moby Oil & Gas Limited	5,510	71,952	5,510	71,952
<i>Receivables from Director Related Entities of EG Albers</i>				
National Energy Pty Ltd	6,888	-	6,888	-
Otway Oil & Gas Pty Ltd	7,289	3,036	7,289	3,036
Southern Energy Pty Ltd	7,289	3,036	7,289	3,036
<i>Receivables from Director Related Entities of EG Albers & GA Menzies</i>				
Gascorp Australia Limited	11,170	4,793	11,170	4,793
	54,176	104,152	54,174	104,152

EXOIL LIMITED

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NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2006

NOTE 16 RELATED PARTY DISCLOSURES (CONT'D)

	Consolidated		The Company	
	2006	2005	2006	2005
	\$	\$	\$	\$
NON CURRENT				
<i>Receivables from Director Related Entities of EG & PJ Albers</i>				
Alpha Oil & Gas Pty Ltd	-	29,069	-	29,069
Batavia Oil & Gas Pty Ltd	-	104,710	-	104,710
	-	133,779	-	133,779
Related Party Payables				
CURRENT				
<i>Payables to Director Related Entities of EG & PJ Albers</i>				
Albers E Estate	-	15,000	-	15,000
Bass Strait Group	-	48,000	-	48,000
Batavia Oil & Gas Pty Ltd	5,021	79,812	5,021	-
Cue Petroleum Pty Ltd	-	21,872	-	21,872
EG & PJ Albers	-	196,140	-	196,140
Goldsborough Energy Pty Ltd	1,434	-	1,434	-
Great Missenden Holdings Pty Ltd	-	1,678,711	-	1,678,711
National Gas Australia	117,832	-	-	-
Setright Oil & Gas Pty Ltd	-	7,128	-	7,128
	124,287	2,046,663	6,455	1,966,851
NON CURRENT				
<i>Payables to Director Related Entities of EG & PJ Albers</i>				
Sequest Petroleum Pty Ltd	-	181	-	-
Exoil Limited's share of management services provided directly to the joint ventures of the Company and its controlled entity are listed below:				
Setright Oil & Gas Pty Ltd				
Browse Joint Venture	1,215	-	-	-
Vic/P45	24,152	-	24,152	-
Vic/P53	96,527	-	96,527	-
Vic/P61	618	-	618	-
Western Otway	1,344	-	1,344	-
	123,856	-	122,641	-
	=====	=====	=====	=====
Great Missenden Holdings Pty Ltd				
Browse Joint Venture	8,750	-	-	-
Vic/P45	7,688	11,725	7,688	11,725
Vic/P53	10,250	21,800	10,250	21,800
Western Otway	1,575	1,575	1,575	1,575
	28,263	35,100	19,513	35,100
	=====	=====	=====	=====
Capricorn Mining Pty Ltd				
Vic/P53	19,533	-	19,533	-
Vic/P61	2,475	-	2,475	-
	22,008	-	22,008	-
	=====	=====	=====	=====
Bass Strait Oil Company Pty Ltd				
Vic/P53	-	6,666	-	6,666

EXOIL LIMITED

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NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2006

NOTE 16 RELATED PARTY DISCLOSURES (CONT'D)

Particulars in relation to controlled entities

		Holding		Investment
	2006	2005	2006	2005
Company	%	%	\$	\$
Hawkestone Oil Pty Ltd	100	100	226,250	226,250

A company incorporated and domiciled in Australia

Acquisition of controlled entity

During the year ended 30 June 2005, Exoil Limited acquired 100% of Hawkestone Oil Pty Ltd shares. Exoil began consolidating the results of Hawkestone Oil Pty Ltd with effect from 1 October 2004. The components of the acquisition were:

	Consolidated	
	2006	2005
	\$	\$
Consideration		
Cash paid	-	-
Shares issued	-	226,250

Acquisition of controlled entity

Net assets acquired		
Cash	-	-
Receivables	-	998
Capitalised exploration	-	57,675
Mineral right arising on acquisition	-	225,710
Payables	-	(58,133)
	-	<u>226,250</u>

NOTE 17 FINANCIAL INSTRUMENTS

(a) Interest rate risk exposure

The consolidated entity's exposure to interest rate risk and effective weighted average interest rate risk for classes of financial assets and financial liabilities is set out below:

		Fixed interest					Weighted Average Effective Interest Rate
	Floating interest rate	1 year or less	Over 1 to 5 years	Over 5 years	Non- interest bearing	Total	
2006	\$	\$	\$	\$	\$	\$	%
<i>Financial assets</i>							
Cash assets	490,612	-	-	-	-	490,612	2.96
Receivables	-	-	-	-	169,789	169,789	-
Investments	-	-	-	-	84,781	84,781	-
	<u>490,612</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>254,570</u>	<u>745,182</u>	
<i>Financial liabilities</i>							
Payables	-	-	-	-	441,142	441,142	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>441,142</u>	<u>441,142</u>	<u>-</u>

NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2006

NOTE 17 FINANCIAL INSTRUMENTS (CONT'D)

