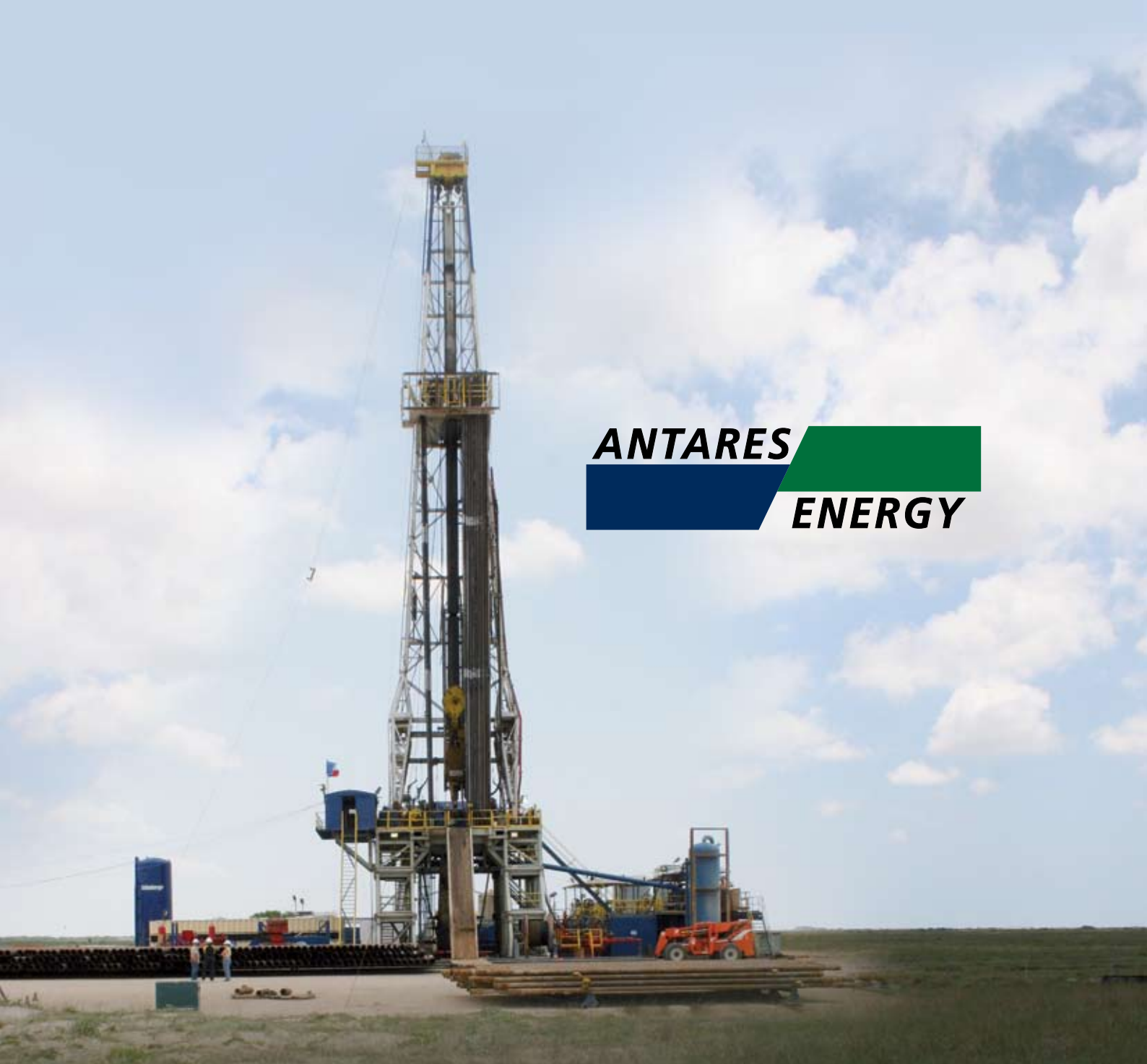




ANTARES
ENERGY



ANNUAL REPORT 2006

ANNUAL GENERAL MEETING

The Antares Energy Limited Annual General Meeting will be held at 3pm on Tuesday, 28 November 2006 at Level 31, Allendale Square, 77 St Georges Terrace Perth, Western Australia.



Rear L to R: James Cruickshank, Executive Director; William Hassell, Non Executive Director; Fraser Campbell, Non Executive Director; David Rich, Company Secretary & Chief Financial Officer; Front L to R: Richard Elliott, Non Executive Chairman; Howard McLaughlin, Managing Director & Chief Executive Officer.

COMPANY DIRECTORY

DIRECTORS:

Richard Elliott, Non-Executive Chairman

Fraser Campbell, Non-Executive Director

William Hassell, Non-Executive Director

Howard McLaughlin, Managing Director & Chief Executive Officer

James Cruickshank, Executive Director

COMPANY SECRETARY:

David Rich

REGISTERED OFFICE:

Level 2, 5 Ord Street
West Perth, WA, 6005
Telephone: + 61 (0) 8 9324 2177
Facsimile: + 61 (0) 8 9324 1224
Email: mail@antaresenergy.com
Website: www.antaresenergy.com

AUDITORS:

Ernst & Young
The Ernst & Young Building
11 Mounts Bay Road
Perth WA 6000

CONTENTS

Chairman's Letter	2
Managing Director's Report	3
Directors' Report	9
Auditor's Independence Declaration	23
Corporate Governance Statement	24
Income Statement	28
Balance Sheet	29
Statement of Changes in Equity	30
Cash Flow Statement	31
Notes to the Financial Statements	32
Directors' Declaration	83
Independent Audit Report	84
Shareholder Information	86
Oil and Gas Interests	88



SOLICITORS:

Allens Arthur Robinson
Level 37, QV1 Building
250 St Georges Terrace
Perth WA 6000

BANKERS:

Bank of Western Australia Ltd
1215 Hay Street
West Perth WA 6005

SHARE REGISTRY:

Security Transfer Registrars Pty Ltd
770 Canning Highway
Applecross WA 6153
Telephone: + 61 (0) 8 9315 0933
Facsimile: + 61 (0) 8 9315 2233

ANTARES ENERGY LIMITED AND CONTROLLED ENTITIES

ABN 75 009 230 835

CHAIRMAN'S LETTER



Dear Shareholder

This has been a good year for the oil industry with oil and gas prices reaching all time highs, however in these boom times not every cloud has a silver lining. Increasing operating and capital costs, rig shortages and difficulties recruiting good people are all part of the phase the industry is in. Antares has had its share of rig delays this year, not unlike many of our competitors, but we have used this to our advantage by putting greater emphasis on building a strong acreage position and high quality prospect inventory.

I am very pleased with the quality of opportunities the technical team in Dallas has put to the Board for approval. These are going to be very exciting wells, with the first in Oyster Creek already drilling. Not every well will be a success, but through a disciplined approach and a diversified portfolio the company has done everything it reasonably can to generate the best chance of enjoying multiple successes.

This year has been one of tightening our focus and completing our transition from a Turkish gas producer to a USA based explorer/producer. As I explained last year, we felt it was imperative to sell our position in Turkey because it was not going to meet our growth objectives. The settlement was very complex and the approval process in Turkey was lengthier than we had hoped. The sale represented a significant profit on our investment. The selling of assets and repositioning of strategies are required in this business to stay profitable. The decision to sell the Turkish subsidiary was a good one, and the move to the USA, we believe, will also be very positive for the company.

