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Elk Petroleum Ltd

ABN 38 112 566 499

Annual Financial Report - 30 June 2013

Elk Petroleum Ltd
Corporate directory
30 June 2013

Directors	Neale Taylor (Chairman) Tony Strasser Robert Cook Matt Healy Barry Smith	
Company secretary	David Franks and Andrew Bursill	
Notice of annual general meeting	The annual general meeting of Elk Petroleum Ltd:	
	will be held at	Level 5, The Portside Centre The Symantec House 207 Kent Street Sydney, NSW 2000
	time	10:00 AM
	date	Friday 29 November 2013
Registered office	Suite 4 Level 9 341 George Street Sydney NSW 2000 GPO Box 4325 Sydney NSW 2001 Telephone: +61 2 9299 9690 Facsimile: +61 2 9299 9629	
Principal place of business	Suite 4 Level 9 341 George Street Sydney NSW 2000	
Share register	Computershare Investor Services Pty Ltd Yarra Falls, 452 Johnston Street Abbotsford VIC 3067 Telephone: +61 3 9415 5000 Facsimile: +61 3 9473 2500	
Auditor	BDO East Coast Partnership 1 Margaret Street Sydney NSW 2000	
Solicitors	Steinepreis Paganin Level 4 The Read Buildings 16 Milligan Street Perth WA 6000	
Stock exchange listing	Elk Petroleum Ltd shares are listed on the Australian Securities Exchange (ASX code: ELK)	
Website	www.elkpet.com	

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Information on directors

The names and details of the directors of Elk Petroleum Ltd in office during the financial year and until the date of this report are as follows. Directors were in office for this entire period unless otherwise stated.

Neale Taylor Executive Director and Chairman

Dr. Taylor has extensive technical, operating and commercial experience in oil and gas exploration and production with Esso Australia, Nexus Energy, and Cambrian Oil & Gas Plc. He is a former non-executive chairman of Tap Oil and a former director of Cambrian Oil & Gas Plc and various subsidiaries of Xtract Energy Plc. He is a member of the Society of Petroleum Engineers and a Fellow of the Australian Institute of Company Directors.

Interest in shares: 204,937

Interest in options: 30,000

Interest in rights: 1,595,978 performance rights and 105,000 retention rights

Robert Cook Managing Director

Mr. Cook has over 45 years' experience in the oil and gas industry. This has included 18 years with Esso Australia and 4 years with Ampolex in senior management positions. During his time with Esso Mr. Cook spent 11 years in the offshore and onshore production facilities in Bass Strait. Mr. Cook has been responsible for all aspects of production activities from field development design through to project execution and plant operations. In particular, Mr. Cook was responsible for production operations at the Longford plant in Victoria, during the period when crude production was in excess of 500,000 barrels per day.

Interest in shares: 2,728,948

Interest in options: 30,000

Interest in rights: 2,711,656 performance rights

Tony Strasser Non-Executive Director

Mr. Strasser has extensive experience in corporate finance and advisory services over 20 years with particular focus in the oil & gas sector; Mr Strasser is a qualified chartered accountant. He is a founder and current Chief Financial Officer of Bridgeport Energy Limited. Previously, Mr Strasser was Chief Financial Officer and Company secretary at the Anzon Group. Mr Strasser has held senior positions with boutique investment,advisory and accounting firms in Sydney, focusing on financial management, due diligence assignments, mergers and acquisitions and private and public capital raisings.

Interest in shares: 333,333

Interest in options: 200,000 options

Interest in rights: 200,000 performance rights and 99,000 retention rights

Matt Healy (resigned 31 July 2012 and re-appointed 13 September 2013) Non-Executive Director

Mr Healy currently holds a management position at one of Australia's foremost property development and infrastructure groups, is an active investor in the resources sector and has over 15 years of experience working in management and operational roles primarily working on project development of large and complex assets. Mr Healy has a degree in construction engineering and holds a post-graduate MBA (Exec) from the Australian Graduate School of Management in Sydney. Mr Healy is an associate of Elk's major shareholder.

Interest in shares: 1,300,000

Interest in options: 130,000

Interest in rights: 70,000 performance rights and 11,667 retention rights

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Barry Smith (appointed 31 July 2012) Non-Executive Director

Mr Smith is a petroleum explorationist and has over 35 years industry experience in the management of petroleum assets and new ventures as well as in the commercial management and promotion of small ASX-listed petroleum companies. Mr Smith is currently General Manager Business Development at Bridgeport Energy, a wholly-owned subsidiary of New Hope Corporation. Mr Smith was the Managing Director of Orion Petroleum Limited at the time of its listing on the ASX. Earlier in his career, he was exploration and new ventures manager with Command Petroleum and Cairn Energy and the exploration manager at Mosaic Oil. Mr Smith is a past NSW President of PESA.

Interest in shares: None

Interest in options: None

Interests in rights: 82,090 performance rights and 86,000 retention rights

Executives

The names and details of the company secretaries of Elk Petroleum in office during the financial year and until the date of this report are as follows. Secretaries were in office for this entire period unless otherwise stated.

J. Scott Hornafius (appointed 1 June 2013) - Ph.D. Chief Executive Officer

Dr.Hornafius has 29 years of exploration, technical, management, and funding experience in the oil and gas industry including 16 years with Mobil in the US, PNG and UK before founding MegaEnergy in 2000. As President of MegaEnergy, he was responsible for joint ventures involving play identification, land acquisitions, drilling and development programs and major funding programs and developed a 100,000 acre position over the Marcellus shale gas play in the Appalachian Basin which was ultimately divested for over $100 million. He is a founding Director of Canning Petroleum Pty Ltd, which now holds very large onshore permit areas in WA.

David Franks B.Ec, CA, F Fin, JP Joint Company Secretary

Mr Franks is a Chartered Accountant, Fellow of the Financial Services Institute of Australia, Justice of the Peace, Registered Tax Agent and holds a Bachelor of Economics (Finance and Accounting) from Macquarie University.

With over 20 years in finance and accounting, initially qualifying with PricewaterhouseCoopers (formerly Price Waterhouse) in their Business Services and Corporate Finance Divisions, Mr Franks has been CFO, Company secretary and/or Director for numerous ASX listed and unlisted public and private companies, in a range of industries covering energy retailing, transport, financial services, mineral exploration, technology, automotive, software development and healthcare.

Andrew Bursill - B. Agr. Ec, CA Joint Company Secretary

Mr Bursill holds a Bachelor of Agricultural Economics from the University of Sydney and is a Chartered Accountant, qualifying with PricewaterhouseCoopers (formerly Price Waterhouse).

Since commencing his career as an outsourced CFO and company secretary in 1998, Mr Bursill has been CFO, company secretary and/or director for numerous ASX listed, unlisted public and private companies, in a range of industries covering mineral exploration, oil and gas exploration, biotechnology, technology, medical devices, retail, venture capital and wine manufacture and distribution.

The directors present their report, together with the financial statements, on the consolidated entity (referred to hereafter as the 'consolidated entity') consisting of Elk Petroleum Ltd (referred to hereafter as the 'company' or 'parent entity') and the entities it controlled for the year ended 30 June 2013.

Principal activities
Elk Petroleum Limited was established to pursue the application of enhanced oil recovery techniques to develop commercial reserves of oil. This goal will be supplemented by non- enhanced oil recovery (EOR) projects under suitable conditions to boost the potential value of the company.

The principal activities of the consolidated entity during the course of the financial year consisted of the production of oil from the Ash Creek oil field, development of the Grieve and Ash Creek oil fields in Wyoming USA as EOR projects and identification and screening of new acquisition opportunities.

Corporate
Elk Petroleum Limited (Elk) is a company limited by shares and is incorporated and domiciled in Australia. Elk has prepared a consolidated financial report incorporating the subsidiaries that it controlled during the financial year, being wholly-owned Elk Petroleum Inc., a company incorporated in Wyoming, United States of America, and its fully owned subsidiaries Grieve Pipeline LLC and North Grieve Pipeline LLC.

Elk initiated a capital raising in October 2012 and successfully completed the $5 million raising in early 2013 via a placement to major shareholders and sophisticated investors as well as a Share Purchase Plan (SPP) to existing shareholders. The capital raising involved the issue of 20 million shares at $0.25 per share and one option for every two shares; the options have an exercise price of $0.35 and may be exercised on or before 30 November 2013.

Mr Matthew Healy resigned as non-executive director on 31 July 2012 because of other business commitments. Mr Barry Smith was appointed to the Board as a non-executive director on 31 July 2012 to fill the casual vacancy. Mr Smith was re-elected by shareholders at the company’s 2012 Annual General Meeting (AGM) of shareholders. These changes to the Elk Board were documented in an ASX announcement also dated 31 July 2012. A brief profile of Mr. Smith is contained elsewhere in this report. Because of recent changes in Mr. Healy’s business circumstances, Mr. Healy has been able to accept an invitation to re-join Elk’s Board as a non-executive director effective 13 September 2013.

Dr. J. Scott Hornafius was appointed as Chief Executive Officer of Elk Petroleum Limited and as President of Elk Petroleum, Inc., in June 2013 . His terms of employment are dealt with elsewhere in this report but it should be noted that Dr Hornafius has been offered a sign-on series of incentive performance rights, which are outside the company’s Employee Incentive Rights Plan; Shareholder approval for this offer will be sought at the Company’s 2013 AGM. A brief profile of Mr Hornafius is contained elsewhere in this report.

Mr. Robert Cook continues as Managing Director of Elk Petroleum Limited and Vice President Operations of Elk Petroleum, Inc., Mr. Cook is employed by Elk Petroleum Inc. in the USA under a two year employment agreement which will expire at the end of 2013 unless extended. Dr Taylor is employed under a similar two year employment agreement which will expire at the end of 2013; Dr Taylor will return to Australia before the end of 2013 and will return to the role of non-executive chairman, if re-elected at the Company’s 2013 AGM.

Staff numbers were reduced in June to match current needs, which have dropped since Denbury took over as Operator of the Grieve EOR project. The consolidated entity incurred staff redundancy payments, which while actual payments will be made into early 2014, are required to be accrued and booked as a 2012-2013 expense.

Dividends
There were no dividends paid, recommended or declared during the current or previous financial year.

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Review of operations
The loss for the consolidated entity after providing for income tax amounted to $5,595,663 (30 June 2012: $3,912,862).

Operations review
During the 2012-2013 financial year, the company completed initial development work at the Grieve oil field; this work involved the injection of significant volumes of carbon dioxide (CO_2) commencing March 2013 and water injection in May 2013. Injection will increase the reservoir pressure to the required level at which the CO_2 becomes miscible with the oil and displaces oil to the producing wells. These achievements represent the first steps in establishing the Grieve EOR project as a significant oil-producing asset for the company. At the time of this report, re-pressuring of the Grieve Oil Reservoir is progressing in line with expectations.

Concurrently with the work at Grieve, additional wells and facilities were completed at Elk's 100% owned Ash Creek oil field. This work was part of the Company's plan to obtain field performance information as part of settling a plan for a chemical EOR project at this field as well as establish early oil production while development planning proceeds.

a. Grieve EOR project (Muddy Reservoir - 35% Elk working interest)
In 2011, Elk entered a joint venture (JV) agreement with Denbury Resources [Denbury - 65% working interest; Elk - 35% working interest], whereby the JV would develop a carbon dioxide based (CO_2) EOR project at the Grieve oil field.

Elk operated the field until late July 2012 when the Bureau of Land Management (BLM) approved the environmental assessment (EA) of the re-development plans for the EOR project. At that time, Denbury assumed operatorship of the EOR project.

Denbury mobilized equipment and personnel to the Grieve field and in the five months to 31 December 2012 completed the following development activities:

• Demolition of processing equipment and storage tanks previously used for Grieve production
• Workovers of a number of existing wells
• Installed flowlines to each of the wells to be employed as future injection/production wells; the flowlines were of special design and materials for the corrosive conditions associated with the flow of wet carbon dioxide once recycling commences
• Completed major earth works for the sites for the initial and future processing and crude storage facilities as well as sites for an electrical substation and offices and other buildings
• Constructed the injection and production manifold as well as a building to contain the manifold and future well production test facilities
• Completed a pipeline tie-in to the 16" diameter Anadarko CO_2 pipeline
• Constructed a three mile long 8" diameter CO_2 branch line from the tie-in to the Anadarko pipeline to the main inlet manifold for the Grieve EOR project, and
• Constructed a metering station to measure the volume of CO_2 purchased from ExxonMobil and transported through Anadarko's pipeline.

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On 4th March 2013, CO_2 injection into Grieve wells commenced. The daily total injection rates have averaged approximately 35 MMSCFD, which is greater than the 30 MMSCFD originally contracted with ExxonMobil.The daily injection rate has been determined mostly by the availability of CO_2 from ExxonMobil's Shute Creek gas plant. Injection of CO_2 has been generally allocated equally into four wells distributed across the field.

Denbury mobilized a rig in late 2012 and drilled a new well to the Madison Formation to obtain additional control on the field structure and to appraise the Madison Formation as a source of water for injection into the overlying Muddy Formation and to investigate the oil potential of the Formation. The well reached a depth of approximately 10,500' and was completed in the second quarter of 2013 and as a prolific water source well. Water from the well is being injected into the Grieve EOR project at total water rates in the range of 7,500 to 9,000 BWPD and will soon be increased to approximately 20,000 BWPD by the installation of a larger pump in the well.

Pressure surveys were run in July 2013 and re-pressuring of the Grieve Muddy Formation is occurring in line with the forecast pressure increase based on the rates and volumes of CO_2 and water injected. The future availability of CO_2 and water will determine the time necessary to re-pressure the Muddy Formation and achieve the minimum miscible pressure required to displace oil and thereby to also determine the time to first oil from the EOR project. Denbury has indicated that first oil is now likely to occur in early 2015 rather than the previous outlook of mid-to-late 2014. This later timing is the result of a combination of the following issues: delays in the BLM's project approval, the commissioning of the CO_2 metering station, and the drilling of and completion time for the deep Madison well to source injection water, as well as initial operating limits on the volume of water available for injection.

Joint Venture expenditure on the EOR project during the reporting period was US$39.3 million. Over the calendar year 2012, Denbury reported actual total expenditure exceeded budget estimates by 27% due to extra costs incurred on increased scope of well workovers, field work and flowline installations. Capital expenditures for the first half of 2013 are tracking budget estimates in gross terms with some increases in expenditure being offset by other reductions in the scope of work.

Joint Venture capital expenditure on the test facilities and manifold, wells and flowlines reached Elk's US$10 million net free carry in March 2013, which was close to the same time CO_2 injection commenced. Elk's share of expenditures on subsequent CO_2 purchases, completion of the Madison well and operation of the field was funded from the pre-agreed loan from Denbury to Elk per their Participation and Development Agreement. At the end of the financial year, the Denbury loan had reached A$4,185,188 out of a maximum of A$13,139,165 (US$12,000,000 - at current forex rate of US$0.9133 per A$1.00). The loan is to be repaid from Elk's share of initial oil production.

In October 2012, Ryder Scott upgraded their previous gross oil recovery estimate of 18.6 million barrels to 2P reserves from a previous 3P reserves certification. This change was based on Denbury becoming part of the project, the funding arrangements between Elk and Denbury, CO_2 supply and transportation secured by contracts with ExxonMobil and Anadarko, and commencement of development construction. In February 2013, Ryder Scott completed an economic evaluation of Elk's 35% working interest (WI) in the EOR project and the associated 6.5 million barrels of 2P reserves net to Elk. Ryder Scott estimates the net present value of Elk's 35% interest at US$95 million from unrisked forecast future cash flows (after costs, including production taxes, but before income tax and financing) when discounted at 10% (NPV@10%).

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b. Ash Creek (100% Elk working interest)
The company acquired Wyoming leases of the former Ash Creek oil field in 2006 with the view to utilize the abandoned wells to re-develop the field. At that time Ash Creek had been identified by an independent consulting company which specializes in chemical flood EOR projects, as one of the best candidates in Wyoming for a chemical flood. Elk subsequently undertook a number of studies and laboratory tests involving reservoir core and reservoir fluids to assess applicability of chemical flood to Ash Creek and later use this data to simulate the potential oil recovery from such a project. Elk commenced supporting development work in 2012 while further studies continued.

During the reporting period, the company carried out a number of field activities, including: completed the re-entry of a further two previously abandoned wells taking the total number of active wells to 13, constructed a further production battery, and completed new flowlines linking the new wells to the new production battery. Of the 13 completed wells (about half the number of the original wells in the field) 7 are completed as production wells, 5 as injection wells, and 1 as a water source well. The new production battery provides for the installation and tie-in of planned chemical injection modules; this new facility includes a flowline manifold, separators, a treater and crude and water storage tanks.

These activities were undertaken to obtain additional oil and water production performance information to assist the company to realize early production and cashflow as well as finalise its forward development plans for a surfactant-polymer-based EOR project.

More recent studies have indicated that a brine pre-flush should provide for more effective crude recovery surfactant-polymer chemical EOR project and also suggest that straight polymer or colloidal dispersion gel (CDG) injection might improve secondary recovery response as well as improve the economics of the project. Further simulation studies are being completed to quantify the affects on estimates of the oil recovery. Injection facilities have been constructed and are ready to be leased for installation conditional upon Elk completing its current studies and a decision on the best way to proceed with the project.

Elk is currently investigating the option to farm-out a portion of Ash Creek EOR project. A farm-out will reduce the level of Elk's near-term capital commitments prior to deriving material free cash flow from the Grieve EOR project. As outlined later in the section on Business Strategy, Elk plans to increase its primary focus on CO_2-based EOR projects.

Development expenditure at Ash Creek in 2012-2013 was $$2,265,068.

Ash Creek sold 5,698 barrels (2012: 4,726 barrels) an increase of 20.5% over the previous year. An average price of US$81.04 per barrel was received for the Ash Creek oil sales, a decrease of 2 per cent on the previous year of US$82.53 per barrel. Elk net sales revenue of US$0.377 million (2011-12: US$0.319 million) was up 18% on the previous year.

c. Grieve oil pipeline
Elk currently holds a 100% interest in the pipeline through its subsidiary Grieve Pipeline, LLC. The pipeline runs from the Grieve EOR project approximately 32 miles to points of sale in Casper Wyoming. The pipeline will be used to transport Elk’s share of Grieve oil for sale in Casper. Elk expects Denbury will also use this pipeline to transport Denbury’s share of Grieve oil to Casper but Denbury has yet to enter a transportation agreement with Elk.

Elk has been conducting a number of activities to ready this pipeline for use in or before early 2015. The condition of the pipeline was assessed by an intelligent “pig” (gauging tool), which can measure and locate pipe defects such corrosion pits or dents as it travels along the inside of the pipe; this survey was conducted over the full ~32 miles length of the 8” diameter pipeline in December 2012. T.D. Williamson (TDW) provided and supervised the running of the tool which was propelled the length of the pipeline by high pressure nitrogen gas. The results from TDW of the intelligent pig run indicated that the pipeline is generally in good condition. Approximately 350 feet of the pipeline was subsequently replaced and restored the pipeline to a maximum operating pressure of 700 psig, which is more than the pipeline is expected to experience under planned gravity flow. Further work is planned to re-establish the pipeline to its former maximum design pressure rating of 1,460 psig. US$334,234 was spent on the pipeline during the year.