(a) Interest rate risk exposure

	Fixed interest					Total	Weighted Average Effective Interest Rate %
	Floating interest rate \$	1 year or less \$	Over 1 to 5 years \$	Over 5 years \$	Non- interest bearing \$		
2005							
<i>Financial assets</i>							
Cash assets	36,602	-	-	-	-	36,602	1.75
Receivables	-	-	-	-	457,350	457,350	-
Investments	-	-	-	-	116,751	116,751	-
	36,602	-	-	-	574,101	610,703	
<i>Financial liabilities</i>							
Payables	-	-	-	-	2,821,719	2,821,719	-
	-	-	-	-	2,821,719	2,821,719	

(b) Recognised financial instruments

The credit risk on financial assets of the consolidated entity which have been recognised on the balance sheet, other than investments in shares, is generally the carrying amount, net of any provisions for doubtful debts.

(c) Foreign currency risk

The Company incurs seismic, exploration and well drillings costs in US dollars. To this extent, the Company is exposed to exchange rate fluctuations between the Australian and US dollar.

(d) Net fair values of financial assets and liabilities

	2006		2005	
	Carry Amount \$	Net Fair Value \$	Carry Amount \$	Net Fair Value \$
<i>Recognised financial instruments</i>				
The carrying amounts and net fair values of financial assets and liabilities as at the reporting date are as follows:				
<i>Financial assets</i>				
Cash assets	490,612	490,612	36,602	36,602
Receivables	135,207	135,207	457,350	457,350
Investments	84,781	84,781	116,751	116,751
<i>Financial liabilities</i>				
Payables	441,142	441,142	2,821,719	2,821,719

NOTE 18 SEGMENT INFORMATION

The economic entity operates in Australia in the petroleum exploration industry.

NOTE 19 EVENTS SUBSEQUENT TO BALANCE DATE

There have been no significant transactions subsequent to 30 June 2006 that should be brought to account for the year then ended.

NOTES TO THE FINANCIAL STATEMENTS**30 JUNE 2006****NOTE 20 TRANSITION TO AIFRS STANDARDS**

During the year, Exoil Limited completed its transition process from Australian GAAP to Australian equivalents to International Financial Reporting Standards (AIFRS). Adopting the Australian equivalent to IFRS had no impact on Group or company loss, cash flows or net assets as at 1 July, 2004. The effect on the consolidated loss for the year to 30 June 2005 and accumulated losses is shown below.

	Consolidated \$	Company \$
Loss for the year ended 30 June 2005 under AGAAP	(184,250)	(184,045)
Impact of share based payments	(121,533)	(121,533)
	<hr/>	<hr/>
Loss for the year ended 30 June 2005 under AIFRS	(305,783)	(305,578)
	=====	=====
Accumulated losses as at 30 June 2005 under AGAAP	(234,081)	(233,876)
Impact of share based payments	(121,533)	(121,533)
	<hr/>	<hr/>
Accumulated losses as at 30 June 2005 under AIFRS	(355,614)	(355,409)
	=====	=====



Chartered Accountants
& Business Advisers

31 January 2007

The Directors
Exoil Limited
Level 25
500 Collins Street
MELBOURNE VIC 3000

Dear Directors

INDEPENDENCE DECLARATION

As lead engagement partner for the audit of Exoil Limited, for the year ended 30 June 2006, I declare that, to the best of my knowledge and belief, there have been:

- (a) no contraventions of the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and
- (b) no contraventions of any applicable code of professional conduct in relation to the audit.

PKF

PKF
Chartered Accountants

ML Port

M L Port
Partner

**INDEPENDENT AUDIT REPORT
TO THE MEMBERS OF EXOIL LIMITED**



Chartered Accountants
& Business Advisers

Scope

The Financial Report and Directors' Responsibility

The financial report comprises the statement of financial position, statement of financial performance, statement of cash flows, accompanying notes to the financial statements, and the directors' declaration for Exoil Limited (the company), for the year ended 30 June 2006. The financial report includes the consolidated accounts of the economic entity comprising the company and the entity it controlled during the financial period.

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

Audit Approach

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

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

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

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

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

Audit Opinion

In our opinion, the financial report of Exoil Limited is in accordance with:

- (a) the Corporations Act 2001, including:
 - (i) giving a true and fair view of the company's and the consolidated entity's financial position at 30 June 2006, and of its performance for the year ended on that date; and
 - (ii) complying with Accounting Standards in Australia and the Corporations Regulations 2001; and
- (b) other mandatory financial reporting requirements in Australia.

Inherent Uncertainty Regarding Continuation as a Going Concern

Without qualification to the opinion expressed above, attention is drawn to the following matter. As a result of the matters described in Note 1, there is uncertainty whether Exoil Limited will be able to continue as a going concern and therefore whether it will realise its assets and extinguish its liabilities in the normal course of business and at the amounts stated in the financial report.

PKF

PKF
Chartered Accountants

31 January 2007, Melbourne

M L Port

M L Port
Partner

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