I am particularly pleased with our entry into two very large land positions in Shaeffer Ranch and Yellow Rose. These kinds of opportunities to shoot new 3D seismic in proven hydrocarbon provinces are rare, and will underpin the company's success. Access to prospective land is critical in this business. It is the company's strong belief that to properly access good deals in a timely manner the people must be on the ground and developing relationships with

land owners and prospective partners. Our decision to base our technical team in Dallas was crucial to acquiring the quality and quantity of opportunities needed to build our prospect inventory.

We have announced a profit this year, and maintain a good cash base for our ongoing programme. We have chosen to reset our convertible notes on the existing terms in order to give us the added flexibility to use these funds to develop successful wells.

We also engaged in a share buy-back programme this year to effectively manage our capital for the benefit of shareholders. This was used in a passive manner, and we successfully acquired approximately 2.5 million shares at below 40 cents.

This next year will be pivotal for Antares, and we believe we can meet our three year objective of growing the market capitalisation of the company very significantly. The Board has a high degree of confidence in the management team, and is looking forward to a very rewarding year to come.

A handwritten signature in blue ink, appearing to read 'Richard Elliott', written over a faint circular stamp.

Richard Elliott
Chairman
Antares Energy Limited

MANAGING DIRECTOR'S REPORT

for the year ended 30 June 2006



The past year has been primarily focused on building our acreage portfolio in the United States after the finalisation of the sale of our Turkish producing assets. At our Annual General Meeting in November 2004, we presented to shareholders our strategy to re-position and grow Antares' market capitalisation through high impact gas exploration in the United States. Our participation in a number of significant exploration wells over the next several months has commenced with the spudding of Harrison-1. Success in this programme will have a very positive effect on the profitability of Antares. We have been carefully selecting only the highest quality exploration opportunities making sure we understand and mitigate, where possible, all the technical and commercial risks and issues.

Over the next year, we anticipate that a number of attractive drillable prospects will be developed from new seismic acquired in Shaeffer Ranch and Yellow Rose, as well as additional new opportunities that will continue to augment our growing and attractive prospect inventory. We are now entering the final and most exciting phase of our initial three year growth strategy, where all the hard work of the past few years will be ultimately tested through drilling.

Drill rig availability and escalating costs have been an issue for us this year, as it has for many of the oil and gas companies active in the United States, and indeed around the world. We have used this extra time to acquire more opportunities and develop our prospect inventory.

Our acquisition of new opportunities has conformed to a set of clear criteria designed to meet our growth objectives. We are only exploring onshore United States for conventional reservoirs that have a meaningful material impact to Antares. We have intentionally maintained a low overall risk profile as evident by reducing sovereign risk and only exploring onshore along known and productive hydrocarbon trends. We further reduce our exposure to risk by using 3D seismic to map the subsurface structure and illuminate gas bearing horizons.

Antares believes that a portfolio approach to our exploration inventory allows us the best possible opportunity for success. Most of our drillable prospects are independent of each other and with different operators and partners.

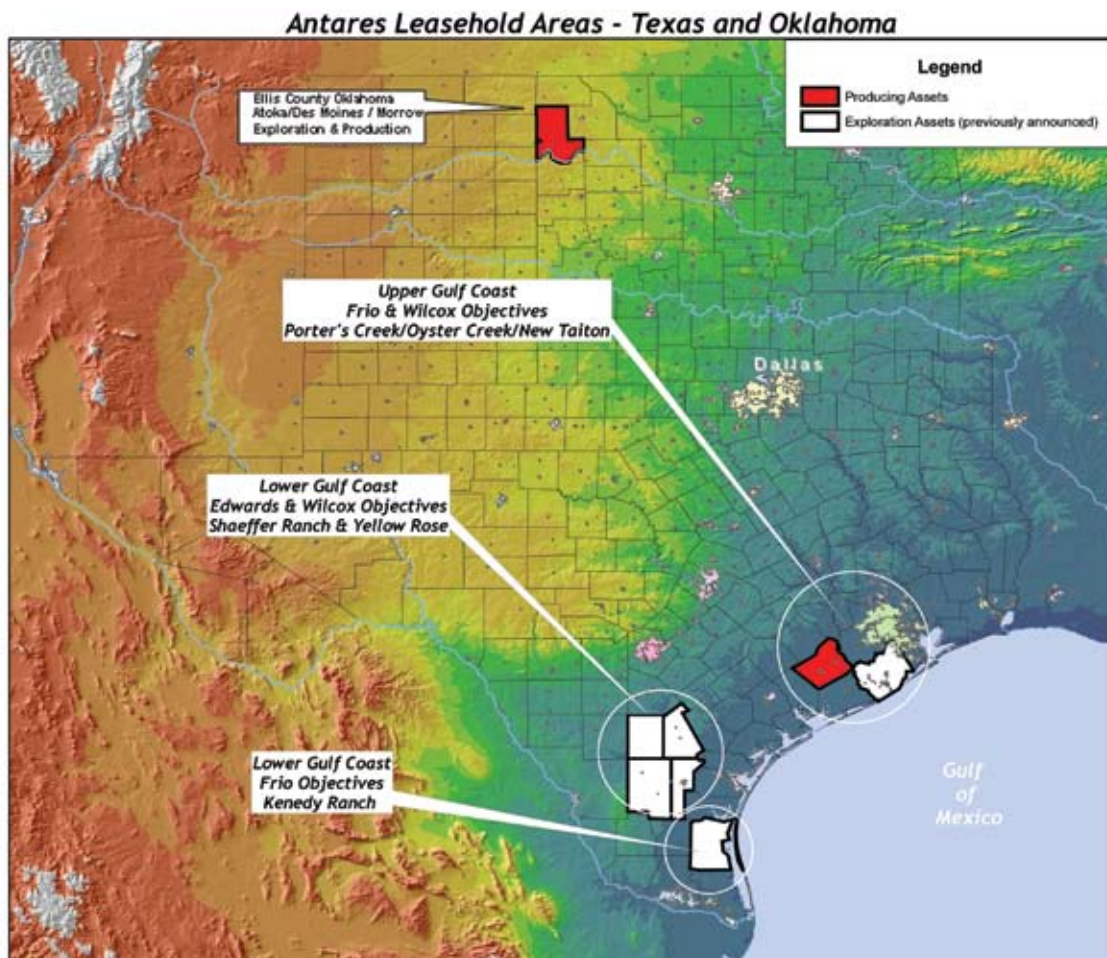
Gaining access to land in the United States has been a major issue for many Australian companies. We have tackled this issue by forming relationships with groups that have access to significant tracts of unexplored land. We further save substantial upfront costs where possible by optioning the land rights in preference to more expensive leasing. This strategy paves the way for grass roots exploration using new 3D seismic and the ability to quickly capitalise on drilling success.



Oyster Creek - Harrison-1.

MANAGING DIRECTOR'S REPORT

for the year ended 30 June 2006



USA Growth Strategy

As previously reported, the decision to engage in onshore gas exploration in the USA was driven by a need to diversify our production base and broaden our exploration portfolio with high-impact, near-term opportunities. The ability to leverage off the existing infrastructure in the United States translates into quick cycle times, low capital costs and high margins, which all serve to pay back the investments quickly in the success case.

The proceeds from the sale of our Turkish subsidiary in October 2005 have allowed the company to participate in a large number of potential material exploration opportunities that have the capacity to meet our longer term growth objectives, which could not have been met through our Turkish prospects alone. Our office in Dallas, Texas is now fully staffed with key technical people with strong track records in successful exploration.

We are now into the drilling phase of our exploration programme in the United States, with Harrison-1 being the first of four high-impact wells planned to spud before the end of calendar year 2006.