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Elk plans to sell all or part of the Grieve crude export pipeline to boost its available funds during 2014. A Private Placement Memorandum (PPM) had been prepared to offer private investors the opportunity to acquire shares in a separate entity, which will acquire the pipeline from Grieve Pipeline LLC for US$9 million. Elk would acquire a 35% interest in the new entity and commit to repurchase the pipeline after 5 years. Elk is planning to revise the PPM to reflect the delay in first oil timing to early 2015 and ensure the offer is competitive with alternatives available to investors. In the interim, Elk is talking to several companies, which have expressed an interest in acquiring the pipeline.

d. Hereford & exploration

Little progress has been made in reaching a commitment point to develop the Hereford gas resource. While potential remains that, when gas prices increase and the current surplus Montana electricity supply dissipates, this relatively small gas resource will be developed, Elk has come to a view that this point is a number of years in the future. It is also not consistent with Elk's revised forward plans and consequently Elk has made a decision to relinquish its title to the resource.

Similarly, Elk has reviewed its exploration holdings in Montana and in the region surrounding the Hereford gas discovery. The potential is assessed to be small with predominantly shallow gas targets and Elk has decided not to renew its Montana exploration titles.

e. Environmental regulation

The consolidated entity's operations are subject to certain laws regarding environmental matters and discharge of hazardous waste materials. The consolidated entity conducts its activities in an environmentally responsible manner in accordance with all applicable laws and regulations. The directors are not aware of any breaches in relation to environmental matters.

Financial review

The consolidated entity incurred a loss of $5,595,663 after providing for income tax (2012: $3,912,862).

Revenue remained low since Ash Creek remained in a development and testing mode. This revenue covered Ash Creek's direct operating costs but did not contribute to offsetting overheads and other expenses.

The major cost drivers contributing to the 2012-13 loss included increased costs for use of consultants to assess Ash Creek development options, screen new ventures, prepare the Grieve pipeline PPM, prepare a new venture purchase and sale agreement, increased costs for executive director expenses reflecting the transfer of Robert Cook and Neale Taylor to the USA for two years, the accrual of redundancy costs into the reporting period, and increased depreciation and amortization due to increased development expenditure and increased provisions for abandonment.

In 2013-14, Elk expects that cost savings will be achieved due to the staff reductions implemented in June 2013, reduced executive director costs following the year-end 2013 expiry of related employment contracts, and reduced costs from Ash Creek operations if a farm-out or sale is completed in the near-future.

Total development expenditure for the period was A$2,638,481 (2012: A$2,815,600).

Cash at the end of the period was A$1,085,813 and the company raised A$2 million (before costs) subsequent to the end of the reporting period. The company has taken a number of steps to reduce staff numbers and overheads as well as Ash Creek operating costs.

Significant changes in the state of affairs

There were no significant changes in the state of affairs of the consolidated entity during the financial year that have not been referenced in the preceding or following commentary.

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Business strategy, prospects for future financial years & material business risks

Elk Petroleum's business is the application of enhanced oil recovery (EOR) techniques to develop commercial reserves of oil. Elk will also engage in traditional oil and gas drilling activities under suitable conditions to increase the value of the company. Elk's principle activity has been the development of the Grieve EOR project utilising CO_2. Elk is evaluating industrial sources of CO_2 for EOR that would position the company to pursue tertiary oil recovery projects in oil basins that are currently near the end of the primary and secondary recovery stages.

a. Prospects for future financial years

• The main driver of Elk's medium term profit outlook is the timing of first oil production at the Grieve EOR project and the levels of early oil production, which will influence how quickly Elk can repay its loan to Denbury. Elk plans to explore alternative financial arrangements to provide more flexibility to retain some of the early cash flow from Grieve.
• Elk expects to achieve a benefit from monetization of the Grieve pipeline; the form of this benefit will depend upon how Elk reduces its interest in this pipeline
• Elk expects a number of overhead costs related to its current structure and current operations to be lower in 2013-14 due to actions taken in 2012-13, as set out above.
• Elk has an expectation that its modest Ash Creek income from secondary recovery by water flooding can be improved by implementing tertiary recovery via a chemical flood. Elk is investigating the option of farming out all or part of the final phases of the Ash Creek development.
• Elk has significant US operating tax loss carry forward from its subsidiaries which may be a major tax benefit against future profits.
• Elk's new CEO brings a new set of relationships and experiences that Elk looks to utilize in revising its business strategy as set out above.

Elk has also identified a mature oil field with modest EOR development potential and is working to complete negotiations and execute a purchase and sale agreement (PSA) in the near future; if agreed, this PSA will include a number of terms and conditions to be satisfied before the acquisition is completed.

b. Material business risks

• Grieve first oil timing and early production levels and the ultimate recoverable oil in the Grieve field.
• The volume and rate of CO_2 and water injection at the Grieve EOR Project required before first oil production is achieved.
• Elk's ability to farm-out an interest in the Ash Creek EOR project and to sell all or part of the Grieve oil pipeline.
• Access to natural and/or anthropogenic sources of CO_2 on acceptable terms for use in future EOR projects.
• Elk's ability to fund the business strategy set out above.
• Other than as referred to in this report, further information as to likely developments in the operations of the consolidated entity and expected results of those operations would, in the opinion of the directors, be speculative and prejudicial to the interests of the consolidated entity and its shareholders.

There were no other significant changes in the state of affairs of the consolidated entity during the financial year.

Matters subsequent to the end of the financial year

Elk announces intent to sell Grieve Oil pipeline

On 1 July 2013, Elk announced its intent to sell the Grieve oil pipeline for US$9 million; Elk created a new entity and issued a PPM setting out the terms for an offer by the new entity to raise sufficient monies to facilitate this purchase. Elk agreed to a set of terms to support this offer, including repurchase of some or all of the Class A shares in the new entity. Elk has subsequently indicated it is considering a variation to the PPM to reflect the delay in first oil at Grieve. In addition, Elk is talking to several companies, which have expressed an interest in acquiring the pipeline.

$2 million capital raising

On 29 July 2013, firm commitments were received from institutional and sophisticated investors to raise $2.0 million via a placement of 12,500,000 shares priced at $0.16. One free unlisted option with an expiry date of February 1, 2015 and an exercise price of $0.25 was attached to every two shares allotted.

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Grieve first oil delayed until early 2015
Denbury advised Elk that first Grieve oil production was not expected before early 2015 (delayed from mid-to-late 2014).

Hereford leases relinquished
Elk has allowed its interest in the Hereford leases to lapse. This decision was based on unacceptable aspects of some of the lease renewal terms, continuing low gas prices in the USA together with Elk's desire to concentrate on EOR opportunities.

Elk's chairman to return to Australia
Elk's chairman, Neale Taylor, who has been acting in a part-time executive role in Casper, Wyoming, will return to Australia before YE2013 and seek to take up his previous role as non-executive chairman from 1 January 2014, if re-elected by shareholders at the company's 2013 AGM.

Re-appointment of Mr. Matthew Healy as a non-executive director
On 13 September 2013, Mr. Matthew Healy was re-appointed as a non-executive director to the Board of Elk Petroleum Limited. Mr. Healy will seek re-election by shareholders at the company's 2013 AGM.

Rights issue
On 14 August 2013, the company granted 3,450,306 performance rights and 78,000 retention rights to employees, directors and advisers in line with it's Employee Incentive Rights Plan and Non-executive Director and Adviser Plan. These rights are effective from 1 July 2013 and will be assessed over the following three years against the company's share price performance and employment commitment before any of the rights will be converted to shares.

No other matter or circumstance has arisen since 30 June 2013 that has significantly affected, or may significantly affect the consolidated entity's operations, the results of those operations, or the consolidated entity's state of affairs in future financial years.

Likely developments and expected results of operations
Other than as referred to in this report, further information as to likely developments in the operations of the consolidated entity and expected results of those operations would, in the opinion of the directors, be speculative and prejudicial to the interests of the consolidated entity and its shareholders.

Environmental regulation
The consolidated entity's operations are subject to certain laws regarding environmental matters and discharge of hazardous waste materials. The consolidated entity conducts its activities in an environmentally responsible manner in accordance with all applicable laws and regulations. The directors are not aware of any breaches in relation to environmental matters.

Information on directors
Information with respect to the directors and executives of Elk Petroleum Limited as at the date of this report are set out at the front of the directors' report.

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Meetings of directors
The number of meetings of the company's Board of Directors ('the Board') and of each board committee held during the year ended 30 June 2013, and the number of meetings attended by each director were:

	Full Board		Audit Committee		Remuneration Committee	
	Attended	Held	Attended	Held	Attended	Held
N Taylor	11	11	2	2	3	3
R Cook	11	11	-	-	-	-
T Strasser	10	11	2	2	3	3
M Healy *	1	1	-	-	-	-
Barry Smith **	10	10	2	2	3	3

Held: represents the number of meetings held during the time the director held office or was a member of the relevant committee.

* Resigned 31 July 2012 and re-appointed 13 September 2013.
** Appointed 31 July 2012.

Remuneration report (audited)
This Remuneration Report outlines the remuneration arrangements which were in place during the year, for the directors and other key management personnel of Elk Petroleum. The remuneration details of key management personnel during the year are set out in the table below. There are no other key management personnel of the consolidated entity other than those listed.

The remuneration report is set out under the following main headings:
A Principles used to determine the nature and amount of remuneration
B Details of remuneration
C Service agreements
D Share-based compensation
E Additional information

A Principles used to determine the nature and amount of remuneration

The objective of the consolidated entity's and company's executive reward framework is to provide incentives for employees to pursue growth in Elk's share price and reward for performance to ensure this framework remains competitive and reflects the company's state of affairs at any given time, and is appropriate for the results delivered. The Board of Directors ('the Board') ensures that executive reward satisfies the following key criteria for good reward governance practices:
- competitiveness and reasonableness
- acceptability to shareholders
- performance linkage / alignment of executive compensation
- transparency

The Remuneration Committee is responsible for recommending and reviewing remuneration arrangements for the Company's directors and executives. The performance of the consolidated entity and company depends on the quality of its directors and executives. The remuneration philosophy is to attract, motivate and retain high performance and high quality personnel.

In accordance with best practice corporate governance, the remuneration of non-executive directors and executive remunerations are administrated under separate structures and systems.

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Non-executive directors and company secretary remuneration
The aggregate amount of remuneration that may be paid to non-executive directors is $250,000. This remuneration may be divided among the non-executive directors in such a fashion as the Board may determine. Notice of any proposed increase in the aggregate amount of non-executive directors' remuneration must be given to members in the notice convening the general meeting at which the increase in aggregate amount is to be proposed. Non-executive directors also receive retention rights and performance rights as supplementary incentives in accordance with the shareholder approved Non-Executive Directors & Advisers ("NEDA") Plan.

The joint company secretaries, Mr Franks and Mr Bursill are principals of Franks and Associated Pty Ltd and are employed on a fee basis. Either party may terminate their services with one month's written notice.

Executive remuneration
The consolidated entity and company aims to reward executives with a level and mix of remuneration based on their position and responsibility, which is both fixed and variable.

The executive remuneration and reward framework has four components:
- base pay or fee and non-monetary benefits
- short-term performance incentives
- share-based payments
- other remuneration such as superannuation, long service leave and special allowances

The combination of these comprises the executive's total remuneration.

Remuneration of Elk's key management personnel comprises some or all of the following elements: fixed salary/fee; rights scheme; and other benefits including motor vehicle allowances and health insurances.

1. Fixed Annual Remuneration ("FAR")
Each director and employee is paid a fixed annual salary or fee in cash. The company's objective is that the fixed annual remuneration be within the range of +/- 20% of the prevailing competitive market practice.

2. Short Term Incentives ("STI")
The Board retains the discretion to make special cash awards (0-20% FAR) each year. No special awards were made to key management personnel in the year to 30 June 2013.

3. Long Term Incentives ("LTI")
Long term incentives are made as share-based payments in the form of retention rights and performance rights within the company's Employee Incentive Rights ("EIR") Plan and Non-Executive Directors & Advisers ("NEDA") Plan. These plans have been approved by shareholders and full explanation of these plans are available on Elk's website: www.elkpet.com. There has been no change in the plan's rates and criteria. The Company retains a previous Employee Options Plan, but no new options have been issued since approval of the EIR and NEDA plans. All retention and performance rights granted were approved by shareholders under ASX Listing Rule 10.14.

4. Other remuneration (including superannuation, long service leave and special allowances)
The company follows regulated requirements in regard to superannuation and long service leave. Special allowances are provided to Robert Cook and Neale for the duration of their executive work assignments in the USA; they are provided with allowances for accommodation, medical insurance, use of personal laptops, travel and relocation expenses.

Consolidated entity performance and link to remuneration
Remuneration incentives for certain individuals is directly linked to performance of the consolidated entity. Vesting of performance rights are dependent on share price targets being met.

Voting and comments made at the company's Annual General Meeting ('AGM')
The company received in excess of 75% of 'for' votes in relation to its remuneration report for the year ended 30 June 2012. The company did not receive any specific comments at the AGM in regard to its remuneration practices and report.

B Details of remuneration

Amounts of remuneration

Details of the remuneration of the key management personnel of consolidated entity are set out in the following tables.

The key management personnel of the consolidated entity consisted of the following directors of Elk Petroleum Ltd:

- Neale Taylor
- Robert Cook
- Tony Strasser
- Matt Healy (resigned 31 July 2012 and re-appointed 13 September 2013)
- Barry Smith (appointed 31 July 2012)

And the following persons:

- Scott Hornafius - CEO
- David Franks and Andrew Bursill - Joint Company Secretaries

2013	Short-term benefits			Post-employment benefits	Long-term benefits	Share-based payments	
Name	Director fees $	Base salary and fees $	Other *** $	Super-annuation $	Long service leave $	Equity-settled $	Total $
Non-Executive Directors:							
T Strasser	42,000	-	-	-	-	3,718	45,718
M Healy *	3,500	-	-	-	-	-	3,500
B Smith **	35,665	-	-	2,835	-	2,385	40,885
Executive Directors:							
N Taylor	-	264,345	46,858	10,574	-	18,688	340,465
R Cook	-	360,880	46,281	10,519	-	22,643	440,323
S Hornafius ****	-	30,908	-	1,236	-	-	32,144
	81,165	656,133	93,139	25,164	-	47,434	903,035

* Resigned 31 July 2012 and re-appointed 13 September 2013. ** Appointed 31 July 2012.

*** Includes allowances for accommodation, medical insurance, use of personal laptops, travel and relocation expenses. **** Appointed 1 June 2013

D Franks and A Bursill company secretary services are paid to Franks & Associates Pty Ltd, a company in which they are a director and principal respectively. Franks & Associates Pty Ltd were paid $127,188 (2012:$ 50,365) during the year. 2012 expense relates to six months of service only.

Non-monetary/other benefits include allowances for accommodation, medical insurance, use of personal laptops, travel and relocation expenses

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2012	Short-term benefits			Post-employment benefits	Long-term benefits	Share-based payments	
Name	Director fees $	Base salary and fees $	Other $	Super-annuation $	Long service leave $	Equity-settled $	Total $
Non-Executive Directors:							
N Taylor *	40,000	52,875	-	-	-	10,500	103,375
T Strasser	40,000	-	-	-	-	1,890	41,890
M Healy **	40,000	-	-	-	-	1,890	41,890
Executive Directors:							
N Taylor ***	-	113,745	43,490	4,550	-	-	161,785
R Cook	-	304,775	42,873	6,691	-	13,800	368,139
Other Key Management Personnel:							
J Bourke ****	84,968	-	-	-	-	-	84,968
	204,968	471,395	86,363	11,241	-	28,080	802,047

* 6 months to 31 December 2011
** Resigned 31 July 2012
*** 6 months to 30 June 2012
**** Resigned 1 December 2011

D Franks and A Bursill company secretary services are paid to Franks & Associates Pty Ltd, a company in which they are a director and principal respectively. Refer to related party note to the financial statements.

Non-monetary/other benefits include relocation costs to US and executive and health allowances.

The proportion of remuneration linked to performance and the fixed proportion are as follows:

Name	Fixed remuneration 2013	Fixed remuneration 2012	At risk - STI 2013	At risk - STI 2012	At risk - LTI 2013	At risk - LTI 2012
Non-Executive Directors:						
N Taylor	- %	96%	- %	- %	- %	4%
T Strasser	92%	95%	- %	- %	8%	5%
M Healy *	88%	95%	- %	- %	12%	5%
B Smith ***	94%	- %	- %	- %	6%	- %
Executive Directors:						
N Taylor	95%	100%	- %	- %	5%	- %
R Cook	95%	96%	- %	- %	5%	4%
S Hornafius ****	100%	- %	- %	- %	- %	- %
Other Key Management Personnel:						
J Bourke **	- %	100%	- %	- %	- %	- %

* Resigned 31 July 2012 and re-appointed 13 September 2013
** Resigned 1 December 2011; all rights cancelled
*** Appointed 31 July 2012
**** Appointed 1 June 2013

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C Service agreements

Managing Director (MD) - *Robert Cook*

From 1 January 2012, Mr Cook has been employed under an executive employment agreement which expires on 31 December 2013. The term can be extended for a further year by mutual agreement in writing. Mr Cook may resign from his position and thus terminate his contract at any time by giving six months written notice. The company may terminate his employment agreement by providing six months written notice or providing payment in lieu of the notice period (based on the fixed component of Mr Cook's remuneration). The company may terminate the contract at any time without notice if serious misconduct has occurred. Where termination with cause occurs Mr Cook is only entitled to that portion of remuneration component that is fixed, and only up to the date of termination. The contract provides for Mr Cook to participate in the EIR Plan. The contract was agreed on the basis of Mr Cook relocating to the company's office in Casper, Wyoming from 1 January 2012 for 1 to 2 years. The contract provides certain benefits for relocation, health insurance and living costs. Mr Cook's base annual remuneration salary was set at US$341,250 and subject to annual adjustment; it was adjusted at 1 July 2012 and 1 July 2013 and is currently set at US$354,900.

Chief Executive Officer (CEO) *- Scott Hornafius*

Dr Hornafius commenced employment as Chief Executive Officer of the company and President of Elk Petroleum Inc. from 1 June 2013 for a period of 3 years. The agreement can be extended annually by agreement one year ahead of expiry of the initial term. Dr Hornafius may resign from his position and thus terminate his contract at any time by giving six months written notice. The company may terminate his employment agreement by providing six months written notice or providing payment in lieu of the notice period. The company may also terminate the contract at any time immediately if serious misconduct has occurred. Dr Hornafius's base annual remuneration is set at US$350,000 per annum and subject to annual adjustment. The contract provides for Dr Hornafius to participate in the EIR plan. At the time of announcing his employment the company set out a series of tranches totalling 6,500,000 performance rights with share price hurdles providing major incentives for Dr Hornafius to increase the company’s share price in a material fashion over the following 1-5 years; the schedule of proposed awards was set out in the company's ASX release dated 3 June 2013 and will be subject to shareholder approval at the company’s 2013 AGM.