The US domestic gas market is in long term supply decline and in desperate need of readily available natural gas. The United States has been unable to meet its internal gas demand for some time, and has relied on Canada to supply pipeline gas and imported LNG, principally from South America. With gas consumption increasing, particularly for electrical power generation, the ability to supply enough gas is becoming increasingly difficult. The fragility of the supply side is further exacerbated by unpredictable disruptions as evidenced by the devastation from hurricanes Katrina and Rita, which pushed gas prices to over USD14.00/thousand cubic feet (mcf). There is an ever-increasing appetite for natural gas and a continuing tightening of supply, irrespective of the high number of rigs currently in operation. Even after LNG begins arriving at US ports in much greater volume than today, higher gas prices in the United States are unavoidable.

We are targeting 5-20+ Billion Cubic Feet (BCF) net per prospect with a financial exposure of around USD1-2.5 million net per well. We have an ongoing new ventures program in Dallas and have many more opportunities in various stages of evaluation.



Oyster Creek - Harrison-1 - Patterson Rig #137.

These deeper prospects are relatively under-explored using modern technology. Prior to 2000, the price of natural gas did not justify shooting expensive 3D seismic surveys or drilling multi million-dollar wells. The advantage of deeper targets is the increased size and production capability of the wells. These deeper targets are now much easier to identify with modern 3D seismic and can be drilled very competitively.

Current Projects

Oyster Creek

At the time of printing, the Harrison-1 well was drilling the first prospect in our Oyster Creek project. This opportunity has fairly low technical risk as it is adjacent to a producing field. We elected to acquire 75% working interest in this opportunity, as we felt it was low enough risk and reasonably inexpensive to allow us greater exposure. There are up to four individual prospects that in the success case could be drilled over the next 12 months.

The reservoir being targeted in this initial well is the prolific Frio sandstone, which is in production over a wide area of the southern Gulf Coast.

The Harrison well is a 12,800 foot test and is estimated to cost in the order of USD2.5 million.

Shaeffer Ranch

Antares Energy executed a ground floor participation agreement in early February 2006, with San Isidro Development Company, L.C. (SIDC), to jointly explore a tract of land in excess of 50,000 acres.

Each party has funded 50% of the acquisition costs of a large 85 square mile (approximately 54,400 acre) 3D seismic survey in Duval, Jim Wells, and Live Oak Counties, Texas. Antares Energy was the technical operator of the acquisition, processing and interpretation.

The area is along a well-defined and productive deep Wilcox and Queen City proven hydrocarbon fairway with overlying shallow gas potential in the Hockley, Pettus (Yegua equivalent) and Het Formations.

A large percentage of the area has never had 3D seismic acquired over it. A very attractive fixed cost land option over approximately 50,000 acres has been negotiated until January 2008. This will allow the joint venture to exclusively select any amount of acreage to lease for drilling until January 2008, with a fixed and pre-determined lease bonus payment and royalty rate.

Rowena 3D Seismic Survey

The 85 square mile Rowena 3D seismic survey began on 17 March 2006 and finished 25 May 2006, slightly ahead of schedule. The processing was completed and detailed mapping is underway. The quality of the new data is excellent.

An attractive initial target has been identified and is being prepared for drilling before the year end. This well will target thick channel sands at a depth of approximately 9,000 feet. Antares and SIDC are both participating at a 50% equity level. This well is expected to be drilled before the end of 2006.

A number of small shallow prospects have also been identified, which are likely candidates for later drilling. The deeper prospects at Queen City and Wilcox levels, originally identified on old sparse 2D seismic, have been provisionally confirmed however have not yet been fully mapped.



Seismic program at Shaeffer Ranch, Jim Wells County, Texas.

MANAGING DIRECTOR'S REPORT

for the year ended 30 June 2006

Yellow Rose

Antares Energy executed a second ground floor participation agreement with San Isidro Development Company, L.C., with each party funding 50% of the acquisition costs of an approximate 61 square mile (39,000 acre) 3D seismic survey in McMullen County, Texas, not far from Shaeffer Ranch. Antares Energy will be the technical manager of the acquisition, processing, and interpretation, as it was with Shaeffer Ranch. The majority of the land has been optioned and/or leased at an attractive and competitive rate.

The primary exploration targets are in the prolific Edwards Limestone at depths of approximately 10,000 - 14,000 feet. There is the opportunity to re-develop an existing Edwards Limestone gas field with the advantage of new 3D seismic. This scheme has been successfully applied along the Edwards trend with a high level of success.

The seismic survey is planned for acquisition in February 2007 (after the end of the south Texas hunting season) and net financial exposure by Antares is expected to be in the order of USD2.2 million.



Nabors Rig #766, KMF 228 - 1.

New Taiton

This prospect is in Wharton County, Texas. This is a well defined structural play targeting the proven Wilcox B & C sands at a depth of 14,000 feet to 16,500 feet (4,270 metres to 5,030 metres). This prospect as mapped has a reserve potential of greater than 100 BCF gross in three different stacked intervals, with a mean recoverable volume of 40 BCF. The prospect is a robust structural trap clearly defined by 3D seismic and exhibits strong amplitudes that correspond with the mapped structure. Antares has elected to earn a 25% working interest in this prospect through drilling.

Whilst we had hoped to drill this well earlier in the year, due to rig availability, joint venture issues, and land title confirmation, it has been delayed until November 2006.



Ellis-2 Site Facilities.

Kenedy Ranch

Antares Energy signed a participation agreement in September 2005 with the Lamay Group, a consortium of private US companies, to participate in the exploration of 10,872 acres in Kenedy County, Texas. The acreage was selected from a recently reprocessed 170 square mile 3D seismic survey.

The project is divided into two acreage groups. Santos USA is the operator of Group A, with a 55% working interest; the Lamay Group holds a 40% working interest, with Antares having the remaining 5% working interest. Antares Energy and the Lamay Group each have a 50% working interest in Group B.

Group A covers 7,087 acres and includes three initial prospects. The KMF 228-1 well was the first well to test the group A prospects.

Group B covers 3,785 acres. Three Group B prospects have been mapped using the 3D seismic and have estimated individual reserve potentials ranging from 30-75 BCF. The primary objectives for these prospects are Deep Frio sands between 13,000-17,000 feet (3,950-5,200 metres).

KMF 228-1 Well

The KMF 228-1 well was spudded on 3 April 2006, and reached the planned total depth of 18,200 feet on 25 June 2006. Five discreet sandstone sequences from 12,300 – 17,200 feet were penetrated, with multiple zones exhibiting significant hydrocarbon shows, including flaring of gas at surface and positive wireline log indications.

The KMF 228-1 well has now been temporarily suspended using a procedure that will allow re-entry in the future.

After the main suite of wireline logs were run, Antares and our partner Lamay elected to proceed with additional evaluations which included a check shot survey to calibrate the seismic, and a large number of rotary and conventional sidewall cores for detailed information on reservoir properties.

Santos USA elected not to participate in the collection of this additional data and hence the costs were shared by Lamay and Antares.

Plans are being formulated to re-enter the well and production test the better sand intervals. Results from core analysis indicate very good porosity and permeability of the sands between 12,500 feet and 14,000 feet.

Antares was very encouraged by the technical results from this well. The gas sands penetrated that exhibited the best gas shows are the same stratigraphic interval designated as the main objective in all the Group B prospects. This positive data helps calibrate and enhance the prospectivity on the remaining prospect inventory.

Ellis County Oklahoma

A total of six wells have been drilled on our Ellis County acreage. Four wells are currently in production. Total gross production is about 1.5 Million Cubic Feet per Day (MMcf/d) and 100 bbls of condensate per day. The most successful well to date has been the Kelln Trust 5-1 well, which has achieved financial payout and continues to produce well from the Atoka formation.

Ellis-1 and Ellis-4 are producing from the Morrow formation, which overall has not met with production expectations. Both these wells have shallower zones on wireline logs which will be tested once production from the Morrow becomes uneconomic.

Ellis-3 continues to produce oil from the Des Moines sands, which gives encouragement for the oil potential of the Des Moines sands across all our acreage.

We have accumulated a large contiguous land position of just over 6,000 net acres. This allows us great flexibility in the future development or divestiture of this area.

At least one more well is planned for drilling in Oklahoma before the end of 2006. Our partner Mewbourne Oil and Gas has drilled a well in section 4 which is completely surrounded by Antares acreage. Whilst this well has not yet been tested it appears to be a successful Atoka accumulation. A well in the adjacent section 9 will also be drilled by Mewbourne as part of a promoted farmout by Antares.

Porters Creek and Wilbeck

Both Porters Creek and Wilbeck were farm-in wells to test the Frio and Yegua formation sands in southern Texas. Both wells were gas/condensate discoveries in their secondary targets and both wells are ongoing producers.

Sale of Turkish Subsidiary

Antares Energy Limited signed an agreement with Zorlu Petrogas (Zorlu) on 27 August 2005, for the sale of 100% of the share capital of its wholly-owned subsidiary, Amity Oil International Pty Ltd. The principal asset was a 50% interest in the Thrace Joint Venture in Turkey which contains the Gocerler, Adatepe, and Cayirdere gas fields. Zorlu is a subsidiary of Zorlu Energy, part of the Zorlu Group.

Project Portfolio						
Project	Prospects		Formation	Gross Potential BCF	Working Interest	Risk
Shaeffer Ranch	Shallow	2 - 6	Hockley, Het	2-20	50%	Low
	Deep	1 - 2	Pettus (Yegua) Queen City/Wilcox	100-200	50%	Medium
Kenedy Ranch	Group A	2	Frio	30-75	5%	Medium
	Group B	3	Frio	30-120	50%	Medium
New Taiton	2		Wilcox	40-120	25%	Medium
Oyster Creek	3 - 4		Frio	4-20	75%	Low
				400,000 bbls oil	75%	Low
Ellis County	4		Atoka	3-4	20-90%	Low
	10-30		Des Moines	0.3 - 3 MMbbls oil	40-100%	Low
	1		Tonkawa	0.5-1	70%	Med
	2		Morrow	1-2	70%	Low
Yellow Rose	Requires 3D seismic to develop leads into prospects				50%	N/A

MANAGING DIRECTOR'S REPORT

for the year ended 30 June 2006



Kelln Trust 5-1 Site Facilities.

Upon completion, Antares Energy Limited received a cash consideration of USD40.4 million, which included USD9.8 million of working capital held in the subsidiary.

An additional USD4.4 million may also be paid to Antares Energy if the drilling of nominated exploration prospects results in discoveries over the 24 month period following completion.

All of the Consolidated Entity's interests in Turkey were held through Amity Oil International Pty Ltd. Antares Energy now holds no direct interests and has no commitments in Turkey other than the additional USD4.4 million being received upon the abovementioned successful exploration by Zorlu.

While it is recognised by the Board that the discovery, development, and production of the three gas fields in Turkey were significant steps in Antares' growth from a junior explorer into an international producer, the key point in agreeing to sell the asset was that the sale proceeds represented a monetisation of the asset that delivered a significant profit over the asset's book value.

Corporate

Buy-Back

From 14 September 2005 to 13 September 2006, the Company had in place an on-market buy-back allowing it to buy back up to 10% of its issued capital. During this period, the company bought back and cancelled 2,487,086 shares at an average price of \$0.399 per share.

On 2 October 2006, the Company commenced a new on-market buy-back allowing it to buy back up to 15,855,000 shares over a 12 month period.

Perth Office

In April 2005, our Perth office moved to smaller premises at Level 2, 5 Ord St, West Perth, Western Australia. The move followed a transition of Antares' technical capacity from Perth to Dallas following the sale of the Turkish subsidiary. The Perth office is now primarily a corporate office, with all operational functions logically being performed from the Dallas office.

Finally, I would like to thank all of our staff and directors for their efforts over the past year. There is no doubt that without the dedication and hard work of the whole Antares team, the Company would not be in the current enviable position of being well capitalised with a quality prospect inventory to be tested over the next 12 months.

I am very excited when I look forward and see all the high quality wells we will be drilling over the next 12 months, and firmly believe we will enjoy a high level of success.

H. M. McLaughlin
Managing Director

DIRECTORS' REPORT

The directors of Antares Energy Limited ("Antares" or "the Company") present their report and the financial report of Antares and the entities it controlled ("the Consolidated Entity") at the end of, or during the year ended 30 June 2006.

1. DIRECTORS

The directors in office at any time 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.

Richard Alden Elliott, BS(Hons) MS

- Non-Executive Chairman.

Appointed 6 July 2001. Mr Elliott is a member of AAPG (American Association of Petroleum Geologists) and the AICD (Australian Institute of Company Directors). He was Managing Director of Australian Occidental Petroleum during its discovery of the Jabiru, Challis, Harriet and Blina oil fields. After leaving Occidental he was principal of a resource consultancy firm in Western Australia and spent 6 years as Consultant to the Premier of Western Australia. Mr. Elliott is Chairman of the Nomination Committee and is a member of the Audit and Compliance and Remuneration Committees. During the past three years Mr. Elliott has also been a director of Arc Energy Limited (retired November 2003) and Hire Intelligence International Limited (retired November 2004).

Fraser David Campbell, MA, MSc

- Non-Executive Director.

Appointed 26 March 2002. Mr. Campbell was formerly General Manager Australasia for the Bank of Scotland and brings to the Company a wealth of experience and strong associations with international corporate finance. He was elected a Fellow of the Institute of Bankers in 1998. Mr. Campbell is Chairman of the Remuneration Committee and a member of the Audit and Compliance and Nomination Committees. Mr. Campbell was a director of JDV Limited until 27 September 2005 but has held no other public company directorships during the past three years.

William Ralph Boucher Hassell A.M., J.P., LL.B., M.A

- Non-Executive Director.

Appointed 3 September 2004. Mr. Hassell is a qualified lawyer and a former State Member of Parliament, State Minister of the Crown and State Opposition Leader. Mr. Hassell's commercial experience includes property and commercial legal work, consulting work and directorships of public and private companies. Until December 2005 and within the last three years he was a director and latterly Chairman of Hire Intelligence International Limited.

Mr. Hassell has also represented Western Australia as Agent General in Britain and Europe. Mr. Hassell is a member of the Australian Institute of Company Directors and the Honorary Consul for the Federal Republic of Germany in Western Australia. He is a member of the Industry Research and Development Board (Commonwealth), Chairman of its Automotive Committee, a part-time member of the Superannuation Complaints Tribunal (Commonwealth) and partner in a small private consultancy. He undertakes significant charitable and voluntary work. Mr. Hassell is Chairman of the Audit and Compliance Committee and a member of the Remuneration and Nomination Committees of Antares Energy Limited.

Howard Mark McLaughlin, B.Sc. Geology

- Managing Director & Chief Executive Officer.