Executive Director and Chairman - *Neale Taylor*

From 1 January 2012, Dr Taylor has been employed as executive director and chairman of the company. Dr Taylor is employed under an executive employment agreement which expires on 31 December 2013 but can be extended by mutual agreement in writing. Dr Taylor may resign from his position and thus terminate his contract at any time by giving six months written notice. The company may terminate his employment agreement by providing six months written notice or providing payment in lieu of the notice period (based on the fixed component of Dr Taylor's remuneration). The company may terminate the contract at any time without notice if serious misconduct has occurred. Where termination with cause occurs Dr Taylor is only entitled to that portion of remuneration that is fixed, and only up to the date of termination. Termination of Dr Taylor's services under this agreement does not change his status as an elected director of the Board and following termination Dr Taylor will continue as non-executive director. Dr Taylor's base annual remuneration was set at US$246,750 (for 3 days per week) and subject to annual adjustment; it was adjusted at 1 July 2012 and 1 July 2013 and is currently at US$256,620. The parties have agreed that this agreement will terminate at 31 December 2013 and Dr Taylor will return to Australia before that date; Dr Taylor worked a number of days in excess of those specified in his employment agreement and has a number of untaken leave days and travel allowances; it is proposed to offer Dr Taylor 1,077,519 performance rights to the value of US$62,899 as compensation for these matters, subject to shareholder approval at the Company’s 2013 AGM.

D Share-based compensation

Issue of shares
There were no shares issued to directors and other key management personnel as part of compensation during the year ended 30 June 2013.

Options
The terms and conditions of each grant of options over ordinary shares affecting remuneration of directors and other key management personnel in this financial year or future reporting years are as follows:

Grant date	Vesting date and exercisable date	Expiry date	Exercise price	Fair value per option at grant date
18/11/2008	13/10/2010	13/10/2013	$0.23	$0.220

Options granted carry no dividend or voting rights.

On 12 December 2012, listed options were granted to the following directors as part of the share purchase plan, where one option exercisable at $0.35 on or before 30 November 2013 was issued for each two shares purchased under the plan: 30,000 listed options to Neale Taylor and 30,000 listed options to Robert Cook. These are not part of remuneration.

There were no options over ordinary shares granted to or vested by directors and other key management personnel as part of compensation during the year ended 30 June 2013.

Performance rights
The terms and conditions of each grant of performance rights over ordinary shares affecting remuneration of directors and other key management personnel in this financial year or future reporting years are as follows:

Grant date	Vesting date and exercisable date	Expiry date	Fair value per right at grant date
24/02/2012	30/06/2014	30/06/2014	$0.036
15/08/2012	30/06/2015	30/06/2015	$0.034
12/12/2012	30/06/2015	30/06/2015	$0.044

Performance rights granted carry no dividend or voting rights.

The number of performance rights over ordinary shares granted to and vested by directors and other key management personnel as part of compensation during the year ended 30 June 2013 are set out below:

	Number of rights granted during the year		Number of rights vested during the year	
Name	2013	2012	2013	2012
N Taylor	557,000	700,000	-	-
R Cook	786,000	1,150,000	-	-
T Strasser	38,000	70,000	-	-
M Healy *	-	70,000	-	-
Barry Smith **	35,000	-	-	-

* Resigned 31 July 2012 and re-appointed 13 September 2013
** Appointed 31 July 2012

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Values of performance rights over ordinary shares granted, exercised and lapsed for directors and other key management personnel as part of compensation during the year ended 30 June 2013 are set out below:

Name	Value of rights granted during the year $	Value of rights vested during the year $	Value of rights lapsed during the year $	Remuneration consisting of rights for the year %
N Taylor	24,564	-	-	-
R Cook	26,528	-	-	-
T Strasser	1,283	-	-	-
B Smith*	1,544	-	-	-

* Appointed 31 July 2012

By resolution, the Board approved that Performance Rights held by Mr Healy would not be cancelled upon his resignation. This decision was based upon his positive contribution to the company and as an incentive for Mr Healy to retain his interest in and support of the company.

Retention rights
The terms and conditions of each grant of retention rights over ordinary shares affecting remuneration of directors and other key management personnel in this financial year or future reporting years are as follows:

Grant date	Vesting date and exercisable date	Expiry date	Fair value per right at grant date
24/02/2012	30/06/2014	30/06/2014	$0.090
15/08/2012	30/06/2015	30/06/2015	$0.075
12/12/2012	30/06/2015	30/06/2015	$0.110

Retention rights granted carry no dividend or voting rights.

The number of retention rights over ordinary shares granted to and vested by directors and other key management personnel as part of compensation during the year ended 30 June 2013 are set out below:

Name	Number of rights granted during the year		Number of rights vested during the year	
	2013	2012	2013	2012
N Taylor	-	70,000	-	-
T Strasser	56,000	35,000	-	-
M Healy *	-	35,000	-	-
Barry Smith **	51,000	-	-	-

* Resigned 31 July 2012. 23,333 rights lapsed 17 August 2012. Re-appointed 13 September 2013.
** Appointed 31 July 2012

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Values of retention rights over ordinary shares granted, exercised and lapsed for directors and other key management personnel as part of compensation during the year ended 30 June 2013 are set out below:

Name	Value of rights granted during the year $	Value of rights vested during the year $	Value of rights lapsed during the year $	Remuneration consisting of rights for the year %
T Strasser	4,200	-	-	-
M Healy *	-	-	2,100	-
Barry Smith **	5,610	-	-	-

* Resigned 31 July 2012. 23,333 rights lapsed 17 August 2012. Re-appointed 13 September 2013.
** Appointed 31 July 2012

The Board is cognisant of general shareholder concern that long-term equity-based reward for employees and directors should be linked to the achievement by the company or employee/director against certain retention and performance measures. Retention rights and performance rights granted to EIR & NEDA plan participants will be subject to the retention and performance measures determined by the Board. The current measures remain as set out in the Notice of the 2011 AGM. The required measured performance must be achieved by the company or participant before rights vest and an appropriate proportion of shares are issued to an employee or director. The first assessment of rights, which have been granted under the EIR and NEDA Plans will occur immediately after 30 June 2014; if hurdles have been met of exceeded; appropriate numbers of shares will be issued soon thereafter.

E Additional information

The earnings of the consolidated entity for the five years to 30 June 2013 are summarised below:

	2009 $	2010 $	2011 $	2012 $	2013 $
Loss after income tax	(5,320,610)	(3,298,178)	(2,515,989)	(3,912,862)	(5,595,663)

The factors that are considered to affect total shareholders return ('TSR') are summarised below:

	2009	2010	2011	2012	2013
Share price at financial year end ($A)	0.17	0.10	0.21	0.15	0.17
Basic earnings per share (cents per share)	(8.12)	(3.30)	(2.23)	(2.87)	(3.51)

This concludes the remuneration report, which has been audited.

Loans to directors and executives
At the reporting date, there were no loans to directors and executives.

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Shares under option

Unissued ordinary shares of Elk Petroleum Ltd under option at the date of this report are as follows:

Grant date	Expiry date	Exercise price	Number under option
18/11/2008	13/10/2013	$0.23	200,000
25/06/2009	24/06/2014	$0.20	50,000
01/07/2010	30/06/2015	$0.20	81,450
11/10/2010	10/10/2015	$0.20	129,000
25/10/2010	24/10/2015	$0.20	200,000
31/01/2011	05/12/2015	$0.20	100,000
01/07/2011	30/06/2016	$0.20	750,000
12/12/2012	30/11/2013	$0.35	7,370,000
28/02/2013	30/11/2013	$0.35	2,630,000
07/08/2013	01/02/2015	$0.25	4,687,500
20/09/2013	01/02/2015	$0.25	1,562,500
			17,760,450

No person entitled to exercise the options had or has any right by virtue of the option to participate in any share issue of the company or of any other body corporate.

Shares under performance rights

Unissued ordinary shares of Elk Petroleum Ltd under performance rights at the date of this report are as follows:

Grant date	Expiry date	Exercise price	Number under rights
24/02/2012	30/06/2014	$0.00	1,990,000
16/05/2012	30/06/2014	$0.00	200,000
15/08/2012	30/06/2015	$0.00	1,311,000
12/12/2012	30/06/2015	$0.00	592,000
13/08/2013	30/06/2016	$0.00	3,450,306
			7,543,306

No person entitled to exercise the performance rights had or has any right by virtue of the performance right to participate in any share issue of the company or of any other body corporate.

Shares under retention rights

Unissued ordinary shares of Elk Petroleum Ltd under retention rights at the date of this report are as follows:

Grant date	Expiry date	Exercise price	Number under rights
24/02/2012	30/06/2014	$0.00	366,667
15/08/2012	30/06/2015	$0.00	281,000
12/12/2012	30/06/2015	$0.00	51,000
13/08/2013	30/06/2016	$0.00	78,000
			776,667

No person entitled to exercise the retention rights had or has any right by virtue of the retention right to participate in any share issue of the company or of any other body corporate.

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Shares issued on the exercise of options
The following ordinary shares of Elk Petroleum Ltd were issued during the year ended 30 June 2013 and up to the date of this report on the exercise of options granted:

Date options granted	Exercise price	Number of shares issued
11/10/2010	$0.20	17,000

Rights issued after 30 June 2013
On 14 August 2013 the company announced it had granted 3,450,306 performance rights and 78,000 retention rights to employees, directors and advisers. These rights are effective from 1 July 2013 and will be assessed over the following three years against the company's share price performance and employment commitment before any of the rights will be converted to shares. These grants are in line with the EIR & NEDA Plans.

The current total number of rights issued over the last three years under these plans is 9,238,306, which is equivalent to 5.5% of the total number of issued shares as at 30 June 2013. This total percentage is within both the 6% guideline cap established by the company to apply over a three year period and the regulatory maximum cap of 5% which allows for certain exemptions of separately approved grants to directors and officers.

In deciding on the level of 2013 grants, the company scaled down the total level of grants that would apply under the policy by a material amount to meet the company's annual guideline cap of granting in any given year no more than the equivalent of 2% of the total number of issued shares.

The performance rights have various share price hurdles that must be met at the end of three years for increasing levels of rights to be converted to shares; these hurdles are unchanged from those previously published and require approximately a 100% increase in share price over 3 years for the maximum possible 100% vesting. The benchmark price will be $0.1804, which is the 30 day volume weighted share price up to and including the 30 June 2013. The rights have been independently valued, with the effective valuation, after the company's estimation of conversion conditions being met, of $0.032 per performance right and $0.08 per retention right.

Indemnity and insurance of officers
Elk Petroleum has made an agreement to indemnify all the directors and officers of the group against all indemnifiable losses or liabilities incurred by each director and officer in their capacities as directors and officers of the consolidated entity. During the year ended 30 June 2013, Elk Petroleum paid insurance premiums in respect of directors and officers liability insurance contracts for current officers of the company, including officers of the company's subsidiaries. The liabilities insured are damages and legal costs that may be incurred in defending civil or criminal proceedings that may be brought against the officers in their capacity as officers of entities in the consolidated entity. The total amount of insurance premiums paid has not been disclosed due to confidentiality reasons.

Proceedings on behalf of the company
The company is involved in on-going US legal proceedings with the Crow Nation in relation to the validity of leases on tribal lands in the state of Montana. Further information can be found in the note in regard to the section on contingent liabilities to the folowing financial statements.

Corporate governance
In recognising the need for the highest standards of corporate behaviour and accountability, the directors of Elk Petroleum support and have adhered to the principles of sound corporate governance. The Board recognises the recommendations of the Australian Securities Exchange Corporate Governance Council for Corporate Governance Principals and Recommendations, and considers that Elk Petroleum is in compliance with those guidelines which it deems are of importance to the commercial operation of a junior listed resources company. During the financial year, shareholders continued to receive the benefit of an efficient and cost-effective corporate governance policy for the company.

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Non-audit services
There were no non-audit services provided during the financial year by the auditor.

Auditor's independence declaration
A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out on the following page.

Auditor
BDO East Coast Partnership continues in office in accordance with section 327 of the Corporations Act 2001.

This report is made in accordance with a resolution of directors, pursuant to section 298(2)(a) of the Corporations Act 2001.

On behalf of the directors

Neale Taylor
Chairman

30 September 2013
Sydney

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Australia

DECLARATION OF INDEPENDENCE BY ARTHUR MILNER TO THE DIRECTORS OF ELK PETROLEUM LIMITED

As lead auditor of Elk Petroleum Limited for the year ended 30 June 2013, I declare that, to the best of my knowledge and belief, there have been:

1. No contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
2. No contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Elk Petroleum Limited and the entities it controlled during the period.

Arthur Milner

Partner

BDO East Coast Partnership

Sydney, 30 September 2013

BDO East Coast Partnership ABN 83 236 985 726 is a member of a national association of independent entities which are all members of BDO (Australia) Ltd ABN 050 110 275, an Australian company limited by guarantee. BDO East Coast Partnership and BDO (Australia) Ltd are members of BDO International Ltd, a UK comp limited by guarantee, and form part of the international BDO network of independent member firms. Liability limited by a scheme approved under Professional Standards Legislation (other than for the acts or omissions of financial services licensees) in each State or Territory other than Tasmania.

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Elk Petroleum Ltd
Corporate governance statement
30 June 2013

The Board of directors of Elk Petroleum Ltd is committed to good corporate governance taking into account the company's size and activities and has a range of policies and processes in place to ensure the rights of the company and our shareholders are protected. Additional information about the company's corporate governance practices is available on the company's website at www.elkpet.com. The table below summarises the company's compliance with the Corporate Governance Council's Recommendations:

Principle	ASX Corporate Governance Council Recommendations	Comply
1.	**Lay solid foundations for management and oversight**	
1.1	Companies should establish the functions reserved to the Board and those delegated to senior executives and disclose those functions.	Complies
1.2	Companies should disclose the process for evaluating the performance of senior executives.	Complies
1.3	Companies should provide the information indicated in the Guide to reporting on Principle 1.	Complies
2.	**Structure the Board to add value**	
2.1	A majority of the Board should be independent directors	Complies from 13 September 2013
2.2	The chairman should be an independent director	Does not comply
2.3	The role of the chairman and the CEO should not be filled by the same individual	Comply
2.4	The Board should establish a nomination committee	Does not comply
2.5	Companies should disclose the process for evaluating the performance of the Board, its committees and individual directors.	Complies
2.6	Companies should provide the information indicated in the Guide to reporting on Principle 2.	Complies
3	**Promote ethical and responsible decision making**	
3.1	Companies should establish a code of conduct and disclose the code or a summary of the code as to: • the practices necessary to maintain confidence in the company's integrity • the practices necessary to take into account their legal obligations and the reasonable expectations of their stakeholders • the responsibility and accountability of individuals for reporting and investigating reports of unethical practices.	Complies
3.2	Companies should establish a policy concerning diversity and disclose the policy or a summary of that policy. The policy should include requirements for the Board to establish and disclose measurable objectives for achieving gender diversity for the Board to assess annually both the objectives and progress in achieving them.	Complies
3.3	Companies should disclose the measurable objectives for achieving gender diversity set by the Board in accordance with the diversity policy and progress towards achieving them.	Complies
3.4	Companies should disclose the proportion of women employees in the whole organisation, women in senior executive positions and women on the Board.	Complies
3.5	Companies should provide the information indicated in the Guide to reporting on Principle 3.	Complies
4	**Safeguard integrity in financial reporting**	
4.1	The Board should establish an audit committee	Complies
4.2	Structure the audit committee so that it consists of: • only non-executive directors • a majority of independent directors • an independent chairperson, who is not chairperson of the Board • at least three members.	 Partially complies Complies Complies Complies
4.3	The audit committee should have a formal charter	Complies
4.4	Companies should provide the information indicated in the Guide to reporting	Complies

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	on Principle 4.	
5	**Make timely and balanced disclosure**	
5.1	Establish written policies and procedures designed to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at a senior management level for that compliance.	Complies
5.2	Companies should provide the information indicated in the Guide to reporting on Principle 5.	Complies

6.	**Respect the rights of shareholders**	
6.1	Companies should design a communications policy for promoting effective communication with shareholders and encouraging their participation at general meetings and disclose their policy or a summary of that policy.	Complies
6.2	Companies should provide the information indicated in the Guide to reporting on Principle 6.	Complies
7.	**Recognise and manage risk**	
7.1	Companies should establish policies for the oversight and management of material business risks and disclose a summary of those policies.	Complies
7.2	The Board should require management to design and implement the risk management and internal control system to manage the company's material business risks and report to it on whether those risks are being managed effectively. The Board should disclose that management has reported to it as to the effectiveness of the company's management of its material business risks.	Complies
7.3	The Board should disclose whether it has received assurance from the Chief Executive Officer (or equivalent) and the Chief Financial Officer (or equivalent) that the declaration provided in accordance with section 295A of the Corporations Act is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks.	Complies
7.4	Companies should provide the information indicated in the Guide to reporting on Principle 7.	Complies
8	**Remunerate fairly and responsibly**	
8.1	The Board should establish a remuneration committee.	Complies
8.2	The remuneration committee should be structured so that it: • consists of a majority of independent directors • is chaired by an independent chair • has at least three members	Complies
8.3	The company should clearly distinguish the structure of non-executive directors' remuneration from that of executive directors and senior executives.	Complies
8.4	Companies should provide the information indicated in the Guide to reporting on Principle 8.	Complies

Principle 1
Lay solid foundations for management and oversight

Recommendation 1.1 - Compliant

The Board is governed by the Corporations Act 2001, ASX Listing Rules and a formal constitution adopted in 2005.

The primary role of the Board of directors is the protection and enhancement of long-term shareholder value. To fulfil this role, the Board is responsible for the overall corporate governance of the consolidated entity including formulating its strategic direction, approving and monitoring capital expenditure, setting remuneration, appointing, removing and creating succession policies for directors and senior executives, establishing and monitoring the achievement of management's goals and ensuring the integrity of internal control and management information systems. It is also responsible for monitoring financial and other reporting.

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The Board has established a framework for the management of the consolidated entity including a system of internal control, a business risk management process and the establishment of appropriate ethical standards.

The company is engaged in the oil and gas exploration and production business. The critical skills required by the Board in pursuing the company's business plan continue to be expert geological, engineering and exploration and evaluation project management skills together with strong fiscal management skills. In addition, each director is charged with having a thorough understanding of and responsibility for the protection of the rights of the company and its shareholders.

The directors meet frequently, both formally and informally, to ensure a mutually thorough understanding of the company's business and all the company's policies of corporate governance are adhered to. The agenda for meetings is prepared in conjunction with the chairman, managing director and company secretary and is circulated in advance.

Recommendation 1.2 – Compliant

The Board takes overall responsibility for reviewing the performance and compensation of the managing director and chairman while he acts in an executive role. The managing director is responsible for the review of the company's executives/officers with the Board approving compensation having received recommendations from the managing director. The company's objective is to attract and retain highly qualified and experienced personnel and reward performance appropriately.

The company formally evaluates each member of the group each year. The Board evaluates its performance as well as the performances of individual directors. The managing director was evaluated by the chairman of the Board. The managing director's performance is also subject to continuous review through ongoing discussions with the chairman. The performance of executives is evaluated by the managing director. There is currently no formal policy in place to evaluate the performance of senior executives, however, the company believes the informal processes adopted are effective and efficient at the current time.

Recommendation 1.3 – Compliant

The policies and procedures of the company can be found at www.elkpet.com.

Principle 2
Structure the Board to add value

Recommendation 2.1 – Not Compliant as at 30 June 2013, compliant from 13 September 2013

During the year, two of the four directors were independent, due to the request of the company for Dr Taylor to relocate to US as an executive in the short-run. From 13 September 2013, three of the five directors are independent.

Recommendation 2.2 – Not Compliant

At the request of the company, Dr Taylor acts as the chair of the company and is not considered an independent director due to his short-term position as executive director.