Appointed 29 July 2003. Mr. McLaughlin has over 28 years experience in the petroleum industry, with 19 years working with BHPBilliton Petroleum. Mr. McLaughlin's most recent position prior to Antares was as Vice President Global Exploration, based in Houston Texas, where he had overall stewardship of BHPBilliton Petroleum's global oil and gas exploration businesses. Prior to joining BHPBilliton in 1983, he worked for ESSO Resources Canada Ltd for 6 years in Calgary, Alberta. Mr. McLaughlin's extensive international background has focused on exploration, appraisal and business development, and in addition he has held key roles in marketing and strategic planning. Mr. McLaughlin is a member of the Nomination Committee. Mr. McLaughlin has held no other public company directorships during the last three years.

James Andrew Cruickshank, B.Com, GDipAppnFin, GAICD, ASA, F.Fin

- Executive Director.

Appointed 8 October 2004. Mr Cruickshank has 18 years of commercial experience in Commercial Banking and Equity Markets. In addition, Mr Cruickshank has served overseas with the Royal Australian Regiment of the Australian Armed Forces as a result of being a graduate of The Royal Military College Duntroon where he was awarded the Leadership Award. Mr Cruickshank is a graduate of the University of Canberra with a Bachelor of Commerce with a double major in Banking & Finance and Accounting as well as holding a Graduate Diploma in Applied Finance with a major in Investment Analysis from the Securities Institute of Australia. Mr. Cruickshank is a member of CPA Australia and a Fellow of the Financial Services Institute of Australasia. Mr. Cruickshank has held no other public company directorships during the last three years. Mr. Cruickshank is a member of the Nomination Committee.

DIRECTORS' REPORT

COMPANY SECRETARY

David James Rich B.Com, CA, Grad.Dip.CSP, ACIS

Appointed 8 July 2002. Mr. Rich is a Chartered Accountant and a Chartered Secretary. Mr. Rich worked for KPMG for over four years before moving into commerce in 1991. Since then, Mr. Rich has held a number of financial, secretarial and management positions, mostly in listed companies.

At the date of this report, the directors' share and option holdings and relevant interests therein were:

Name of Director	Fully Paid Ordinary Shares	Convertible Notes	Unlisted Options	Performance Rights
R.A. Elliott	2,500,000	127,000	-	-
F.D. Campbell	125,000	-	400,000	-
W.R.B. Hassell	165,000	15,000	-	-
H.M. McLaughlin	1,100,000	24,060	1,500,000	750,000
J.A. Cruickshank	6,340,000	-	-	450,000

During the financial year 17 directors' meetings were held. The number of meetings attended by each director and the number of meetings held during each director's term of office during the financial year are shown below.

	Board of Directors' Meetings		Remuneration Committee Meetings		Audit and Compliance Committee Meetings		Nomination Committee Meetings	
	Held	Attended	Held	Attended	Held	Attended	Held	Attended
R.A. Elliott	17	17	3	3	3	3	1	1
F.D. Campbell	17	16	3	3	3	2	1	1
W.R.B. Hassell	17	17	3	3	3	3	1	1
H.M. McLaughlin	17	17	-	-	-	-	1	1
J.A. Cruickshank	17	17	-	-	-	-	1	1

Remuneration Committee

Throughout the financial year, the Remuneration Committee was comprised of Messrs Campbell (Chairman), Elliott and Hassell.

Audit and Compliance Committee

Throughout the financial year, the Audit and Compliance Committee was comprised of Messrs Hassell (Chairman), Elliott and Campbell.

Nomination Committee

Throughout the financial year, the Nomination Committee was comprised of Messrs Elliott (Chairman), Campbell, Cruickshank, Hassell and McLaughlin.

2. PRINCIPAL ACTIVITIES

The principal activities of the entities within the Consolidated Entity during the financial year were hydrocarbon production and exploration in the United States of America and Turkey.

On 28 October 2005 the Company completed the sale of its subsidiary, Amity Oil International Pty Ltd, which included all of the Company's interests in Turkey. Apart from a contingent asset resulting from the sale (as set out in Note 22) the Company's activities are now solely focussed on hydrocarbon production and exploration in the United States of America.

3. FINANCIAL RESULTS

The net profit after income tax of the Consolidated Entity for the financial year ended 30 June 2006 totalled \$5,547,000 (2005: \$663,000). This is equivalent to a profit of 3.5 cents per share (2005: 0.4 cents per share). The loss from continuing operations equates to a loss of 9.5 cents per share (2005: loss of 5.0 cents per share).

4. DIVIDEND

The directors do not recommend the payment of a dividend and no amount has been paid or declared by way of dividend since the end of the previous financial year, or to the date of this report.

5. SHARE OPTIONS

During the year ended 30 June 2006 1,000,000 ordinary fully paid shares were issued following the exercise of 1,000,000 unlisted options at 50 cents. Since 30 June 2006 no fully paid ordinary shares have been issued as a result of the exercising of options.

At the date of this report, the Company has 3,015,000 options for ordinary fully paid shares on issue as follows:

Number of Options	Exercise Price	Expiry Date
400,000 - unlisted	\$1.22	11 November 2006
315,000 - unlisted	\$1.22	20 December 2006
100,000 - unlisted	\$1.22	24 January 2007
170,000 - unlisted	\$1.22	23 April 2007
1,500,000 - unlisted	\$1.35	1 July 2007
25,000 - unlisted	\$1.22	30 July 2007
230,000 - unlisted	\$1.22	12 December 2007
275,000 - unlisted	\$1.22	13 July 2008
<u>3,015,000</u>		

Refer to Notes 15 and 27 of the financial statements for more details.

Optionholders do not have any right by virtue of the option, to participate in any share issue of the Company or any related body corporate or in the interest issue of any other registered scheme.

6. CORPORATE STRUCTURE

Antares Energy Limited is a company limited by shares that is incorporated and domiciled in Australia.

DIRECTORS' REPORT

7. OPERATING AND FINANCIAL REVIEW

Overview of the Consolidated Entity

Antares Energy Limited was listed on the Australian Stock Exchange in 1994 as Amity Oil Limited. In 1999, after a period of predominantly local exploring in Australia the Company took an opportunity to drill an exploration well in Turkey. This Gocerler-1 well was a discovery and from this success the Company built a strong upstream production and exploration asset in Turkey in joint venture with TPAO, the Turkish state oil company.

In 2003/4 the Company expanded its strategy beyond Turkey and Australia to the USA. The Company set up an operations office in Dallas, Texas to be the primary driver of new exploration opportunities. The Company's first wells in the USA programme were spudded in late 2004 and were producing within 12 months from the commencement of the Company's operations in the USA.

During early 2005 the Company received strong interest from companies seeking to invest in the upstream oil and gas industry in Turkey. Following negotiations, in August 2005 the Company signed an agreement with Zorlu Petrogas for the sale of Amity Oil International Pty Ltd, the Company's wholly owned subsidiary which held all of the Company's Turkish assets. The consideration for the sale was USD40.4 million which included USD9.8 million of working capital. The sale completed on 28 October 2005.

The company also divested or relinquished all its exploration interests in Australia.

The Company's sole geographical focus at present is the USA and proceeds from the sale of the Turkish subsidiary have been, and will continue to be, used to fund the Company's ongoing business activities of exploration, development and operation of oil and gas assets in the USA. Presently the Company is involved in 7 exploration and development projects in Oklahoma and Texas and currently has interests in 6 producing wells with one further discovery being brought on line shortly.

Performance Indicators

The Board and management team establish and approve the direction of the Company by discussing and preparing strategic plans and annual budgets. The key performance indicators identified from the plans and budgets are used to monitor performance. Management monitor the key performance indicators on a regular basis and the Board receive the key performance indicators for review prior to each board meeting allowing directors to actively monitor performance.

Dynamics of the Business

In the USA gas prices have remained high over the year due to weather disruptions, increases in the global oil price and an increase in gas demand over supply. Gas prices are now trading between USD6.50-8.00 per Mcf.

Sustained high oil and gas prices have continued the trend of increasing operational activity levels in the petroleum industry. This has seen competition for quality prospects increase and the number of quality prospects decrease. This has reinforced the Company's strategy of maintaining a strong geophysical and geological capacity in Dallas, to ensure that it can evaluate new prospects in a competent and timely manner. This is seen as a significant competitive advantage.

Furthermore, the high levels of activity in the industry result in strong demand for resources and services, including staff, seismic crews and drilling equipment. Delays in rig availability meant that the Company was not able to drill as many wells as it would have liked during the year. In addition to availability, the increased demand for services has also resulted in significant increases in drilling and development costs.

		2006	2005
Production (BCFe)	- USA	0.2	0.1
	- Turkey	0.9	3.2
Production ('000 BOE)	- USA	28	18
	- Turkey	157	529
Sales revenue (\$mil.)	- USA	1.5	0.6
	- Turkey	7.7	23.2

7. OPERATING AND FINANCIAL REVIEW (CONT.)

	2006	2005
Net profit after tax from continuing operations (\$mil.)	(15.2)	(8.0)
Net profit after tax from discontinued operations (\$mil.)	3.3	8.7
Net profit after tax on sale of discontinued operation (\$mil.)	17.4	-
Overall net profit/(loss) after tax (\$mil.)	5.5	0.7
Operating cashflow (\$mil.)	1.3	13.4

The operating results for the year reflect the significant changes that occurred during the year, in particular the sale of Amity Oil International Pty Ltd, the Company's 100% owned subsidiary which held the producing gas fields of Gocerler, Adatepe and Cayirdere in the Thrace Basin, Turkey. The results of the Turkish subsidiary are included in the financial statements for four months, being from 1 July 2005 up to 28 October 2005 being the date the sale was completed. This resulted in a large fall in production and sales revenue. However the profit on the sale of Amity Oil International Pty Ltd did generate large earnings before interest and tax (EBITDAX) and net profit after tax results.

Production from the USA assets increased slightly with the number of producing wells increasing from three to six. New wells commencing production were Ellis-4, Wilbeck-1 and Kelln Trust 5-1.

Exploration and development expenditure in the USA totalled \$12.6 million. Significant items included in this figure were the acquisition of leases and options over land in the Kenedy Ranch, Shaeffer Ranch and Oyster Creek projects, 85 square miles of 3D seismic in the Shaeffer Ranch project and the Kelln Trust 5-1, KMF 228-1, Ellis-4 and Yukon-2 wells. Workover operations were also carried out on several wells during the year. The costs of services, including drilling and related operations increased significantly during the year.

Production from the Company's early wells (in particular the Ellis-1, 2 and 4 wells) declined more quickly than expected after the initial production was near expectations. This decline has resulted in significant impairment costs of \$7,731,000 being booked for the year.

Shareholder Returns

The following table shows the last five years financial performance against shareholder returns as measured by the closing share price at 30 June each year.

	2006	2005	2004	2003	2002
Sales revenue (\$'million)	9.2	23.1	20.6	15.5	2.1
Net profit/(loss) after tax (\$'million)	5.5	0.7	(8.3)	0.3	(6.7)
Basic EPS (cents)	3.5	0.4	(5.2)	0.2	(6.1)
Closing 30 June share price (\$)	0.395	0.44	0.63	1.16	0.71

Notes:

1. 2006 and 2005 net profit after tax and EPS are reported under A-IFRS accounting standards whereas 2004, 2003 and 2002 are reported under the AGAAP accounting standards in effect at the time.
2. No dividends were paid at any time over the last five years.
3. In 2006, the Company bought back 2,437,087 shares on-market at an average price of \$0.399.
4. Sales revenue, net profit after tax and EPS include discontinued operations.

DIRECTORS' REPORT

7. OPERATING AND FINANCIAL REVIEW (CONT.)

Strategy and Investments for Future Performance

The Company is an onshore USA petroleum exploration & production company. Its geographical focus within the USA is currently south Texas and Oklahoma gas and oil plays. Management has assembled a strong technical team based in Dallas, Texas and the corporate head office remains in Perth, Western Australia.

The Company has a clear strategy to achieve profitability and reserves growth through petroleum exploration, targeting medium to deep high impact conventional gas plays such as the Wilcox, Frio, Queen City, Yegua and Edwards Limestone sands in south Texas. The Company already has a high-impact, prospect-rich portfolio and \$33.9 million in cash reserves at 30 June 2006 (with no bank debt) with which to fund the exploration programme. The forward programme will involve both operated and non-operated ventures.

The Company seeks to maintain a balanced exploration portfolio at all times and hence will modify its working interest in projects in order to suit the predetermined criteria set by the Board. The Company's strategic criteria for evaluating new projects is as follows:

- a) Each project will have a net un-risked impact to Antares greater than 5-10 BCF;
- b) Targeting conventional reservoirs at depths between 8000-18,000 feet;
- c) Close Proximity to known fairways and existing productive fields;
- d) 3D seismic and other scientific tools are utilised to lower technical risk;
- e) Net exposure per well of USD1 - 2.5 million;
- f) Technical probability of success 20% - 50%; and
- g) Experienced operators and partners with solid reputations.

As at the date of this report the Company is involved in five significant projects being Shaeffer Ranch, Kenedy Ranch, Oyster Creek, New Taiton, and Yellow Rose, as well as ongoing development of a new oil play in Oklahoma.

A significant number of high impact wells are scheduled to be drilled over the next 12 months.

8. ENVIRONMENTAL REGULATION AND PERFORMANCE

The Consolidated Entity is a party to various exploration and development licences or permits in the country in which it operates. In most cases, these contracts and licences specify the environmental regulations applicable to oil and gas operations in the respective jurisdictions. The Consolidated Entity aims to ensure that it complies with the identified regulatory requirements in each jurisdiction in which it operates. There have been no significant known breaches of the environmental obligations of the Consolidated Entity's licences.

9. REMUNERATION REPORT

This report outlines the remuneration arrangements in place for directors and executives of the Company.

9.1 Remuneration policies

The Remuneration Committee is responsible for making recommendations to the Board on remuneration policies applicable to directors and executives of the Company.

Further details of the Company's remuneration policy and practices are included in the Corporate Governance Statement on page 27 and Note 27 to the financial statements.

9. REMUNERATION REPORT (CONT.)

Remuneration levels for directors, senior executives of the Company, and relevant executives of the Consolidated Entity (“the directors and senior executives”) are competitively set to attract and retain appropriately qualified and experienced directors and senior executives. The remuneration committee evaluates the appropriateness of remuneration packages given trends in comparative companies and the objectives of the Company’s remuneration strategy.

The remuneration structures explained below are designed to attract suitable qualified candidates, reward the achievement of strategic objectives, and achieve the broader outcome of creation of value for shareholders. The remuneration structures take into account:

- the capability and experience of the directors and senior executives;
- the ability of directors and senior executives to control the performance of the relevant area of responsibility;
- the performance of the Consolidated Entity including:
 - the success of exploration and production operations;
 - the Consolidated Entity’s earnings; and
 - the growth in share price and returns to shareholders; and
- the amount of incentives within each executive’s remuneration

Remuneration packages typically include a mix of fixed and variable remuneration and short and long-term performance-based incentives.