Recommendation 2.3 – Compliant

The company adheres to the recommendation that there should be a clear division of responsibility at the head of the company.

Recommendation 2.4 – Not Compliant

During the year ended 30 June 2013, the company did not have a separate nomination committee. The duties and responsibilities typically delegated to such a committee are considered to be the responsibility of the full Board, given the size and nature of the company's activities. In the commentary for the recommendation the Corporate Governance Council notes that for smaller boards, the same efficiencies may not be derived from a formal committee structure. The Board does not believe that any marked efficiencies or enhancements would be achieved by the enhancements would be achieved by the creation of a separate nomination committee.

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Recommendation 2.5 – Compliant

From time to time, the company evaluates the performance of the Board, its committees and individual directors. There are currently no formal policies in place for these evaluations. The company believes the informal processes adopted are effective and efficient at the current time.

Recommendation 2.6 – Compliant

The policies and procedures of the company can be found at www.elkpet.com.

Principle 3
Promote ethical and responsible decision making

Recommendation 3.1 – Compliant

The company has a code of conduct that applies to Directors, executives and all staff. The key principles covered are:

- performance
- simplicity
- leadership
- commercial focus
- integrity

Additional areas covered are:

- gifts
- offering payments
- conflict of interest

The company adheres to many of the recommendations in Box 3.1 Suggestions for content of a code of conduct.

Recommendation 3.2 – Compliant

The company has a workforce comprising individuals with diverse skills, values, background and experiences. The company values this diversity and recognises the organisational strength and opportunities that is brings. The company is committed to providing an environment in which all employees are treated with fairness and respect and have equal access to opportunities at work. A formal policy regarding diversity was approved by the Directors on 9 February 2012. The policy and procedures of the company can be found at www.elkpet.com.

Recommendation 3.3 – Compliant

As at 30 June 2013, the company had the following number of women employed in:

Description	Number of women	Total employees	Proportion of women
Whole organisation	1	7	14%
Management positions	-	4	-
Board members	-	5	-

Recommendation 3.4 – Compliant

The company does not presently have set targets for the representation of women employees in senior executive positions and the Board. However, the company will seek to promote and increase diversity within the organisation as positions and appropriately skilled candidates are available.

Recommendation 3.5 – Compliant

The policies and procedures of the company can be found at www.elkpet.com.

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Principle 4
Safeguard integrity in financial reporting

Recommendation 4.1 – Compliant

The Board approved the establishment of an audit committee on 30 July 2010. The purpose of the audit committee is to provide assistance to the Board in fulfilling its corporate governance and oversight responsibilities in relation to the company's financial reporting, internal control structure and external audit functions. The Corporate Governance Council notes the existence of an independent audit committee is recognised internationally as an important feature of good corporate governance.

Recommendation 4.2 –Partially Compliant

The audit committee membership comprised 2 non-executive independent directors and one executive director, Dr Taylor, who has been asked by the Board to fill an executive role in the US in the short-run.

Structure of the audit committee:

- only non-executive directors – **non compliant**
- a majority of independent directors – **compliant**
- is chaired by an independent chair, who is not chairperson of the Board - **compliant**
- has at least three members –**compliant**

Recommendation 4.3 – Compliant

The Board adopted the Audit Committee Charter on 26 August 2010. The charter covers:

- aims of the charter
- principles of the charter
  - charter review
  - membership
  - meetings
  - access to information and independent advice
  - responsibilities/functions
  - auditors
  - performance

Recommendation 4.4 – Compliant

The policies and procedures of the company can be found at www.elkpet.com.

Principle 5
Make timely and balanced disclosure

Recommendation 5.1 – Compliant

The company is required to immediately tell the ASX once it becomes aware of any information concerning it that a reasonable person would expect to have a material effect on the price or value of the entity's securities. The company has a range of policies and procedures designed to enhance communication and clarify each individual's responsibility in relation to the requirements of both the Corporations Act 2001 and the Listing Rules of the Australian Securities Exchange.

The managing director is responsible for coordinating the disclosure requirements. To ensure appropriate procedure all directors, officers and employees of the company coordinate disclosures through the Company secretary and/or the managing director.

Any information not disclosed via ASX announcement that might be considered share price sensitive will not be discussed with any external parties other than on a confidential basis in order to conduct the business of the company. Discussions with external parties will only occur following an ASX announcement. All written materials

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containing new price sensitive information to be used in briefing media, investors and analysts will be notified to the ASX prior to the commencement of that briefing.

The company adheres to many of the recommendations in Box 5.1 Continuous disclosure policies.

Recommendation 5.2 – Compliant

The policies and procedures of the company can be found at www.elkpet.com.

Principle 6
Respect the rights of shareholders

Recommendation 6.1 – Compliant

The company understands the importance of timely and effective communication to shareholders and has implemented the ability to subscribe to the Annual Report and announcements via the website over the past year.

Information is communicated to shareholders as follows:

- the annual report is distributed to all shareholders who have elected to receive it, including relevant information about the operations of the consolidated entity during the year, changes in the state of affairs and details of future developments.
- the full yearly report contains summarised financial information and a review of the operations of the consolidated entity during the period. The full year reviewed financial report is lodged with the Australian Securities and Investment Commission and the ASX, and sent to any shareholder who requests it.
- announcements are emailed to shareholders that have subscribed via the website.
- all announcements made to the market, and related information is placed on the company's website after they are released to the ASX.
- the full texts of notices of meetings and associated explanatory material are placed on the company's website.

The company adheres to all of the recommendations in Box 6.1 Using electronic communication effectively apart from webcasting/teleconferencing.

Recommendation 6.2 – Compliant

The policies and procedures of the company can be found at www.elkpet.com.

Principle 7
Recognise and manage risk

Recommendation 7.1 – Compliant

The Board is responsible for reviewing the company's policies on risk oversight and management and satisfying itself that management has developed and implemented a sound system of risk management and internal control. The Board takes a proactive approach to risk management. The Board is responsible for oversight and management of the material business risks and the processes whereby the risks, and also opportunities, are identified on a timely basis and that the consolidated entity's objectives and activities are aligned with the risks and opportunities identified by the Board. This oversight encompasses operational, environmental, sustainability, compliance, strategic, ethical conduct, reputation, technological, human resources, financial reporting and market-related risks.

The company believes that it is crucial for all Board members to be a part of the process, and as such the Board has not established a separate risk management committee. The day to day management of risk has been delegated by the Board to the managing director/Chief Executive Officer. The company has not disclosed its policies for risk management.

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Recommendation 7.2 – Compliant

The company is committed to the identification, monitoring and management of material business risks associated with its business activities and has adopted and continually reviews its risk management controls. The controls adopted by the company include:

- standing items for Board meetings
  - operations updates including occupational health and safety
  - finance updates including monthly accounts, monthly cashflow forecasting, annual budgets with monthly review of performance, audit related matters
  - compliance with ASX/ASIC/ATO and legal requirements
  - corporate matters including capital requirements, share price and volume details, ASX announcements and dealing in shares
- strategic and business planning
- limits for approval of capital expenditure
- limits on authorities for the execution of contracts and legal documents
- insurance program to address insurable risk
- due diligence procedures for acquisitions, divestments and financing

Recommendation 7.3 – Compliant

The Corporate Governance Council notes that the integrity of the company's financial reporting depends upon the existence of a sound system of risk oversight and management and internal control. The requirement to provide this assurance encourages management accountability in this area. The managing director has provided an assurance that the written declaration in accordance with section 295A of the Corporations Act is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks.

Recommendation 7.4 – Compliant

The policies and procedures of the company can be found at www.elkpet.com.

Principle 8
Remunerate fairly and responsibly

Recommendation 8.1 –Compliant

During the year, the company established a remuneration committee. The purpose of the committee is to provide assistance to the Board in fulfilling its corporate governance and oversight responsibilities in relation to the company's remuneration functions including;

- the remuneration framework for non-executive directors;
- the remuneration and incentive framework, including any proposed equity incentive awards for the managing director or Chief Executive Officer (CEO), any other executive directors, and executives/officers and staff;
- recommendations and decisions (as relevant) on remuneration and all incentive awards for the company personnel; and
- strategic human resources policies.

Recommendation 8.2 – Compliant

The remuneration committee consists of two non-executive directors and one executive director with an independent chair.

Recommendation 8.3 – Compliant

The company complies with the guidelines for executive remuneration packages and non-executive director remuneration.

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Recommendation 8.4 – Compliant

The policies and procedures of the company can be found at www.elkpet.com.

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General information

The financial report covers Elk Petroleum Ltd as a consolidated entity consisting of Elk Petroleum Ltd and the entities it controlled. The financial report is presented in Australian dollars, which is Elk Petroleum Ltd's functional and presentation currency.

The financial report consists of the financial statements, notes to the financial statements and the directors' declaration.

Elk Petroleum Ltd is a listed public company limited by shares, incorporated and domiciled in Australia. Its registered office and principal place of business is:

Suite 4 Level 9
341 George Street
Sydney NSW 2000

A description of the nature of the consolidated entity's operations and its principal activities are included in the directors' report, which is not part of the financial report.

The financial report was authorised for issue, in accordance with a resolution of directors, on 30 September 2013.

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Elk Petroleum Ltd
Statement of profit or loss and other comprehensive income
For the year ended 30 June 2013

	Note	Consolidated 2013 $	2012 $
Revenue	4	398,952	386,412
Expenses			
Cost of sales		(1,386,940)	(781,516)
Professional and corporate services	5	(662,770)	(543,418)
Administrative expenses	5	(593,238)	(489,098)
Directors and employees costs	5	(2,132,502)	(1,526,168)
Other expenses	5	(1,178,058)	(949,967)
Finance costs	5	(41,107)	(9,107)
Loss before income tax expense		(5,595,663)	(3,912,862)
Income tax expense	6	-	-
Loss after income tax expense for the year attributable to the owners of Elk Petroleum Ltd	23	(5,595,663)	(3,912,862)
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss			
Foreign currency translation		759,264	385,961
Other comprehensive income for the year, net of tax		759,264	385,961
Total comprehensive income for the year attributable to the owners of Elk Petroleum Ltd		(4,836,399)	(3,526,901)
		Cents	**Cents**
Basic earnings per share	36	(3.51)	(2.87)
Diluted earnings per share	36	(3.51)	(2.87)

The above statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes

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Elk Petroleum Ltd
Statement of financial position
As at 30 June 2013

	Note	Consolidated 2013 $	2012 $
Assets			
Current assets			
Cash and cash equivalents	7	1,085,813	2,579,061
Trade and other receivables	8	137,861	273,568
Inventories	9	44,275	26,132
Other	10	437,972	-
Total current assets		1,705,921	2,878,761
Non-current assets			
Investments	11	138,016	-
Property, plant and equipment	12	156,013	189,177
Oil and gas properties - Grieve project	13	8,325,933	2,497,220
Oil and gas properties - Ash Creek project	14	5,705,148	5,086,838
Other	15	433,976	404,912
Total non-current assets		14,759,086	8,178,147
Total assets		16,465,007	11,056,908
Liabilities			
Current liabilities			
Trade and other payables	16	603,920	984,070
Borrowings	17	1,108,660	15,908
Total current liabilities		1,712,580	999,978
Non-current liabilities			
Borrowings - Denbury JV	18	4,185,188	-
Borrowings	19	7,804	32,477
Provisions	20	2,732,160	2,082,248
Total non-current liabilities		6,925,152	2,114,725
Total liabilities		8,637,732	3,114,703
Net assets		7,827,275	7,942,205
Equity			
Issued capital	21	34,247,253	29,591,349
Reserves	22	620,525	(204,304)
Accumulated losses	23	(27,040,503)	(21,444,840)
Total equity		7,827,275	7,942,205

The above statement of financial position should be read in conjunction with the accompanying notes

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Elk Petroleum Ltd
Statement of changes in equity
For the year ended 30 June 2013

Consolidated	**Contributed equity $**	**Foreign Currency Translation reserve $**	**Option reserve $**	**Accumulated losses $**	**Total equity $**
Balance at 1 July 2011	23,544,828	(2,216,253)	1,468,008	(17,531,978)	5,264,605
Loss after income tax expense for the year		-	-	(3,912,862)	(3,912,862)
Other comprehensive income for the year, net of tax	-	385,961	-	-	385,961
Total comprehensive income for the year	-	385,961	-	(3,912,862)	(3,526,901)
Transactions with owners in their capacity as owners:					
Contributions of equity, net of transaction costs (note 21)	6,046,521	-	-	-	6,046,521
Share-based payments (note 37)		-	157,980	-	157,980
Balance at 30 June 2012	29,591,349	(1,830,292)	1,625,988	(21,444,840)	7,942,205

Consolidated	**Contributed equity $**	**Foreign Currency Translation reserve $**	**Option reserve $**	**Accumulated losses $**	**Total equity $**
Balance at 1 July 2012	29,591,349	(1,830,292)	1,625,988	(21,444,840)	7,942,205
Loss after income tax expense for the year	-	-	-	(5,595,663)	(5,595,663)
Other comprehensive income for the year, net of tax	-	759,264	-	-	759,264
Total comprehensive income for the year	-	759,264	-	(5,595,663)	(4,836,399)
Transactions with owners in their capacity as owners:					
Contributions of equity, net of transaction costs (note 21)	4,655,904	-	-	-	4,655,904
Share-based payments (note 37)	-	-	65,565	-	65,565
Balance at 30 June 2013	34,247,253	(1,071,028)	1,691,553	(27,040,503)	7,827,275

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

Elk Petroleum Ltd
Statement of cash flows
For the year ended 30 June 2013

	Note	Consolidated 2013 $	Consolidated 2012 $
Cash flows from operating activities			
Receipts from customers		314,087	266,950
Payments to suppliers		(4,431,116)	(2,857,452)
Interest received		22,230	27,824
Finance costs		(41,107)	(9,107)
Management fees and other receipts		51,913	30,047
Net cash used in operating activities	35	(4,083,993)	(2,541,738)
Cash flows from investing activities			
Acquisition of plant and equipment		(37,245)	(234,037)
Acquisition of leases		(40,141)	(25,509)
Exploration and development expenditure		(2,638,461)	(2,815,600)
Acquisition of investments		(73,803)	(49,127)
Payment for security deposit for bank loan		(391,734)	-
Proceeds from release of security deposits		15,541	-
Net cash used in investing activities		(3,165,843)	(3,124,273)
Cash flows from financing activities			
Proceeds from issue of shares	21	5,003,400	6,090,200
Share issue transaction costs		(347,496)	(43,679)
Proceeds from borrowings		1,094,930	35,470
Repayment of borrowings		(28,875)	(56,020)
Net cash from financing activities		5,721,959	6,025,971
Net increase/(decrease) in cash and cash equivalents		(1,527,877)	359,960
Cash and cash equivalents at the beginning of the financial year		2,579,061	2,173,712
Effects of exchange rate changes on cash		34,629	45,389
Cash and cash equivalents at the end of the financial year	7	1,085,813	2,579,061

The above statement of cash flows should be read in conjunction with the accompanying notes

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Note 1. Significant accounting policies

The principal accounting policies adopted in the preparation of the financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

New, revised or amending Accounting Standards and Interpretations adopted
The consolidated entity has adopted all of the new, revised or amending Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') that are mandatory for the current reporting period.

Any new, revised or amending Accounting Standards or Interpretations that are not yet mandatory have not been early adopted.

Any significant impact on the accounting policies of the consolidated entity from the adoption of these Accounting Standards and Interpretations are disclosed below. The adoption of these Accounting Standards and Interpretations did not have any significant impact on the financial performance or position of the consolidated entity.

The following Accounting Standards and Interpretations are most relevant to the consolidated entity:

AASB 2011-9 Amendments to Australian Accounting Standards - Presentation of Items of Other Comprehensive Income
The consolidated entity has applied AASB 2011-9 amendments from 1 July 2012. The amendments requires grouping together of items within other comprehensive income on the basis of whether they will eventually be 'recycled' to the profit or loss (reclassification adjustments). The change provides clarity about the nature of items presented as other comprehensive income and the related tax presentation. The amendments also introduced the term 'Statement of profit or loss and other comprehensive income' clarifying that there are two discrete sections, the profit or loss section (or separate statement of profit or loss) and other comprehensive income section.

AASB 2012-5 Amendments to Australian Accounting Standards arising from Annual Improvements 2009-2011 Cycle
The consolidated entity has applied AASB 2012-5 from 1 January 2013. The amendments affect five Australian Accounting Standards as follows: Confirmation that repeat application of AASB 1 (IFRS 1) 'First-time Adoption of Australian Accounting Standards' is permitted; Clarification of borrowing cost exemption in AASB 1; Clarification of the comparative information requirements when an entity provides an optional third column or is required to present a third statement of financial position in accordance with AASB 101 'Presentation of Financial Statements'; Clarification that servicing of equipment is covered by AASB 116 'Property, Plant and Equipment', if such equipment is used for more than one period; clarification that the tax effect of distributions to holders of equity instruments and equity transaction costs in AASB 132 'Financial Instruments: Presentation' should be accounted for in accordance with AASB 112 ‘Income Taxes’; and clarification of the financial reporting requirements in AASB 134 Interim Financial Reporting' and the disclosure requirements of segment assets and liabilities.

AASB 2012-9 Amendment to AASB 1048 arising from the Withdrawal of Australian Interpretation 1039
The consolidated entity has applied AASB 2011-9 amendments from 1 January 2013. The amendments remove reference in AASB 1048 following the withdrawal of Interpretation 1039 'Substantive Enactment of Major Tax Bills in Australia'.

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Note 1. Significant accounting policies (continued)

Going concern
The consolidated entity incurred a loss for the year after tax of $5,595,663 (2012: $3,912,862) and a net cash out flow from operating activities of $4,083,993 (2012: $2,541,738). The financial report has been prepared on the basis of a going concern, notwithstanding the fact that despite the company's strong asset position and existing funding arrangements with Denbury for the development of the Grieve project, there exists material future timing and other uncertainties, which may cast significant doubt on the company's ability to continue as a going concern if additional funds cannot be sourced in the next twelve months.

The company does not expect to have a significant revenue stream until after the first material oil responses at the Grieve project (as reflected in Ryder Scott's US$95 million valuation* of Elk's 35% interest in the Grieve project and whose report indicates material cash flows, which should commence in or beyond 2015) and the Ash Creek project and must rely on raising money by one or more of the sale of assets (such as the Grieve oil pipeline sale, which is being pursued), farm-out or sale of interests in the Ash Creek project, increasing Elk's existing line of credit with its current or alternative bank (especially since Elk's Grieve reserves have been reclassified to a 2P level), as well as accessing new equity funds though capital markets.

Management has a successful record of buying and selling assets as well as long history of successfully raising required funding to support project development and overheads. Despite the company's strong asset position, there is uncertainty that adequate funds will be available when needed in the period until the company's Grieve and Ash Creek projects are generating material cash flow. Notwithstanding, management believe that there is significant value of assets in excess of carrying value which would deliver cash above present cash needs if required. In this regard the financial report has been prepared on the basis of a going concern, as the directors believe that adequate funding will be raised to enable the consolidated entity to pay its debts as and when they become due for a period of twelve months from the date of approving this report.

While the consolidated entity has limited financial resources in the period until it has material cash flow from projects, which are under development, it will need to raise money from time to time in pursuit of its objectives to grow value of the company. Any such fund raisings may be subject to factors beyond the control of the consolidated entity and its directors. When the consolidated entity requires further funding for its programs, then it is the consolidated entity 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, share market conditions, capital raising opportunities, availability of debt funding and the interest of investors in co-participation in the consolidated entity's programs and projects.