9.2 Managing director and executives

Fixed remuneration

Fixed remuneration consists of base remuneration (which is calculated on a total cost basis and includes any FBT charges related to employee benefits), as well as employer contributions to superannuation funds.

Remuneration levels are reviewed annually by the remuneration committee through a process that considers individual, segment and overall performance of the Consolidated Entity. A review of externally provided remuneration data is conducted to ensure the managing director’s and the executives’ remuneration is competitive in the market place. A senior executive’s remuneration is also reviewed on promotion.

Variable remuneration

Variable remuneration is designed to reward the managing director and senior executives for meeting or exceeding financial, operational and/or individual objectives or expectations. Those incentives are an “at risk” bonus provided in the form of cash and/or performance rights. Previously such remuneration had also taken the form of options over ordinary shares in the Company.

Each year, as part of the strategic plan, the board sets the KPI’s (key performance indicators) for the Company. The KPI’s take into consideration shareholder, operational and financial measures.

Performance Rights

Any performance rights granted are issued under the Performance Rights Plan as approved by shareholders at the annual general meeting held on 23 November 2004. The Board formulated the Performance Rights Plan to align the long-term creation of value for shareholders with rewards to employees, including executive directors.

Under the plan the Board can determine the number of rights to be issued and the performance hurdles and performance period that govern the vesting of the rights.

DIRECTORS' REPORT

9. REMUNERATION REPORT (CONT.)

The current unvested rights on issue are dependent on performance hurdles and service conditions and will vest 33.33% on 31 December 2006 and 66.67% on 31 December 2007. The performance hurdles are as follows:

	Hurdle Weighting
i) Market capitalisation	20%
ii) Hydrocarbon production	25%
iii) Hydrocarbon reserves replacement	25%
iv) Finding and development costs	10%
v) Earnings before interest, tax, depreciation, amortisation and exploration write-offs (EBITDAX)	10%
vi) Comparison of percentage growth in market capitalisation per annum with peer group of eight companies*	10%
	100%

*The peer group comprises of: Arc Energy (ASX: ARQ), Amadeus Energy (ASX: AMU), Tomahawk (ASX: THK), Mosaic Oil (ASX: MOS), Petsec Energy (ASX: PSA), Roc Oil (ASX: ROC), Tap Oil (ASX: TAP) and Carrizo Oil and Gas (NASDAQNM: CRZO).

On 9 January 2006, 100,000 performance rights were granted to Mr David Rich. The last exercise date for the rights is 9 January 2011 and the rights vest 33.33% on 31 December 2006 and 66.67% of 31 December 2007 in line with the performance hurdles applicable to the existing performance rights on issue. The likely first exercise date is 31 March 2007. The fair value per right at the date of grant was \$0.35. No other performance rights were granted during the financial year to either directors or executives.

The movement in performance rights held by key management personnel during the year is as follows (key management personnel are as set out in Note 27):

Unvested Performance Rights holdings of Directors and Executives

	Total Number on Issue at 1 July 2005	Total Number Granted During the Year	Total Number Vested During the Year	Total Number Lapsed During the Year	Total Number on Issue at 30 June 2006
Directors					
R.A. Elliott	-	-	-	-	-
F.D. Campbell	-	-	-	-	-
W.R.B. Hassell	-	-	-	-	-
H.M. McLaughlin	1,000,000	-	(25,000)	(225,000)	750,000
J.A. Cruickshank	600,000	-	(15,000)	(135,000)	450,000
Executives					
D.J. Rich	600,000	100,000	(15,000)	(135,000)	550,000
D.M. Scull	600,000	-	(15,000)	(135,000)	450,000
Total:	2,800,000	100,000	(70,000)	(630,000)	2,200,000

9. REMUNERATION REPORT (CONT.)

Vested Performance Rights holdings of Directors and Executives

	Total Number on Issue at 1 July 2005	Total Number Vested During the Year	Total Number Exercised During the Year	Total Number on Issue at 30 June 2006
Directors				
R.A. Elliott	-	-	-	-
F.D. Campbell	-	-	-	-
W.R.B. Hassell	-	-	-	-
H.M. McLaughlin	-	25,000	(25,000)	-
J.A. Cruickshank	-	15,000	(15,000)	-
Executives				
D.J. Rich	-	15,000	(15,000)	-
D.M. Scull	-	15,000	-	15,000
Total:	-	70,000	(55,000)	15,000

Options

No options were granted to directors or executives during the year to 30 June 2006. The following table outlines options held by directors and executives during the year.

Option holdings of directors and executives

	Exercise Price	Balance at beginning of period 1 July 2005	Options Exercised	Options Lapsed	Net change Other	Balance at end of period 30 June 2006	Vested at 30 June 2006* Total
Directors							
R.A. Elliott	\$1.22	400,000	-	(400,000)	-	-	-
F.D. Campbell	\$1.22	400,000	-	-	-	400,000	400,000
W.R.B. Hassell		-	-	-	-	-	-
H.M. McLaughlin	\$1.35	1,500,000	-	-	-	1,500,000	1,000,000
J.A. Cruickshank**	\$0.50	1,000,000	(1,000,000)	-	-	-	-
Executives							
D.J. Rich	\$1.22	375,000	-	-	-	375,000	341,666
D.M. Scull	\$1.22	275,000	-	-	-	275,000	91,666
Total		3,950,000	(1,000,000)	(400,000)	-	2,550,000	1,833,332

* All options vested at 30 June 2006 are exercisable.

** The options held and exercised by Mr Cruickshank were not remuneration options, the options were purchased on an arms length basis.

Cash Bonus

Where an executive has performed at a level beyond that which would normally be required in his role or achieved an outcome beyond expectations, either over a period of time or on a specific task, the remuneration committee may, in its absolute discretion, recommend that the Board grant a cash bonus to the individual or individuals.

DIRECTORS' REPORT

9. REMUNERATION REPORT (CONT.)

Other benefits

Other than the provision of car parking, no other benefits are provided to directors or senior executives.

Employment Contracts

It is the Consolidated Entity's policy that employment agreements for senior executives, excluding the Chief Executive Officer, are unlimited in term but capable of termination with between one and three months notice and that the Consolidated Entity retains the right to terminate the contract immediately, by making payment in lieu of notice.

The Consolidated Entity has entered into an unlimited term employment agreement with each senior executive, excluding the Chief Executive Officer. The employment agreement outlines the components of remuneration paid to the executives but does not prescribe how remuneration levels are modified year to year. Remuneration levels are reviewed each year to take into account cost-of-living changes, any change in the scope of the role performed by the executive and any changes required to meet the principles of the remuneration policy.

The Chief Executive Officer is the only executive with a fixed term employment agreement. On 30 March 2006 the Company entered into a new employment agreement with the Chief Executive Officer, Mr Howard McLaughlin, which expires on 30 June 2008. Under the new terms the Company may terminate the agreement (other than for cause) by providing an amount equivalent to the greater of 12 months notice or the balance of the term. The Chief Executive Officer may terminate the agreement by giving three months notice. Upon termination by the Chief Executive Officer, unvested options and performance rights will expire immediately and vested options and performance rights will expire three months after termination. As at 30 June 2006, there are no other fixed term employment agreements.

9.3 Non-executive directors

Total remuneration for all non-executive directors, last voted upon by shareholders at the 2002 AGM, is not to exceed \$250,000 per annum. Fees are set based on a review of externally provided remuneration data with reference to fees paid to other non-executive directors of comparable companies.

Non-executive directors do not receive incentive-based remuneration and do not receive any retirement benefits other than statutory requirements.