It is the consolidated entity's plan that any required capital will be raised by any one or a combination of the following: farmout, sale of assets (such as the Grieve crude export pipeline), secured and/or unsecured loan, placement of shares to excluded offerees, pro-rata issue to shareholders, and/or a further issue of shares to the public.

Should the consolidated entity be unable to meet its short term funding requirements at the times required, it may be necessary to realise some or all assets and discharge its liabilities in the normal course of business at amounts different to those stated in the financial statements. The financial statements do not include any adjustment relating to the recoverability and classification of asset carrying amounts or the amount of liabilities that might result should the company be unable to continue as a going concern and meet its debts as and when they fall due.

* Ryder Scott value is quoted as the net present value of the Elk's 35% working interest in the project's future cash flows at a discount rate of 10% on an after costs (including production taxes) basis but before income tax and financing, and is unrisked.

Basis of preparation
These general purpose financial statements have been prepared in accordance with Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') and the Corporations Act 2001, as appropriate for for-profit oriented entities. These financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board ('IASB').

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Note 1. Significant accounting policies (continued)

Historical cost convention
The financial statements have been prepared under the historical cost convention, except for, where applicable, the revaluation of available-for-sale financial assets, financial assets and liabilities at fair value through profit or loss, investment properties, certain classes of property, plant and equipment and derivative financial instruments.

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

Parent entity information
In accordance with the Corporations Act 2001, these financial statements present the results of the consolidated entity only. Supplementary information about the parent entity is disclosed in note 31.

Principles of consolidation
The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Elk Petroleum Ltd ('company' or 'parent entity') as at 30 June 2013 and the results of all subsidiaries for the year then ended. Elk Petroleum Ltd and its subsidiaries together are referred to in these financial statements as the 'consolidated entity'.

Subsidiaries are all those entities over which the consolidated entity has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one-half of the voting rights. The effects of potential exercisable voting rights are considered when assessing whether control exists. Subsidiaries are fully consolidated from the date on which control is transferred to the consolidated entity. They are de-consolidated from the date that control ceases.

Intercompany transactions, balances and unrealised gains on transactions between entities in the consolidated entity are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the consolidated entity.

The acquisition of subsidiaries is accounted for using the acquisition method of accounting. Refer to the 'business combinations' accounting policy for further details. A change in ownership interest, without the loss of control, is accounted for as an equity transaction, where the difference between the consideration transferred and the book value of the share of the non-controlling interest acquired is recognised directly in equity attributable to the parent.

Where the consolidated entity loses control over a subsidiary, it derecognises the assets including goodwill, liabilities and non-controlling interest in the subsidiary together with any cumulative translation differences recognised in equity. The consolidated entity recognises the fair value of the consideration received and the fair value of any investment retained together with any gain or loss in profit or loss.

Operating segments
A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different to those of other business segments. The consolidated entity presents segment information using a 'management approach', i.e. segment information is provided on the same basis as information used for internal reporting purposes by the chief executive and the Board. In identifying its operating segments, management generally follows the consolidated entity's project activities. Each of these activities is managed separately.

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Note 1. Significant accounting policies (continued)

Foreign currency translation
The financial report is presented in Australian dollars, which is Elk Petroleum Ltd's functional and presentation currency.

Foreign currency transactions
Foreign currency transactions are translated into Australian dollars using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at financial year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

Foreign operations
The assets and liabilities of foreign operations are translated into Australian dollars using the exchange rates at the reporting date. The revenues and expenses of foreign operations are translated into Australian dollars using the average exchange rates, which approximate the rate at the date of the transaction, for the period. All resulting foreign exchange differences are recognised in other comprehensive income through the foreign currency reserve in equity.

The foreign currency reserve is recognised in profit or loss when the foreign operation or net investment is disposed of.

Revenue recognition
Revenue is recognised when it is probable that the economic benefit will flow to the consolidated entity and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable.

Sale of oil and gas
Revenue is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer and can be measured reliably. Risks and rewards are considered passed to the buyer at the time of delivery of the goods to the customer.

Interest
Interest revenue is recognised as interest accrues using the effective interest method. This is a method of calculating the amortised cost of a financial asset and allocating the interest income over the relevant period using the effective interest rate, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset.

Other revenue
Other revenue is recognised when it is received or when the right to receive payment is established.

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Note 1. Significant accounting policies (continued)

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

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to apply when the assets are recovered or liabilities are settled, based on those tax rates that are enacted or substantively enacted, except for:

- When the deferred income tax asset or liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and that, at the time of the transaction, affects neither the accounting nor taxable profits; or
- When the taxable temporary difference is associated with investments in subsidiaries, associates or interests in joint ventures, and the timing of the reversal can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

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

The carrying amount of recognised and unrecognised deferred tax assets are reviewed each reporting date. Deferred tax assets recognised are reduced to the extent that it is no longer probable that future taxable profits will be available for the carrying amount to be recovered. Previously unrecognised deferred tax assets are recognised to the extent that it is probable that there are future taxable profits available to recover the asset.

Deferred tax assets and liabilities are offset only where there is a legally enforceable right to offset current tax assets against current tax liabilities and deferred tax assets against deferred tax liabilities; and they relate to the same taxable authority on either the same taxable entity or different taxable entity's which intend to settle simultaneously.

Financial instruments and other financial assets
Financial assets are recognised at fair value through profit and loss. Assets in this category are classified as current assets if they are held for trading or are expected to be realised within 12 months of the balance sheet date.

Cash and cash equivalents
Cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Trade and other receivables
Trade receivables, which generally have 30 - 90 day terms, are recognised and carried at original invoice amount less an allowance for any uncollectible amounts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off when identified.

Other receivables are recognised at amortised cost, less any provision for impairment.

Inventories
Inventory comprises oil in tanks as well as drilling equipment and supplies, and is valued at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

Joint ventures
A joint venture is a contractual arrangement whereby two or more parties undertake an economic activity that is subject to joint control. Investments in joint ventures are accounted for using the equity method. Under the equity method, the share of the profits or losses of the joint venture is recognised in profit or loss and the share of the movements in equity is recognised in other comprehensive income. Income earned from joint venture entities is recognised as revenue in the parent entity's profit or loss, whilst in the consolidated financial statements they reduce the carrying amount of the investment.

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Note 1. Significant accounting policies (continued)

Property, plant and equipment

Costs and valuation

All items of property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment. The carrying values are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. Where carrying values exceed their recoverable amount, assets are written down to their recoverable amount.

Depreciation/Amortisation

Property, plant and equipment, excluding land, are depreciated at rates based on the expected useful economic life of each item, using the straight line method. Oil field plant is amortised using the lesser of its useful life or the life of the field based on the straight-line or unit of production method respectively. Buildings and equipment, which includes vehicles and furniture, are depreciated on the straight-line basis at rates, which will reduce their book values to estimated residual values over their expected useful lives. Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset or the lease term. The major depreciation rates for all periods presented are:

- Plant and equipment, including assets held under lease 4-10 years

The residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each reporting date.

An item of property, plant and equipment is derecognised upon disposal or when there is no future economic benefit to the consolidated entity. Gains and losses between the carrying amount and the disposal proceeds are taken to profit or loss. Any revaluation surplus reserve relating to the item disposed of is transferred directly to retained profits.

Development expenditure

Well development expenditure represents the costs incurred in preparing wells for production and costs reclassified from exploration and evaluation. These costs are capitalised to the extent they are expected to be recouped through successful exploitation of the related field. Once production commences, these costs are amortised using the units-of-production method based on the estimated economically recoverable reserves to which they relate or are written off if the field is abandoned.

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Note 1. Significant accounting policies (continued)

Exploration and evaluation expenditure
Expenditure on exploration and evaluation is accounted for in accordance with the 'area of interest' method. Exploration and evaluation expenditure and exploration licence acquisition costs are capitalised and subject to half yearly impairment testing and all exploration and evaluation costs including general permit activity, geological and geophysical costs and new venture activity costs, are capitalised provided the rights to tenure of the area of interest is current and either:

- the exploration and evaluation activities are expected to be recouped through successful development and exploitation of the area of interest or, alternatively, by its sale; or
- exploration and evaluation 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 relating to, the area of interest are continuing.

The costs of drilling exploration wells are initially capitalised as exploration and evaluation expenditure pending the results of the well. Costs are expensed where the well does not result in the successful discovery of economically recoverable hydrocarbons. Areas of interest may be recognised at either the field or the well level, depending on the nature of the project.

When the technical feasibility and commercial viability of extracting a mineral resource has been demonstrated then any capitalised exploration and evaluation expenditure is reclassified as capitalised oil field development expenditure. Prior to reclassification, capitalised exploration and evaluation expenditure is assessed for impairment.

The recoverability of the carrying amount of the exploration and evaluation assets is dependent on successful development and commercial exploitation, or alternatively, sale of the respective areas of interest.

Impairment
The carrying value of capitalised exploration and evaluation expenditure is assessed for impairment at an "area of interest" level whenever facts and circumstances suggest that the carrying amount of the asset may exceed its recoverable amount.

The recoverable amount of capitalised exploration and evaluation expenditure is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, recoverable amount is determined for the cash-generating unit to which the asset belongs, unless the asset's value in use can be estimated to be close to its fair value.

An impairment exists when the carrying amount of an asset or cash-generating unit exceeds its estimated recoverable amount. The asset or cash-generating unit is then written down to its recoverable amount. Any impairment losses are recognised in the income statement.

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Note 1. Significant accounting policies (continued)

Leases
The determination of whether an arrangement is or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

A distinction is made between finance leases, which effectively transfer from the lessor to the lessee substantially all the risks and benefits incidental to ownership of leased assets, and operating leases, under which the lessor effectively retains substantially all such risks and benefits.

Finance leases are capitalised. A lease asset and liability are established at the fair value of the leased assets, or if lower, the present value of minimum lease payments. Lease payments are allocated between the principal component of the lease liability and the finance costs, so as to achieve a constant rate of interest on the remaining balance of the liability.

Leased assets acquired under a finance lease are depreciated over the asset's useful life or over the shorter of the asset's useful life and the lease term if there is no reasonable certainty that the consolidated entity will obtain ownership at the end of the lease term.

Operating lease payments, net of any incentives received from the lessor, are charged to profit or loss on a straight-line basis over the term of the lease.

Oil and gas properties
Oil and gas properties include construction, installation or completion of infrastructure facilities such as pipelines and platforms, capitalised borrowing costs, transferred exploration and evaluation costs, and the cost of development wells. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the consolidated entity and the cost of the item can be measured reliably. All other costs are charged to the income statement during the financial period in which they are incurred.

Depreciation
Oil and gas properties and plant and equipment, other than freehold land, are depreciated to their residual values on a unit of production basis. The remaining assets use the diminishing value approach. Oil and gas properties - plant and equipment are amortised on a unit of production basis.

Impairment
The carrying values of oil and gas property, plant and equipment are reviewed for impairment at each reporting date, with the recoverable amount being estimated when events or changes in circumstances indicate the carrying value may be impaired. The recoverable amount of oil and gas properties and plant and equipment is the greater of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs, unless the asset's value in use can be estimated to be close to its fair value.

An impairment exists when the carrying value of an asset or cash-generating unit exceeds its estimated recoverable amount. The asset or cash-generating unit is then written down to its recoverable amount. For plant and equipment, impairment losses are recognised in the income statement.

Trade and other payables
These amounts represent liabilities for goods and services provided to the consolidated entity prior to the end of the financial year and which are unpaid. Due to their short-term nature they are measured at amortised cost and are not discounted. The amounts are unsecured and are usually paid within 30 days of recognition.

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Note 1. Significant accounting policies (continued)

Borrowings
Loans and borrowings are initially recognised at the fair value of the consideration received, net of transaction costs. They are subsequently measured at amortised cost using the effective interest method.

Where there is an unconditional right to defer settlement of the liability for at least 12 months after the reporting date, the loans or borrowings are classified as non-current.

Environmental rehabilitation expenditure
The provision for rehabilitation represents the cost of restoring site damage following initial disturbance. Increases in the provision are charged to oil field assets and amortised over the life of the field using the units of production method on estimated proven and probable reserves. Expenditure on ongoing rehabilitation costs is brought to account when incurred.

Gross rehabilitation costs are estimated at the present value of the expenditures expected to settle the obligation, using estimated cash flows based on current prices. The estimates are discounted at a pre-tax rate that reflects current market assessments of the time value of money and where appropriate the risk specific to the liability.

Finance costs
Finance costs attributable to qualifying assets are capitalised as part of the asset. All other finance costs are expensed in the period in which they are incurred, including:
- interest on short-term and long-term borrowings
- interest on finance leases

Provisions
Provisions are recognised when the consolidated entity has a present (legal or constructive) obligation as a result of a past event, it is probable the consolidated entity will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the reporting date, taking into account the risks and uncertainties surrounding the obligation. If the time value of money is material, provisions are discounted using a current pre-tax rate specific to the liability. The increase in the provision resulting from the passage of time is recognised as a finance cost.

Employee benefits

Wages and salaries
Provision is made for the consolidated entity's liability for employee benefits arising from services rendered by employees to balance date. Employee benefits that are expected to be settled within one year have been measured at the amounts expected to be paid when the liability is settled, plus related on-costs.

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Note 1. Significant accounting policies (continued)

Share-based payments
The consolidated entity operates share options and rights schemes. The total amount to be expensed over the vesting period is determined by reference to the fair value of the shares of the options or rights granted. The consolidated entity provides benefits to directors and employees of the consolidated entity in the form of equity, whereby directors and employees render services in exchange for options to acquire shares or rights over shares.

The fair value of options and rights granted to employees is recognised as an employee expense with a corresponding increase in equity. The fair value is measured at grant date and spread over the period during which the employees become unconditionally entitled to the options. The fair value of the options and rights granted is measured using an appropriate model, taking into account the terms and conditions upon which the options and rights were granted. The amount recognised as an expense is adjusted to reflect the actual number of share options and rights that vest except where forfeiture is only due to share prices not achieving the threshold for vesting.

The cumulative expense recognised for equity-settled transactions at each reporting date until vesting date reflects (i) the extent to which the vesting period has expired and (ii) for non-market based hurdles the consolidated entity's best estimate of the number of equity instruments that will ultimately vest. No adjustment is made for changes in the likelihood of market performance conditions being met as the effect of these conditions is included in the determination of the fair value at grant date. The income statement charge or credit for a period represents the movement in cumulative expense recognised as at the beginning and end of that period. The dilutive effect if any, ofoutstanding securities is reflected as additional share dilution in the computation of earnings per share.

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

If the terms of an equity-settled award are modified, as a minimum, an expense is recognised as if the terms had notbeen modified. In addition, an expense is recognised for any modification that increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee, as measured at the date of modification.

If an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award and designated as a replacement award on the date that it is granted, the cancelled and new award are treated as if they were a modification of the original award, as described in the previous paragraph.

Issued capital
Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Earnings per share

Basic earnings per share
Basic earnings per share is calculated by dividing the profit attributable to the owners of Elk Petroleum Ltd, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the financial year.

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

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Note 1. Significant accounting policies (continued)

Goods and Services Tax ('GST') and other similar taxes
Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the tax authority. In this case it is recognised as part of the cost of the acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the tax authority is included in other receivables or other payables in the statement of financial position.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to the tax authority, are presented as operating cash flows.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the tax authority.

New Accounting Standards and Interpretations not yet mandatory or early adopted
Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet mandatory, have not been early adopted by the consolidated entity for the annual reporting period ended 30 June 2013. The consolidated entity's assessment of the impact of these new or amended Accounting Standards and Interpretations, most relevant to the consolidated entity, are set out below.

AASB 9 Financial Instruments, 2009-11 Amendments to Australian Accounting Standards arising from AASB 9, 2010-7 Amendments to Australian Accounting Standards arising from AASB 9 and 2012-6 Amendments to Australian Accounting Standards arising from AASB 9
This standard and its consequential amendments are applicable to annual reporting periods beginning on or after 1 January 2015 and completes phase I of the IASB's project to replace IAS 39 (being the international equivalent to AASB 139 'Financial Instruments: Recognition and Measurement'). This standard introduces new classification and measurement models for financial assets, using a single approach to determine whether a financial asset is measured at amortised cost or fair value. The accounting for financial liabilities continues to be classified and measured in accordance with AASB 139, with one exception, being that the portion of a change of fair value relating to the entity’s own credit risk is to be presented in other comprehensive income unless it would create an accounting mismatch. The consolidated entity will adopt this standard from 1 July 2015 but the impact of its adoption is yet to be assessed by the consolidated entity.

AASB 10 Consolidated Financial Statements
This standard is applicable to annual reporting periods beginning on or after 1 January 2013. The standard has a new definition of 'control'. Control exists when the reporting entity is exposed, or has the rights, to variable returns (e.g. dividends, remuneration, returns that are not available to other interest holders including losses) from its involvement with another entity and has the ability to affect those returns through its 'power' over that other entity. A reporting entity has power when it has rights (e.g. voting rights, potential voting rights, rights to appoint key management, decision making rights, kick out rights) that give it the current ability to direct the activities that significantly affect the investee’s returns (e.g. operating policies, capital decisions, appointment of key management). The consolidated entity will not only have to consider its holdings and rights but also the holdings and rights of other shareholders in order to determine whether it has the necessary power for consolidation purposes. The adoption of this standard from 1 July 2013 may have an impact where the consolidated entity has a holding of less than 50% in an entity, has de facto control, and is not currently consolidating that entity.

AASB 11 Joint Arrangements
This standard is applicable to annual reporting periods beginning on or after 1 January 2013. The standard defines which entities qualify as joint ventures and removes the option to account for joint ventures using proportional consolidation. Joint ventures, where the parties to the agreement have the rights to the net assets will use equity accounting. Joint operations, where the parties to the agreements have the rights to the assets and obligations for the liabilities will account for the assets, liabilities, revenues and expenses separately, using proportionate consolidation. The adoption of this standard from 1 July 2013 will not have a material impact on the consolidated entity.

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Note 1. Significant accounting policies (continued)

AASB 12 Disclosure of Interests in Other Entities
This standard is applicable to annual reporting periods beginning on or after 1 January 2013. It contains the entire disclosure requirement associated with other entities, being subsidiaries, associates and joint ventures. The disclosure requirements have been significantly enhanced when compared to the disclosures previously located in AASB 127 'Consolidated and Separate Financial Statements', AASB 128 'Investments in Associates', AASB 131 'Interests in Joint Ventures' and Interpretation 112 'Consolidation - Special Purpose Entities'. The adoption of this standard from 1 July 2013 will significantly increase the amount of disclosures required to be given by the consolidated entity such as significant judgements and assumptions made in determining whether it has a controlling or non-controlling interest in another entity and the type of non-controlling interest and the nature and risks involved.

AASB 13 Fair Value Measurement and AASB 2011-8 Amendments to Australian Accounting Standards arising from AASB 13
This standard and its consequential amendments are applicable to annual reporting periods beginning on or after 1 January 2013. The standard provides a single robust measurement framework, with clear measurement objectives, for measuring fair value using the 'exit price' and it provides guidance on measuring fair value when a market becomes less active. The 'highest and best use' approach would be used to measure assets whereas liabilities would be based on transfer value. As the standard does not introduce any new requirements for the use of fair value, its impact on adoption by the consolidated entity from 1 July 2013 should be minimal, although there will be increased disclosures where fair value is used.

AASB 127 Separate Financial Statements (Revised)
AASB 128 Investments in Associates and Joint Ventures (Reissued)
These standards are applicable to annual reporting periods beginning on or after 1 January 2013. They have been modified to remove specific guidance that is now contained in AASB 10, AASB 11 and AASB 12. The adoption of these revised standards from 1 July 2013 will not have a material impact on the consolidated entity.

AASB 119 Employee Benefits (September 2011) and AASB 2011-10 Amendments to Australian Accounting Standards arising from AASB 119 (September 2011)
This revised standard and its consequential amendments are applicable to annual reporting periods beginning on or after 1 January 2013. The amendments make changes to the accounting for defined benefit plans and the definition of short-term employee benefits, from 'due to' to 'expected to' be settled within 12 months. The later will require annual leave that is not expected to be wholly settled within 12 months to be discounted allowing for expected salary levels in the future period when the leave is expected to be taken. The adoption of the revised standard from 1 July 2013 is expected to reduce the reported annual leave liability of the consolidated entity.

AASB 2011-4 Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirement
These amendments are applicable to annual reporting periods beginning on or after 1 July 2013, with early adoption not permitted. They amend AASB 124 'Related Party Disclosures' by removing the disclosure requirements for individual key management personnel ('KMP'). The adoption of these amendments from 1 July 2014 will remove the duplication of information relating to individual KMP in the notes to the financial statements and the directors report. As the aggregate disclosures are still required by AASB 124 and during the transitional period the requirements may be included in the Corporations Act or other legislation, it is expected that the amendments will not have a material impact on the consolidated entity.

AASB 2012-2 Amendments to Australian Accounting Standards - Disclosures - Offsetting Financial Assets and Financial Liabilities
The amendments are applicable to annual reporting periods beginning on or after 1 January 2013. The disclosure requirements of AASB 7 'Financial Instruments: Disclosures' (and consequential amendments to AASB 132 'Financial Instruments: Presentation') have been enhanced to provide users of financial statements with information about netting arrangements, including rights of set-off related to an entity's financial instruments and the effects of such rights on its statement of financial position. The adoption of the amendments from 1 July 2013 will increase the disclosures by the consolidated entity.

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Note 2. Critical accounting judgements, estimates and assumptions

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts in the financial statements. Management continually evaluates its judgements and estimates in relation to assets, liabilities, contingent liabilities, revenue and expenses. Management bases its judgements, estimates and assumptions on historical experience and on other various factors, including expectations of future events, management believes to be reasonable under the circumstances. The resulting accounting judgements and estimates will seldom equal the related actual results. The judgements, estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities (refer to the respective notes) within the next financial year are discussed below.

Share-based payment transactions
The consolidated entity measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined by using either the Binomial or Black-Scholes model taking into account the terms and conditions upon which the instruments were granted. The accounting estimates and assumptions relating to equity-settled share-based payments would have no impact on the carrying amounts of assets and liabilities within the next annual reporting period but may impact profit or loss and equity.

Environmental provision
A provision has been made for the present value of anticipated costs of the remediation work that will be required to comply with environmental and legal obligations. The provision is estimated based on currently available facts, technology expected to be available at the time of the clean up, laws and regulations presently or virtually certain to be enacted and prior experience in remediation of contaminated sites.

Exploration and evaluation costs
Exploration and evaluation costs have been capitalised on the basis that the consolidated entity will commence commercial production in the future, from which time the costs will be amortised in proportion to the depletion of the mineral resources. Key judgements are applied in considering costs to be capitalised which includes determining expenditures directly related to these activities and allocating overheads between those that are expensed and capitalised. In addition, costs are only capitalised that are expected to be recovered either through successful development or sale of the relevant mining interest. Factors that could impact the future commercial production at the mine include the level of reserves and resources, future technology changes, which could impact the cost of mining, future legal changes and changes in commodity prices. To the extent that capitalised costs are determined not to be recoverable in the future, they will be written off in the period in which this determination is made.

Impairment
The Board has reviewed the carrying values of all its major assets and exercised its judgement in electing to make no impairment to any current carrying value.

Contingent liabilities
The Board has reviewed the state of its Montana lease dispute with the Crow Tribe and exercised its judgement in electing to make no change in the reporting of the state of affairs in regard to this dispute.

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Note 3. Operating segments

Geographical segments
The consolidated entity reportable segments are based on geographical areas:

Australia
The parent company of the consolidated entity is based in Sydney and comprises the corporate head office function.

United States of America
The subsidiaries of the consolidated entity are based in Casper, Wyoming and comprises administration, production, exploration, evaluation and development of oil and gas fields and ownership of pipelines.The company and its subsidiaries recently opened a small office in Denver, Colorado, where the CEO of the company and President of the Subsidiaries is based. All operations continue to be managed out of Casper.

Operating segment information

Consolidated - 2013	United States $	Australia $	Intersegment eliminations/ unallocated $	Total $
Revenue				
Sales to external customers	366,624	-	-	366,624
Total sales revenue	366,624	-	-	366,624
Interest income	2,898	19,331	-	22,229
Other revenue	10,099	-	-	10,099
Total revenue	379,621	19,331	-	398,952
Total revenue above	379,621	19,331	-	398,952
Depreciation and amortisation	(1,112,766)	-	-	(1,112,766)
Equity based remuneration	-	(65,565)	-	(65,565)
Other expenses	(4,144,143)	(672,141)	-	(4,816,284)
Loss before income tax expense	(4,877,288)	(718,375)	-	(5,595,663)
Income tax expense				-
Loss after income tax expense				(5,595,663)
Assets				
Segment assets	15,928,631	536,376	-	16,465,007
Intersegment eliminations				
Total assets				16,465,007
Liabilities				
Segment liabilities	8,618,934	18,798	-	8,637,732
Total liabilities				8,637,732

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Note 3. Operating segments (continued)

Consolidated - 2012	United States $	Australia $	Intersegment eliminations/ unallocated $	Total $
Revenue				
Sales to external customers	321,878	-	-	321,878
Total sales revenue	321,878	-	-	321,878
Other revenue	43,853	20,681	-	64,534
Total revenue	365,731	20,681	-	386,412
Total revenue above	365,731	20,681	-	386,412
Depreciation and amortisation	(783,606)	(156)	-	(783,762)
Equity based remuneration	-	(157,980)	-	(157,980)
Other expenses	(2,385,429)	(972,103)	-	(3,357,532)
Loss before income tax expense	(2,803,304)	(1,109,558)	-	(3,912,862)
Income tax expense				-
Loss after income tax expense				(3,912,862)
Assets				
Segment assets	10,835,654	221,254	-	11,056,908
Total assets				11,056,908
Liabilities				
Segment liabilities	3,087,647	27,056	-	3,114,703
Total liabilities				3,114,703

Note 4. Revenue

	Consolidated	
	2013 $	**2012 $**
Sales revenue		
Sale of oil	366,623	321,877
Rendering of services	10,099	36,711
	376,722	358,588
Other revenue		
Interest	22,230	27,824
Revenue	398,952	386,412

Ash Creek sold 5,698 barrels for Elk net sales revenue of $366,623 (2012: $321,877). An average price of US$81.04 per barrel was received for the Ash Creek sales, a decrease of 2 per cent on the previous year of US$82.53 per barrel. Elk net sales revenue of US$0.377 million (2012: US$0.319 million) was up 18% on the previous year.

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Note 5. Expenses

	Consolidated	
	2013	**2012**
	$	**$**
Loss before income tax includes the following specific expenses:		
Professional and corporate services		
Accounting, auditing and tax fees	162,590	168,578
Consultants fees	344,969	209,514
Legal fees	52,403	91,947
Share registry, ASX and ASIC fees	47,138	49,452
Contract services- company secretary	55,670	23,927
	662,770	543,418
Administrative expenses		
Serviced office	106,969	141,276
Travel and accommodation	178,634	156,922
Insurance	96,434	76,337
Computer, website and marketing	28,693	38,861
Other	182,508	75,702
	593,238	489,098
Director and employee costs		
Directors and executives fees and salaries	771,601	418,520
Non-executive directors fees	84,000	120,000
Employee wages	911,101	759,845
Employee benefits	365,800	227,803
	2,132,502	1,526,168
Finance costs		
Interest and finance charges paid/payable	41,107	9,107
Other expenses		
Foreign exchange (gain)/loss	(273)	5,934
Depreciation and amortisation	1,105,594	783,762
Share based payment expense	65,565	157,980
Other -retired leases/disposed assets	7,172	2,291
	1,178,058	949,967

Note 6. Income tax expense

	Consolidated	
	2013	2012
	$	$
Numerical reconciliation of income tax expense and tax at the statutory rate		
Loss before income tax expense	(5,595,663)	(3,912,862)
Tax at the statutory tax rate of 30%	(1,678,699)	(1,173,859)
Tax effect amounts which are not deductible/(taxable) in calculating taxable income:		
Share-based payments	19,670	47,394
Capital raising costs	(104,249)	(13,104)
Unrealised foreign exchange difference	(82)	1,780
	(1,763,360)	(1,137,789)
Current year tax losses not recognised	1,763,360	1,137,789
Income tax expense	-	-

	Consolidated	
	2013	2012
	$	$
Tax losses not recognised		
Unused tax losses for which no deferred tax asset has been recognised	22,700,677	16,822,810
Potential tax benefit @ 30%	6,810,203	5,046,843

The above potential tax benefit for tax losses has not been recognised in the statement of financial position. These tax losses can only be utilised in the future if the continuity of ownership test is passed, or failing that, the same business test is passed.

Note 7. Current assets - cash and cash equivalents

	Consolidated	
	2013	2012
	$	$
Cash on hand and deposits on call	1,085,813	2,579,061

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Note 8. Current assets - trade and other receivables

	Consolidated	
	2013	2012
	$	$
Trade receivables	74,892	172,439
Other receivables	62,969	101,129
	137,861	273,568

Terms and conditions relating to the above financial instruments:

- Trade receivables are non-interest bearing and generally on 60 day terms
- Other receivables are non-interest bearing and have repayment terms between 30 and 90 days
- Security deposits are interest bearing and provide security towards performance bonds provided by the consolidated entity bank to state governmental agencies against environmental obligations

The security relates to a deposit of US$400,000 with a US bank with respect to bank facilities provided to a US subsidiary of the consolidated entity.

Note 9. Current assets - inventories

	Consolidated	
	2013	2012
	$	$
Oil in tanks - at net realisable value	44,275	26,132

Note 10. Current assets - other

	Consolidated	
	2013	2012
	$	$
Other deposits	437,972	-

Other deposit relates to security deposit of US$400,000 with a US bank with respect to bank facilities provided to a US subsidiary of the consolidated entity.

Note 11. Non-current assets - investments

	Consolidated	
	2013	2012
	$	$
Ordinary shares	138,016	-

In July 2012, the company acquired an 8% interest in EORGAS LLC which holds the rights to technology that can generate a carbon dioxide-rich syngas (EORGAS) from coal using small scale EORGAS generators. The produced EORGAS is used to increase oil production by injection into oil fields suitable for the application of EOR techniques. The total consideration paid was US$125,000 cash plus provision of technical, laboratory, process, logistical and strategic advice and information. A deposit of US$50,000 paid as part consideration was previously recognised in the financial year ended 30 June 2012. The carrying value of the investment approximates its fair value.

Note 12. Non-current assets - property, plant and equipment

	Consolidated	
	2013	2012
	$	$
Plant and equipment - at cost	315,402	277,459
Less: Accumulated depreciation	(273,058)	(211,117)
	42,344	66,342
Furniture and fittings - at cost	507,863	431,226
Less: Accumulated depreciation	(394,194)	(308,391)
	113,669	122,835
	156,013	189,177

Reconciliations
Reconciliations of the written down values at the beginning and end of the current and previous financial year are set out below:

	Plant and equipment	Furniture and fittings	Total
	$	$	$
Consolidated			
Balance at 1 July 2011	80,021	126,272	206,293
Additions	6,092	68,761	74,853
Disposals	(1,431)	(52,340)	(53,771)
Exchange differences	5,494	3,223	8,717
Depreciation expense	(23,834)	(23,081)	(46,915)
Balance at 30 June 2012	66,342	122,835	189,177
Additions	5,977	30,948	36,925
Disposals	-	(6,326)	(6,326)
Exchange differences	4,018	5,588	9,606
Depreciation expense	(33,993)	(39,376)	(73,369)
Balance at 30 June 2013	42,344	113,669	156,013

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Note 13. Non-current assets - Oil and gas properties - Grieve project

	Consolidated	
	2013	**2012**
	$	**$**
Oil properties acquired - at cost	48,939	43,996
Less: Accumulated amortisation	(16,354)	(14,702)
	32,585	29,294
Oil field plant and equipment - at cost	879,703	461,854
Less: Accumulated amortisation	(232,469)	(197,572)
	647,234	264,282
Oil field development expenditure - at cost	7,648,244	3,084,850
Less: Accumulated amortisation	(1,011,857)	(881,206)
	6,636,387	2,203,644
Closure costs - at cost	1,009,727	-
	1,009,727	-
	8,325,933	2,497,220

Reconciliations
Reconciliations of the written down values at the beginning and end of the current and previous financial year are set out below:

	Oil and gas properties $	Total $
Consolidated		
Balance at 1 July 2011	2,288,479	2,288,479
Additions	197,726	197,726
Expenditure during the year	115,667	115,667
Exchange differences	(36,666)	(36,666)
Amortisation expense	(67,986)	(67,986)
Balance at 30 June 2012	2,497,220	2,497,220
Additions	320,584	320,584
Expenditure during the year	4,185,188	4,185,188
Exchange differences	1,350	1,350
Provision for closure costs	1,460,330	1,460,330
Amortisation expense	(138,739)	(138,739)
Balance at 30 June 2013	8,325,933	8,325,933

The ultimate recoupment of costs carried forward for oil properties is dependent on the successful development and commercial exploitation or sale of the respective mining areas.

Additions above relate to equipment costs attributed to the project during the year. Expenditure includes field/well development costs capitalised during the year.

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Note 14. Non-current assets - Oil and gas properties - Ash Creek project

	Consolidated	
	2013	**2012**
	$	**$**
Oil properties acquired - at cost	36,147	25,154
Less: Accumulated amortisation	(10,728)	(4,893)
	25,419	20,261
Oil field plant and equipment - at cost	4,067,494	2,555,119
Less: Accumulated amortisation	(927,472)	(421,228)
	3,140,022	2,133,891
Oil field development expenditure - at cost	2,935,175	2,169,244
Less: Accumulated amortisation	(705,615)	(280,477)
	2,229,560	1,888,767
Closure costs - at cost	743,285	1,306,100
Less: Accumulated amortisation	(433,138)	(262,181)
	310,147	1,043,919
	5,705,148	5,086,838

Reconciliations
Reconciliations of the written down values at the beginning and end of the current and previous financial year are set out below:

	Oil and gas properties $	Total $
Consolidated		
Balance at 1 July 2011	1,980,871	1,980,871
Additions	1,415,704	1,415,704
Expenditure during the year	1,282,522	1,282,522
Exchange differences	(76,388)	(76,388)
Provision for closure costs	1,043,919	1,043,919
Amortisation expense	(559,790)	(559,790)
Balance at 30 June 2012	5,086,838	5,086,838
Additions	1,089,725	1,089,725
Expenditure during the year	453,212	453,212
Exchange differences	2,703	2,703
Provision for closure costs	(140,457)	(140,457)
Amortisation expense	(786,873)	(786,873)
Balance at 30 June 2013	5,705,148	5,705,148

Additions above relate to equipment costs attributed to the project during the year. Expenditure includes field/well development costs capitalised during the year.

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Note 15. Non-current assets - other

	Consolidated	
	2013	2012
	$	$
Environmental bond deposits	433,976	404,912

Environmental bond deposits represents the restricted funds set aside as required with the State and Federal regulatory agencies for Elk Petroleum's wells and oil fields.

Note 16. Current liabilities - trade and other payables

	Consolidated	
	2013	2012
	$	$
Trade payables	268,643	205,512
Accruals and other liabilities	335,277	778,558
	603,920	984,070

Refer to note 25 for further information on financial instruments.

Trade payables are non-interest bearing and generally on 30 to 60 day terms.

Note 17. Current liabilities - borrowings

	Consolidated	
	2013	2012
	$	$
Bank loans	1,094,930	-
Lease liability	13,730	15,908
	1,108,660	15,908

Total secured liabilities
The total secured current liabilities are as follows:

	Consolidated	
	2013	2012
	$	$
Bank loans	1,094,930	-
Lease liability	21,534	48,385
	1,116,464	48,385

The bank loan is a variable rate revolving line of credit facility of US$930,000 with First Interstate Bank, Wyoming, repayable in February 2014. Out of the total cedit facility, US$800,000 (2012: nil) has been used as at the balance sheet closing date.

Assets pledged as security
The bank loan is secured by mortgages over a proportion of the assets of Elk Petroleum, Inc, a US subsidiary of the consolidated entity.

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Note 17. Current liabilities - borrowings (continued)

Financing arrangements
Unrestricted access was available at the reporting date to the following lines of credit:

	Consolidated	
	2013 $	2012 $
Total facilities		
Bank loans	1,272,856	-
Used at the reporting date		
Bank loans	1,094,930	-
Unused at the reporting date		
Bank loans	177,926	-

Note 18. Non-current liabilities - borrowings - Denbury JV

	Consolidated	
	2013 $	2012 $
Financial liability to Denbury JV	4,185,188	-

Refer to note 25 for further information on financial instruments.

The Denbury financial liability relates to the Elk Petroleum Inc's portion of costs incurred at the Grieve EOR project, being Tranche 2 of the loan financing arrangements as per Elk's agreement with Denbury Onshore, LLC (a subsidiary of Denbury Resources NYSE:DNR) executed in April 2011.

Note 19. Non-current liabilities - borrowings

	Consolidated	
	2013 $	2012 $
Lease liability	7,804	32,477

Refer to note 25 for further information on financial instruments.

Total secured liabilities
The total secured liabilities (current and non-current) are as follows:

	Consolidated	
	2013 $	2012 $
Bank loans	1,094,930	-
Lease liability	21,534	48,385
	1,116,464	48,385

Note 19. Non-current liabilities - borrowings (continued)

Assets pledged as security
The US bank facilities are secured by mortgages over the assets of Elk Petroleum, Inc, a US subsidiary of the consolidated entity but are subsidiary to Elk's Denbury loan.

The lease liabilities are effectively secured as the rights to the leased assets, recognised in the statement of financial position, revert to the lessor in the event of default.

Note 20. Non-current liabilities - provisions

	Consolidated	
	2013	**2012**
	$	**$**
Rehabilitation costs	2,732,160	2,082,248

The provision amount includes $1,895,658 (2012: $758,531) in relation to the Grieve project and $836,502 (2012: $1,323,717) in relation to the Ash Creek project.

A provision for rehabilitation is recognised in relation to the exploration and production activities for costs associated with the rehabilitation of the various sites. Estimates of the rehabilitation obligations are based on anticipated technology and legal requirements and future costs. In determining the rehabilitation provision the entity has assumed no significant changes will occur in the relevant Federal and State legislation to rehabilitation in the future.

Movements in provisions
Movements in each class of provision during the current financial year, other than employee benefits, are set out below:

	Rehabilitation costs $
Consolidated - 2013	
Carrying amount at the start of the year	2,082,248
Foreign exchange difference	242,746
Amount provided during the year	407,166
Carrying amount at the end of the year	2,732,160

Note 21. Equity - issued capital

	Consolidated		Consolidated	
	2013	**2012**	**2013**	**2012**
	Shares	**Shares**	**$**	**$**
Ordinary shares - fully paid	167,927,846	147,910,846	34,247,253	29,591,349

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Note 21. Equity - issued capital (continued)

Movements in ordinary share capital

Details	Date	No of shares	Issue price	$
Balance	1 July 2011	115,023,819		23,544,828
Issue of shares - prepaid in prior year above	13 July 2011	833,333	$0.30	-
Issue of shares - placement	25 October 2011	15,263,158	$0.19	2,900,000
Issue of shares - share purchase plan	25 October 2011	1,286,852	$0.19	244,500
Issue of shares - placement	2 November 2011	2,631,579	$0.19	500,000
Issue of shares - placement	28 November 2011	10,930,000	$0.19	2,076,700
Issue of shares - placement	1 December 2011	1,942,105	$0.19	369,000
Share issue costs				(43,679)
Balance	30 June 2012	147,910,846		29,591,349
Share placement	16 October 2012	11,740,000	$0.25	2,935,000
Share purchase plan	12 December 2012	3,000,000	$0.25	750,000
Share placement	28 February 2013	5,260,000	$0.25	1,315,000
Exercise of option	22 March 2013	2,000	$0.20	400
Exercise of option	17 April 2013	15,000	$0.20	3,000
Share issue costs				(347,496)
Balance	30 June 2013	167,927,846		34,247,253

Ordinary shares
Ordinary shares entitle the holder to participate in dividends and the proceeds on the winding up of the company in proportion to the number of and amounts paid on the shares held. The fully paid ordinary shares have no par value and the company does not have a limited amount of authorised capital.

On a show of hands every member present at a meeting in person or by proxy shall have one vote and upon a poll each share shall have one vote.

Capital risk management
The directors' primary objective is to maintain a capital structure that ensures the lowest cost of capital available to the consolidated entity. At balance date, the group has external borrowings for plant and equipment.

The consolidated entity is not subject to any externally imposed capital requirements.

Note 22. Equity - reserves

	Consolidated	
	2013	2012
	$	$
Foreign currency reserve	(1,071,028)	(1,830,292)
Share-based payments reserve	1,691,553	1,625,988
	620,525	(204,304)

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Note 22. Equity - reserves (continued)

	Foreign currency $	Share-based payment $	Total $
Consolidated			
Balance at 1 July 2011	(2,216,253)	1,468,008	(748,245)
Foreign currency translation	385,961	-	385,961
Share based payment	-	157,980	157,980
Balance at 30 June 2012	(1,830,292)	1,625,988	(204,304)
Foreign currency translation	759,264	-	759,264
Share based payment	-	65,565	65,565
Balance at 30 June 2013	(1,071,028)	1,691,553	620,525

Foreign currency reserve
The reserve is used to recognise exchange differences arising from translation of the financial statements of foreign operations to Australian dollars. It is also used to recognise gains and losses on hedges of the net investments in foreign operations.

Share-based payments reserve
The reserve is used to recognise the value of equity benefits provided to employees and directors as part of their remuneration, and other parties as part of their compensation for services.

Note 23. Equity - accumulated losses

	Consolidated 2013 $	Consolidated 2012 $
Accumulated losses at the beginning of the financial year	(21,444,840)	(17,531,978)
Loss after income tax expense for the year	(5,595,663)	(3,912,862)
Accumulated losses at the end of the financial year	(27,040,503)	(21,444,840)

Note 24. Equity - dividends

There were no dividends paid, recommended or declared during the current or previous financial year.

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Note 25. Financial instruments

Financial risk management objectives

The consolidated entity's activities expose it to a variety of financial risks: market risk (including foreign currency risk, price risk and interest rate risk), credit risk and liquidity risk. The consolidated entity's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the consolidated entity. The consolidated entity uses derivative financial instruments such as forward foreign exchange contracts to hedge certain risk exposures. Derivatives are exclusively used for hedging purposes, i.e. not as trading or other speculative instruments. The consolidated entity uses different methods to measure different types of risk to which it is exposed. These methods include sensitivity analysis in the case of interest rate, foreign exchange and other price risks, ageing analysis for credit risk and beta analysis in respect of investment portfolios to determine market risk.

Risk management is carried out by finance executives ('finance') under policies approved by the Board of Directors ('the Board'). These policies include identification and analysis of the risk exposure of the consolidated entity and appropriate procedures, controls and risk limits. Finance identifies, evaluates and hedges financial risks within the consolidated entity's operating units. Finance reports to the Board on a monthly basis.

Market risk

Foreign currency risk

The consolidated entity undertakes certain transactions denominated in foreign currency and are exposed to foreign currency risk through foreign exchange rate fluctuations.

Foreign exchange risk arises from future commercial transactions and recognised financial assets and financial liabilities denominated in a currency that is not the entity's functional currency. The risk is measured using sensitivity analysis and cash flow forecasting.

The consolidated entity also has transactional foreign exchange exposures. Sale of oil and gas by Elk Petroleum Inc is priced in US dollars based on the average market price for the month. The accounts of Elk Petroleum Inc. are prepared in US dollars and accordingly, its revenue recognition is exposed to foreign exchange movements. The consolidated entity does not use any hedging instruments to manage foreign currency risk.

The effect on profit and equity as a result of changes to the value of the Australian Dollar (AUD) to the United States Dollar (USD) with all other variables remaining constant is as follows:

	AUD strengthened			AUD weakened		
Consolidated - 2013	**% change**	**Effect on profit before tax**	**Effect on equity**	**% change**	**Effect on profit before tax**	**Effect on equity**
US Dollars	5%	18,842	-	5%	(18,842)	-

	AUD strengthened			AUD weakened		
Consolidated - 2012	**% change**	**Effect on profit before tax**	**Effect on equity**	**% change**	**Effect on profit before tax**	**Effect on equity**
US Dollars	5%	16,626	-	5%	(16,626)	-

Price risk

The consolidated entity is exposed to crude oil and gas commodity price risk. Crude oil and gas prices can be volatile and are influenced by factors beyond the consolidated entity's control. The consolidated entity currently does not engage in any hedging or derivative transactions to manage commodity price risk.

The sensitivity to movements in commodity price on the assumption that all other variables remain unchanged is as below.

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Note 25. Financial instruments (continued)

Consolidated - 2013	Average price increase % change	Effect on profit before tax	Effect on equity	Average price decrease % change	Effect on profit before tax	Effect on equity
Crude oil price	10%	36,662	-	10%	(36,662)	-

Consolidated - 2012	Average price increase % change	Effect on profit before tax	Effect on equity	Average price decrease % change	Effect on profit before tax	Effect on equity
Crude oil price	10%	32,188	-	10%	(32,188)	-

Interest rate risk
The consolidated entity's exposure to the risk of changes in market interest rates relates primarily to the consolidated entity's short-term deposits and bank loan facilities with floating interest rates. These financial instruments with variable rates expose the consolidated entity to cash flow interest rate risk. All other financial assets and liabilities, in the form of receivables and payables are non-interest bearing or bear fixed interest rates. The consolidated entity currently does not engage in any hedging or derivative transactions to manage interest rate risk.

As at the reporting date, the consolidated entity had the following variable rate cash assets and borrowings outstanding:

	2013		2012	
	Weighted average interest rate %	Balance $	Weighted average interest rate %	Balance $
Consolidated				
Cash assets	4.10	1,085,813	4.10	2,579,061
Bank loans	6.00	(1,094,930)	-	-
Financial liability - Denbury JV	11.00	(4,185,188)	-	-
Net exposure to cash flow interest rate risk		(4,194,305)		2,579,061

An analysis by remaining contractual maturities in shown in 'liquidity and interest rate risk management' below.

The effect on profit and equity as a result of changes in the interest rate, on the assumption that all other variables remain unchanged, is as follows:

Consolidated - 2013	Basis points increase: Basis points change	Effect on profit before tax	Effect on equity	Basis points decrease: Basis points change	Effect on profit before tax	Effect on equity
Cash assets	100	10,858	-	100	(10,858)	-
Bank loans	100	(10,949)	-	100	10,949	-
Financial liability - Denbury JV	100	(41,851)	-	100	41,851	-
		(41,942)	-		41,942	-

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Note 25. Financial instruments (continued)

	Basis points increase			**Basis points decrease**		
Consolidated - 2012	**Basis points change**	**Effect on profit before tax**	**Effect on equity**	**Basis points change**	**Effect on profit before tax**	**Effect on equity**
Cash assets	100	6,786	-	100	(6,786)	-

Credit risk
Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the consolidated entity. The consolidated entity has a strict code of credit, including obtaining agency credit information, confirming references and setting appropriate credit limits. The consolidated entity obtains guarantees where appropriate to mitigate credit risk. The maximum exposure to credit risk at the reporting date to recognised financial assets is the carrying amount, net of any provisions for impairment of those assets, as disclosed in the statement of financial position and notes to the financial statements.

Liquidity risk
Vigilant liquidity risk management requires the consolidated entity to maintain sufficient liquid assets (mainly cash and cash equivalents) and available borrowing facilities to be able to pay debts as and when they become due and payable.

The consolidated entity manages liquidity risk by maintaining adequate cash reserves and available borrowing facilities by continuously monitoring actual and forecast cash flows and matching the maturity profiles of financial assets and liabilities.

Financing arrangements
Unused borrowing facilities at the reporting date:

	Consolidated	
	2013 **$**	**2012** **$**
Bank loans	177,926	-

Remaining contractual maturities
The following tables detail the consolidated entity's remaining contractual maturity for its financial instrument liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the financial liabilities are required to be paid. The tables include both interest and principal cash flows disclosed as remaining contractual maturities and therefore these totals may differ from their carrying amount in the statement of financial position.

Consolidated - 2013	Weighted average interest rate %	1 year or less $	Between 1 and 2 years $	Between 2 and 5 years $	Over 5 years $	Remaining contractual maturities $
Non-derivatives						
Non-interest bearing						
Trade and other payables	-	603,920	-	-	-	603,920
Interest-bearing - variable						
Bank loans	6.00	1,094,930	-	-	-	1,094,930
Lease liability	7.20	13,730	7,804	-	-	21,534
Financial liability to Denbury JV	11.00	-	4,185,188	-	-	4,185,188
Total non-derivatives		1,712,580	4,192,992	-	-	5,905,572

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Note 25. Financial instruments (continued)

Consolidated - 2012	Weighted average interest rate %	1 year or less $	Between 1 and 2 years $	Between 2 and 5 years $	Over 5 years $	Remaining contractual maturities $
Non-derivatives						
Non-interest bearing						
Trade and other payables	-	984,070	-	-	-	984,070
Interest-bearing - variable						
Lease liability	7.20	15,908	32,477	-	-	48,385
Total non-derivatives		999,978	32,477	-	-	1,032,455

The cash flows in the maturity analysis above are not expected to occur significantly earlier than contractually disclosed above.

Fair value of financial instruments

Unless otherwise stated, the carrying amounts of financial instruments reflect their fair value. The carrying amounts of trade receivables and trade payables are assumed to approximate their fair values due to their short-term nature. The fair value of financial liabilities is estimated by discounting the remaining contractual maturities at the current market interest rate that is available for similar financial instruments.

Note 26. Key management personnel disclosures

Directors

The following persons were directors of Elk Petroleum Ltd during the financial year:

N Taylor	Executive Director and Chairman
R Cook	Managing Director
T Strasser	Non-Executive Director
M Healy (resigned 31 July 2012 and re-appointed 13 September 2013)	Non-Executive Director
B Smith (appointed 31 July 2012)	Non-Executive Director

Other key management personnel

The following persons also had the authority and responsibility for planning, directing and controlling the major activities of the consolidated entity, directly or indirectly, during the financial year:

S Hornafius (appointed 1 June 2013)	Chief Executive Officer
D Franks and A Bursill	Joint Company Secretary

Compensation

The aggregate compensation made to directors and other members of key management personnel of the consolidated entity is set out below:

	Consolidated	
	2013 $	2012 $
Short-term employee benefits	830,437	762,726
Post-employment benefits	25,164	11,241
Share-based payments	47,434	28,080
	903,035	802,047

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Note 26. Key management personnel disclosures (continued)

Shareholding
The number of shares in the parent entity held during the financial year by each director and other members of key management personnel of the consolidated entity, including their personally related parties, is set out below:

2013	Balance at the start of the year	Received as part of remuneration	Additions	Disposals/ other	Balance at the end of the year
Ordinary shares					
N Taylor	144,937	-	60,000	-	204,937
R Cook	2,668,948	-	60,000	-	2,728,948
T Strasser	333,333	-	-	-	333,333
M Healy *	1,300,000	-	-	(1,300,000)	-
	4,447,218	-	120,000	(1,300,000)	3,267,218

* Held 1,300,000 shares at date of resignation of 31 July 2012. Re-appointed 13 September 2013

B Smith and S Hornafius did not hold any interest in the shares of the parent entity as at 30 June 2013.

2012	Balance at the start of the year	Received as part of remuneration	Additions	Disposals/ other	Balance at the end of the year
Ordinary shares					
N Taylor	65,989	-	78,948	-	144,937
R Cook	2,590,000	-	78,948	-	2,668,948
T Strasser	333,333	-	-	-	333,333
M Healy	1,300,000	-	-	-	1,300,000
J Bourke*	427,778	-	-	(427,778)	-
	4,717,100	-	157,896	(427,778)	4,447,218

* Held 427,778 shares at date of resignation of 1 December 2011.

All equity transactions with key management personnel other than those arising from the grant of remuneration options have been entered into under terms and conditions no more favourable than those the entity would have adopted if dealing at arm's length.

Option holding
The number of options over ordinary shares in the parent entity held during the financial year by each director and other members of key management personnel of the consolidated entity, including their personally related parties, is set out below:

2013	Balance at the start of the year	Granted	Exercised	Expired/ forfeited/ other	Balance at the end of the year
Options over ordinary shares					
N Taylor	-	30,000	-	-	30,000
R Cook	100,000	30,000	-	(100,000)	30,000
T Strasser	200,000	-	-	-	200,000
	300,000	60,000	-	(100,000)	260,000

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Note 26. Key management personnel disclosures (continued)

2013	Vested and exercisable	Vested and unexercisable	Vested at the end of the year
Options over ordinary shares			
N Taylor	30,000	-	30,000
R Cook	30,000	-	30,000
T Strasser	200,000	-	200,000
	260,000	-	260,000

B Smith and S Hornafius did not hold any interest in the options of the parent entity.

2012	Balance at the start of the year	Granted	Exercised	Expired/ forfeited/ other	Balance at the end of the year
Options over ordinary shares					
R Cook	100,000	-	-	-	100,000
T Strasser	200,000	-	-	-	200,000
J Bourke*	450,000	-	-	(450,000)	-
	750,000	-	-	(450,000)	300,000

* Resigned 1 December 2011

2012	Vested and exercisable	Vested and unexercisable	Vested at the end of the year
Options over ordinary shares			
R Cook	100,000	-	100,000
T Strasser	200,000	-	200,000
	300,000	-	300,000

N Taylor, B Smith and M Healy did not hold any interest in the options of the parent entity as at 30 June 2012.

Performance rights holding
The number of performance rights over ordinary shares in the parent entity held during the financial year by each director and other members of key management personnel of the consolidated entity, including their personally related parties, is set out below:

2013	Balance at the start of the year	Granted	Vested	Expired/ forfeited/ other	Balance at the end of the year
Performance rights over ordinary shares					
N Taylor	700,000	557,000	-	-	1,257,000
R Cook	1,150,000	786,000	-	-	1,936,000
T Strasser	70,000	38,000	-	-	108,000
M Healy *	70,000	-	-	(70,000)	-
B Smith **	-	35,000	-	-	35,000
	1,990,000	1,416,000	-	(70,000)	3,336,000

* Held 70,000 performance rights at date of resignation of 31 July 2012. Re-appointed 13 September 2013
** Appointed 31 July 2012

S Hornafius did not hold any performance rights.

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Note 26. Key management personnel disclosures (continued)

2012	Balance at the start of the year	Granted	Vested	Expired/ forfeited/ other	Balance at the end of the year
Performance rights over ordinary shares					
N Taylor	-	700,000	-	-	700,000
R Cook	-	1,150,000	-	-	1,150,000
T Strasser	-	70,000	-	-	70,000
M Healy	-	70,000	-	-	70,000
	-	1,990,000	-	-	1,990,000

Retention rights holding
The number of retention rights over ordinary shares in the parent entity held during the financial year by each director and other members of key management personnel of the consolidated entity, including their personally related parties, is set out below:

2013	Balance at the start of the year	Granted	Vested	Expired/ forfeited/ other	Balance at the end of the year
Retention rights over ordinary shares					
N Taylor	70,000	-	-	-	70,000
T Strasser	35,000	56,000	-	-	91,000
M Healy *	35,000	-	-	(35,000)	-
B Smith **	-	51,000	-	-	51,000
	140,000	107,000	-	(35,000)	212,000

* Held 11,667 retention rights at date of resignation of 31 July 2012. Re-appointed 13 September 2013
** Appointed 31 July 2012

R Cook and S Hornafius did not hold any retention rights as at 30 June 2013.

2012	Balance at the start of the year	Granted	Vested	Expired/ forfeited/ other	Balance at the end of the year
Retention rights over ordinary shares					
N Taylor	-	70,000	-	-	70,000
T Strasser	-	35,000	-	-	35,000
M Healy	-	35,000	-	-	35,000
	-	140,000	-	-	140,000

R Cook did not hold any retention rights.

Related party transactions
Related party transactions are set out in note 30.

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Note 27. Remuneration of auditors

During the financial year the following fees were paid or payable for services provided by BDO East Coast Partnership, the auditor of the company, and unrelated firms:

	Consolidated	
	2013	2012
	$	$
Audit services - BDO East Coast Partnership		
Audit or review of the financial statements	64,000	62,500
Audit services - unrelated firms		
Audit or review of the financial statements	39,681	46,969

Note 28. Contingent liabilities

The company is involved in a legal dispute with the Crow Nation over the validity of an agreement to lease at Uluru. The company has appealed a decision made by the Bureau of Indian Affairs that a valid lease existed. The Interior Board of Indian Appeals (IBIA) took Elk's appeal under advisement on March 31, 2011.

During the year, the IBIA provided an opinion on the matter. That opinion has been received and the IBIA has rejected Elk's appeal of the earlier Bureau of Indian Affairs decision in favour of the Crow Tribe of Indians.

As a result of the IBIA's decision and Elk's view of the matters in dispute, Elk plans to appeal this decision in the U.S. Federal Court system. A petition for a hearing is to be lodged with the Federal Court through the special counsel Elk has retained in Montana.

Elk's legal counsel has since drafted a counter complaint which is currently under Board's consideration and review for filing with Federal Courts of Montana.

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Note 29. Commitments

	Consolidated	
	2013	**2012**
	$	**$**
Lease commitments - operating		
Committed at the reporting date but not recognised as liabilities, payable:		
Within one year	90,039	75,939
One to five years	189,847	265,786
	279,886	341,725
Lease commitments - finance		
Committed at the reporting date and recognised as liabilities, payable:		
Within one year	13,730	15,908
One to five years	7,804	32,477
Total commitment	21,534	48,385
Net commitment recognised as liabilities	21,534	48,385
Representing:		
Lease liability - current (note 17)	13,730	15,908
Lease liability - non-current (note 19)	7,804	32,477
	21,534	48,385

The operating lease commitments relate to a commercial property lease in relation to offices in Casper, Wyoming, that expires on 31 December 2016.

Note 30. Related party transactions

Parent entity
Elk Petroleum Ltd is the parent entity.

Subsidiaries
Interests in subsidiaries are set out in note 32.

Joint ventures
Interests in joint ventures are set out in note 33.

Key management personnel
Disclosures relating to key management personnel are set out in note 26 and the remuneration report in the directors' report.

Transactions with related parties

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Note 30. Related party transactions (continued)

Caper Creative, a company of which R Cook's daughter is a director, was paid $47,111 (2012: $19,661) during the year for graphic design services. The increase follows a reduction in fees paid to other parties for graphical services; the Board has reviewed the commercial basis on which this service is provided and concluded that the service and cost is very competitive when compared to alternative sources.

OFM Consulting Pty Ltd, a company of which R Cook is a director, was paid nil consulting fees during the year (2012: $137,500). The prior year fees were paid for the provision of Mr Cook's services until 31 December 2011.

Franks & Associates Pty Ltd, a company in which D Franks and A Bursill are director and principal respectively, were paid company secretarial and accounting fees of $127,188 (2012:$ 50,365) during the year. 2012 expense relates to six months of service only.

Oil & Gas Worx Pty Ltd, a company in which N Taylor is a director, was paid nil consultancy fees (2012: $52,875) during the year. The prior year fees were paid for provision of advisory services between 1 July 2011 and 31 December 2011.

Pine Creek Energy LLC, a company in which S Hornafius is a director, was paid $42,916 (2012: nil) during the year for consulting services.

Receivable from and payable to related parties
There were no trade receivables from or trade payables to related parties at the current and previous reporting date.

Loans to/from related parties
There were no loans to or from related parties at the current and previous reporting date.

Terms and conditions
All transactions were made on normal commercial terms and conditions and at market rates.

Note 31. Parent entity information

Set out below is the supplementary information about the parent entity.

Statement of profit or loss and other comprehensive income

	Parent	
	2013	**2012**
	$	**$**
Loss after income tax	(718,376)	(3,478,055)
Total comprehensive income	(718,376)	(3,478,055)

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Note 31. Parent entity information (continued)

Statement of financial position

	Parent 2013 $	Parent 2012 $
Total current assets	536,376	221,254
Total assets	7,846,072	7,969,928
Total current liabilities	18,799	27,056
Total liabilities	18,799	27,056
Equity		
Issued capital	34,247,253	29,591,349
Reserves	1,691,553	1,577,808
Accumulated losses	(28,111,533)	(23,226,285)
Total equity	7,827,273	7,942,872

Guarantees entered into by the parent entity in relation to the debts of its subsidiaries
The parent entity had no guarantees in relation to the debts of its subsidiaries as at 30 June 2013 and 30 June 2012.

Contingent liabilities
The parent entity had no contingent liabilities as at 30 June 2013 and 30 June 2012.

Capital commitments - Property, plant and equipment
The parent entity had no capital commitments for property, plant and equipment at as 30 June 2013 and 30 June 2012.

Significant accounting policies
The accounting policies of the parent entity are consistent with those of the consolidated entity, as disclosed in note 1.

Note 32. Subsidiaries

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries in accordance with the accounting policy described in note 1:

Name of entity	Country of incorporation	Equity holding 2013 %	Equity holding 2012 %
Elk Petroleum Inc LLC	USA	100.00	100.00
Grieve Pipeline LLC*	USA	100.00	100.00
North Grieve LLC *	USA	100.00	100.00
Natrona Pipeline LLC *	USA	100.00	-

* Subsidiaries of Elk Petroleum Inc

In May 2013, Elk arranged for the formation of a new entity known as Natrona Pipeline LLC. It is planned this company will purchase the Grieve oil pipeline, currently owned by Grieve Pipeline LLC. Until this purchase proceeds, Elk is the manager and effective owner of NPL. It is expected NPL would become controlled by other parties if the purchase proceeds.

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Note 33. Interests in joint ventures

Grieve project
The company entered into a joint venture (JV) with Denbury Onshore, LLC (a subsidiary of Denbury Resources NYSE:DNR) in April 2011 in which Denbury has 65% working interest and operator of the Grieve oil field. Elk retains a 35% working interest in the Grieve field. The JV covers all geological horizons at Grieve except the Niobrara formation in which Elk has retained 100% working interest. The terms of the JV require Denbury to fully carry Elk for the first US$28.571 million gross expenditure of the project (=US$10 million Elk share) and to provide access to loan funds to Elk for up to a further US$12 million net to Elk should the project costs exceed US$28.751 million gross. The US$12 million loan or the part called down will be paid out of Elk share of production until “payout” si reached. All 2011-2012 production has been accrued and Elk’s share will be credited to the “payout” amount.

Denbury is to own 100% and operate the processing facilities at Grieve and a new 3 mile long carbon dioxide pipeline and charge the JV monthly processing and transportation fees.

Elk transferred to Denbury it rights to the carbon dioxide supply contract with ExxonMobil as well as the rights to the carbon dioxide transportation contract with Anadarko. Under various agreements with Denbury, Elk retains certain rights to the supply the carbon dioxide and Anadarko's transportation of carbon dioxide under it various agreement with Denbury. In January 2013, Denbury acquired a number of rights from ExxonMobil; these rights included the rights to the carbon dioxide supply contract with ExxonMobil. Denbury has advised Elk that it will meet all its obligations to Elk under the original agreement.

Hereford project
Elk Petroleum Inc, a controlled entity, holds a 50% working interest in the Hereford Project. The other 50% is held by HNR LLC. Subsequent to the year end, Elk has allowed its interest in the Hereford leases to lapse. This decision was based on unacceptable aspects of some of the lease renewal terms, continuing low gas prices in the USA together with Elk’s desire to concentrate on EOR opportunities.

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Note 34. Events after the reporting period

Elk announces intent to sell Grieve Oil pipeline

On 1 July 2013, Elk announced its intent to sell the Grieve oil pipeline for US$9 million; Elk created a new entity and issued a PPM setting out the terms for an offer by the new entity to raise sufficient monies to facilitate this purchase. Elk agreed to a set of terms to support this offer, including repurchase of some or all of the Class A shares in the new entity. Elk has subsequently indicated it is considering a variation to the PPM to reflect the delay in first oil at Grieve. In addition, Elk is talking to several companies, which have expressed an interest in acquiring the pipeline.

$2 million capital raising

On 29 July 2013, firm commitments were received from institutional and sophisticated investors to raise $2.0 million via a placement of 12,500,000 shares priced at $0.16. One free unlisted option with an expiry date of February 1, 2015 and an exercise price of $0.25 was attached to every two shares allotted.

Grieve first oil delayed until early 2015

Denbury advised Elk that first Grieve oil production was not expected before early 2015 (delayed from mid-to-late 2014).

Hereford leases relinquished

Elk has allowed its interest in the Hereford leases to lapse. This decision was based on unacceptable aspects of some of the lease renewal terms, continuing low gas prices in the USA together with Elk's desire to concentrate on EOR opportunities.

Elk's chairman to return to Australia

Elk's chairman, Neale Taylor, who has been acting in a part-time executive role in Casper, Wyoming, will return to Australia before YE2013 and seek to take up his previous role as non-executive chairman from 1 January 2014, if re-elected by shareholders at the company's 2013 AGM.

Re-appointment of Mr. Matthew Healy as a non-executive director

On 13 September 2013, Mr. Matthew Healy was re-appointed as a non-executive director to the Board of Elk Petroleum Limited. Mr. Healy will seek re-election by shareholders at the company's 2013 AGM.

Rights issue

On 14 August 2013, the company granted 3,450,306 performance rights and 78,000 retention rights to employees, directors and advisers in line with it's Employee Incentive Rights Plan and Non-executive Director and Adviser Plan. These rights are effective from 1 July 2013 and will be assessed over the following three years against the company's share price performance and employment commitment before any of the rights will be converted to shares.

No other matter or circumstance has arisen since 30 June 2013 that has significantly affected, or may significantly affect the consolidated entity's operations, the results of those operations, or the consolidated entity's state of affairs in future financial years.

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Note 35. Reconciliation of loss after income tax to net cash used in operating activities

	Consolidated	
	2013 $	2012 $
Loss after income tax expense for the year	(5,595,663)	(3,912,862)
Adjustments for:		
Share-based payments	65,565	159,630
Foreign exchange differences	(273)	4,284
Depreciation and amortisation	1,105,594	786,053
Change in operating assets and liabilities:		
Decrease/(increase) in trade and other receivables	(331,329)	90,984
Increase in inventories	(18,143)	(1,113)
Increase in trade and other payables	690,256	331,286
Net cash used in operating activities	(4,083,993)	(2,541,738)

Note 36. Earnings per share

	Consolidated	
	2013 $	2012 $
Loss after income tax attributable to the owners of Elk Petroleum Ltd	(5,595,663)	(3,912,862)
	Number	**Number**
Weighted average number of ordinary shares used in calculating basic earnings per share	159,582,654	136,423,835
Weighted average number of ordinary shares used in calculating diluted earnings per share	159,582,654	136,423,835
	Cents	**Cents**
Basic earnings per share	(3.51)	(2.87)
Diluted earnings per share	(3.51)	(2.87)

Note 37. Share-based payments

The company has an employee share option plan, an employee incentive performance and retention rights plan and a non-executive director and advisor rights plan. The objective of the plans are to assist in the recruitment, reward, retention and motivation of non-executives and employees of Elk Petroleum and its subsidiaries.

Under the option plan, directors and employees are invited to participate in the plan and receive options. An individual may receive the options or nominate a relative or associate to receive them.

Under the performance and retention rights plans, rights are not transferrable. The measurement periods are over the 3 years following the commencement date for each grant of performance rights, at the end of which the Board will determine the extent to which vesting has been achieved (the vested rights) in relation to each tranche. Any retention rights or performance rights that do not vest will be forfeited.

The performance rights vest on achievement of specific performance objectives including Compound Annual Growth Rate of Total Shareholder Return achieved by the company over the 3 years following the commencement date for each grant of performance rights.

The retention rights vest to ordinary shares based on completion of 3 years of service. Generally, if service ceased before completion of 3 years of service, none of the retention rights vest whereas if service is continuous until completion of 3 years of service, then 100% of the retention rights will vest.

Set out below are summaries of options granted under the plan:

2013

Grant date	Expiry date	Exercise price	Balance at the start of the year	Granted	Exercised	Expired/ forfeited/ other	Balance at the end of the year
20/06/08	19/06/13	$0.52	200,000	-	-	(200,000)	-
18/11/08	17/02/13	$0.64	500,000	-	-	(500,000)	-
18/11/08	13/10/13	$0.23	200,000	-	-	-	200,000
25/06/09	24/06/14	$0.20	50,000	-	-	-	50,000
01/07/10	30/06/15	$0.20	81,450	-	-	-	81,450
11/10/10	10/10/15*	$0.20	146,000	-	(17,000)	-	129,000
25/10/10	24/10/15	$0.20	200,000	-	-	-	200,000
31/01/11	05/12/15	$0.20	100,000	-	-	-	100,000
01/07/11	30/06/16	$0.20	750,000	-	-	-	750,000
			2,227,450	-	(17,000)	(700,000)	1,510,450

Weighted average exercise price $0.34

* Exercise of 2,000 options on 22 March 2013 and 15,000 options on 17 April 2013

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Note 37. Share-based payments (continued)

2012

Grant date	Expiry date	Exercise price	Balance at the start of the year	Granted	Exercised	Expired/ forfeited/ other	Balance at the end of the year
25/11/06	24/11/11	$0.60	500,000	-	-	(500,000)	-
06/06/07	05/06/12	$0.27	200,000	-	-	(200,000)	-
20/06/08	19/06/13	$0.52	250,000	-	-	(50,000)	200,000
15/08/08	14/08/13	$0.37	200,000	-	-	(200,000)	-
18/11/08	17/02/13	$0.64	500,000	-	-	-	500,000
18/11/08	13/10/13	$0.23	200,000	-	-	-	200,000
25/06/09	24/06/14	$0.20	100,000	-	-	(50,000)	50,000
01/07/10	30/06/15	$0.20	131,450	-	-	(50,000)	81,450
11/10/10	10/10/15	$0.20	146,000	-	-	-	146,000
25/10/10	24/10/15	$0.20	200,000	-	-	-	200,000
31/01/11	05/12/15 *	$0.20	100,000	-	-	-	100,000
01/07/11	30/06/16	$0.20	-	750,000	-	-	750,000
			2,527,450	750,000	-	(1,050,000)	2,227,450
Weighted average exercise price							$0.33

* Not exercisable at year end.

Options granted under the plan are for no consideration.

The weighted average remaining contractual life of options outstanding at the end of the financial year was 0.94 years (2012: 2.51 years).

Set out below are summaries of performance rights granted under the plan:

2013

Grant date	Expiry date	Exercise price	Balance at the start of the year	Granted	Vested	Expired/ forfeited/ other	Balance at the end of the year
24/02/12	30/06/14	$0.00	1,990,000	-	-	-	1,990,000
16/05/12	30/06/14	$0.00	200,000	-	-	-	200,000
15/08/12	30/06/15	$0.00	-	1,866,000	-	(555,000)	1,311,000
12/12/12	30/06/15	$0.00	-	592,000	-	-	592,000
			2,190,000	2,458,000	-	(555,000)	4,093,000

Performance rights issued to non-executive directors and employees under the non-executive director and advisor rights and employee incentive rights plans.

Performance rights are issued for nil consideration and will vest after three years to ordinary shares based on market based performance conditions. The fair value of the performance rights granted during the year at grant date were $0.034 and $0.044 respectively.

2012

Grant date	Expiry date	Exercise price	Balance at the start of the year	Granted	Vested	Expired/ forfeited/ other	Balance at the end of the year
24/02/12	30/06/14	$0.00	-	1,990,000	-	-	1,990,000
16/05/12	30/06/14	$0.00	-	200,000	-	-	200,000
			-	2,190,000	-	-	2,190,000

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Note 37. Share-based payments (continued)

The weighted average remaining contractual life of performance rights outstanding at the end of the financial year was 1.46 years (2012: 2 years).

Set out below are summaries of retention rights granted under the plan:

2013

Grant date	Expiry date	Exercise price	Balance at the start of the year	Granted	Vested	Expired/ forfeited/ other	Balance at the end of the year
24/02/12	30/06/14	$0.00	730,000	-	-	(363,333)	366,667
15/08/12	30/06/15	$0.00	-	281,000	-	-	281,000
12/12/12	30/06/15	$0.00	-	51,000	-	-	51,000
			730,000	332,000	-	(363,333)	698,667

Retention rights issued to non-executive directors and employees under the non-executive director and advisor rights and employee incentive rights plans.

Retention rights are issued for nil consideration and will vest after three years to ordinary shares based on continuity of employment conditions. The fair value of the retention rights issued during the year were $0.075 and $0.110 respectively.

2012

Grant date	Expiry date	Exercise price	Balance at the start of the year	Granted	Vested	Expired/ forfeited/ other	Balance at the end of the year
24/02/12	30/06/14	$0.00	-	730,000	-	-	730,000
			-	730,000	-	-	730,000

The weighted average remaining contractual life of retention rights outstanding at the end of the financial year was 1.48 years (2012: 2 years).

For the retention rights granted during the current financial year, the valuation model inputs used to determine the fair value at the grant date, are as follows:

Grant date	Expiry date	Share price at grant date	Exercise price	Expected volatility	Dividend yield	Risk-free interest rate	Fair value at grant date
15/08/12	30/06/15	$0.15	$0.00	100.00%	0.00%	2.62%	$0.075
12/12/12	30/06/15	$0.22	$0.00	100.00%	0.00%	2.62%	$0.110

For the performance rights granted during the current financial year, the Black Scholes valuation model inputs used to determine the fair value at the grant date, are as follows:

Grant date	Expiry date	Share price at grant date	Exercise price	Expected volatility	Dividend yield	Risk-free interest rate	Fair value at grant date
15/08/12	30/06/15	$0.15	$0.15	100.00%	0.00%	2.62%	$0.034
12/12/12	30/06/15	$0.22	$0.22	100.00%	0.00%	2.62%	$0.044

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Elk Petroleum Ltd
Directors' declaration

In the directors' opinion:

- the attached financial statements and notes thereto comply with the Corporations Act 2001, the Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements;

- the attached financial statements and notes thereto comply with International Financial Reporting Standards as issued by the International Accounting Standards Board as described in note 1 to the financial statements;

- the attached financial statements and notes thereto give a true and fair view of the consolidated entity's financial position as at 30 June 2013 and of its performance for the financial year ended on that date; and

- there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

The directors have been given the declarations required by section 295A of the Corporations Act 2001.

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

On behalf of the directors

Neale Taylor
Chairman

30 September 2013
Sydney

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BDO

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INDEPENDENT AUDITOR'S REPORT

To the members of Elk Petroleum Limited

Report on the Financial Report

We have audited the accompanying financial report of Elk Petroleum Limited, which comprises the statement of financial position as at 30 June 2013, the statement of profit or loss and other comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with *International Financial Reporting Standards*.

Auditor's Responsibility

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

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

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

Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the

BDO East Coast Partnership ABN 83 236 985 726 is a member of a national association of independent entities which are all members of BDO (Australia) Ltd ABN 77 050 110 275, an Australian company limited by guarantee. BDO East Coast Partnership and BDO (Australia) Ltd are members of BDO International Ltd, a UK company limited by guarantee, and form part of the international BDO network of independent member firms. Liability limited by a scheme approved under Professional Standards Legislation (other than for the acts or omissions of financial services licensees) in each State or Territory other than Tasmania.

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BDO

Corporations Act 2001, which has been given to the directors of Elk Petroleum Limited, would be in the same terms if given to the directors as at the time of this auditor's report.

Opinion

In our opinion:

(a) the financial report of Elk Petroleum Limited is in accordance with the *Corporations Act 2001*, including:

  (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2013 and of its performance for the year ended on that date; and

  (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and

(b) the financial report also complies with *International Financial Reporting Standards* as disclosed in Note 1.

Emphasis of matter

Without modifying our opinion, we draw attention to Note 1 in the financial report, which indicates that the ability of the consolidated entity to continue as a going concern is dependent upon the future successful raising of necessary funding and/or sale of non-core assets. These conditions, along with other matters as set out in Note 1, indicate the existence of a material uncertainty that may cast significant doubt about the consolidated entity's ability to continue as a going concern and therefore, the consolidated entity may be unable to realise its assets and discharge its liabilities in the normal course of business.

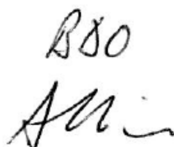
Report on the Remuneration Report

We have audited the Remuneration Report included in pages 11 to 18 of the directors' report for the year ended 30 June 2013. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Opinion

In our opinion, the Remuneration Report of Elk Petroleum Limited for the year ended 30 June 2013 complies with section 300A of the *Corporations Act 2001*.

BDO East Coast Partnership



Arthur Milner
Partner

Sydney, 30 September 2013