9. REMUNERATION REPORT (CONT.)

9.4 Directors' and executive officers' remuneration

The following table sets out the remuneration of directors and executives of the Company and Consolidated Entity during the reporting period.

	Short-Term			Post	Share-Based		Total	Total Performance Related
	Salary & Fees	Cash Bonus	Non Monetary Benefits	Employment Super- annuation	Options (i)	Performance Rights (ii)		
	Directors							
R.A. Elliott	60,000	-	-	5,400	-	-	65,400	-
F.D. Campbell	38,150	-	-	-	4,178	-	42,328	9.87%
W.R.B. Hassell	35,000	-	-	3,150	-	-	38,150	-
H.M. McLaughlin	363,998	15,000	-	12,139	190,417	109,925	691,479	45.60%
J.A. Cruickshank	216,138	8,000	1,130	12,139	-	65,955	303,362	24.38%
Total	713,286	23,000	1,130	32,828	194,595	175,880	1,140,719	
Executives								
D.J. Rich	237,138	12,000	2,265	12,139	12,432	74,694	350,668	28.27%
D.M. Scull	247,652	9,345	7,180	-	34,451	65,955	364,583	30.10%
Total	484,790	21,345	9,445	12,139	46,883	140,649	715,251	

- (i) Although a value has been attributed to the options and expensed in the financial statements, it should be noted that the directors and executives have not received this amount and the options may have no actual financial value unless the options achieve their exercise price as set out in the table on page 17 above under "Options".
- (ii) Although a value has been attributed to the performance rights and expensed in the financial statements, it should be noted that the directors and executives have not received this amount and the performance rights may have no actual financial value unless the predetermined performance hurdles are achieved.

10. INDEMNIFICATION OF DIRECTORS AND COMPANY SECRETARY

An indemnity agreement has been entered into with each of the directors of the Company as at the end of the reporting period (as named in section 1 of this report) and the Company Secretary. Under the agreement, the Company has agreed to indemnify those directors and the Company Secretary against any claim or for any expenses or costs that may arise as a result of work performed in their respective capacities. There is no monetary limit to the extent of this indemnity.

The Company has paid a premium under a contract insuring each Director and Officer of the Company and its Consolidated Entities against liability incurred in that capacity. Disclosure of the nature of the liability covered by and the amount of premium payable for such insurance is subject to a confidentiality clause under the contract of insurance.

DIRECTORS' REPORT

11. RISK MANAGEMENT

The Company takes a proactive approach to risk management. The Board is responsible for ensuring that risks, and also opportunities, are identified on a timely basis and that the group's objectives and activities are aligned with the risks and opportunities identified by the Board.

The Board, through the Audit and Compliance Committee, maintains a risk register ranking all the identified risks of the business and how the significant risks are being managed.

The Board has a number of mechanisms in place to ensure that management's objectives and activities are aligned with the risks identified by the Board. These include the following:

- Board approval of a strategic plan, which encompasses the group's vision, mission and strategy statements, designed to meet stakeholders needs and manage business risk.
- Implementation of Board approved operating plans and budgets and Board monitoring of progress against these budgets, including the establishment and monitoring of both financial and non-financial KPIs.
- Regular reviews of the risk register by the Audit and Compliance Committee and subsequent reporting to the Board.

12. STATE OF AFFAIRS

Significant changes in the state of affairs of the Consolidated Entity during the financial year ended 30 June 2006 were as follows:

A decrease in share capital from \$60,975,000 to \$60,503,000 as follows:

	\$'000
Opening Balance, 1 July 2005	60,975
Issue of 1,000,000 fully paid ordinary shares on exercise of \$0.50 options	500
On-market buy-back of 2,437,087 fully paid ordinary shares at an average price of \$0.399	(972)
Closing Balance, 30 June 2006	60,503

There have been 50,000 ordinary shares bought back and cancelled between the reporting date and the date of completion of these financial statements.

13. SIGNIFICANT EVENTS AFTER BALANCE DATE

No matter or circumstance has arisen since 30 June 2006 that has significantly affected or may significantly affect the operation, results or state of affairs of the Consolidated Entity in the following or future years except for the following:

Yellow Rose Project

On 27 July 2006 the Company announced that its USA subsidiary, Antares Energy Company had executed an agreement to participate in the Yellow Rose project. The agreement details Antares Energy Company's participation on a ground floor basis in the acquisition of a 61 square mile (approximately 39,000 acres) 3D seismic survey in South Texas. The project is nearby the Shaeffer Ranch project. Under the agreement, Antares will have 50% of the project which will be operated by San Isidro Development Company, L.C. ("San Isidro Development") who holds the other 50% of the project. San Isidro Development is also Antares' 50% partner and operator of the Shaeffer Ranch project.

The seismic acquisition is tentatively scheduled to begin on or about 1 March 2007. It is expected that it will take approximately 2 months to acquire the data and another 2 months to have it processed. Initial costs up to the point of drilling the first well are estimated to be approximately USD2.2 million net to Antares depending on the finalisation of the land option and lease costs.

13. SIGNIFICANT EVENTS AFTER BALANCE DATE (CONT.)

Antares Energy will be responsible for the technical aspects of the acquisition, processing and interpretation of the seismic and will fund the internal geological and geophysical manpower costs required through to drilling the first well.

Once the seismic is interpreted and prospects developed, both parties will have the ability to farmout specific prospects for drilling if they choose to reduce their working interest from 50%.

Reset of Terms of Convertible Notes

On 13 September 2006 the Company announced the Board's decision that the terms and conditions of the Convertible Notes after 31 October 2006 will remain the same as those currently in place, specifically:

Interest Rate:	10% per annum (payable quarterly in arrears)
Conversion Rate:	1:1 (each note is convertible into one fully paid ordinary share)
Next reset date:	31 October 2009

14. LIKELY DEVELOPMENTS AND RESULTS

As at the date of this report the Company is involved in five significant projects being Shaeffer Ranch, Kenedy Ranch, Oyster Creek, New Taiton, and Yellow Rose, as well as ongoing development of a new oil play in Oklahoma. The company has planned to drill exploration wells to test key targets within the Shaeffer Ranch, Kenedy Ranch, Oyster Creek and New Taiton projects. In addition to this, seismic is contracted to be acquired over the Yellow Rose project and the Consolidated Entity will participate in at least two further wells in Ellis County to test the oil play.

Results from the abovementioned exploration wells will drive any development expenditure for items such as development wells, surface facilities and pipelines. Production volumes and revenues will be driven by the results of the exploration programme.

In addition to the projects already announced, the Consolidated Entity continues to run an active new ventures program and it is likely that new projects will be entered into over the course of the coming financial year.

15. TAX CONSOLIDATION

Effective 1 July 2002, for the purposes of income taxation, Antares Energy Limited and its 100% owned Australian controlled entities formed a tax consolidated group. Members of the group have entered into a tax sharing arrangement. The tax sharing agreement provides for the allocation of income tax liabilities between the entities should the head entity default on its tax payment obligations.

16. CORPORATE GOVERNANCE

In recognising the need for the highest standards of corporate behaviour and accountability, the directors of Antares Energy Limited support and in general have adhered to the principles of corporate governance. The Company's corporate governance statement is contained as part of this annual report.

17. ROUNDING

The amounts contained in this report and in the financial report have been rounded to the nearest \$1,000 (where rounding is applicable) under the option available to the company under ASIC Class Order 98/0100. The company is an entity to which the Class Order applies.

DIRECTORS' REPORT

18. AUDITOR INDEPENDENCE AND NON-AUDIT SERVICES

The independence declaration received from the auditor of Antares Energy Limited is set out on page 23 and forms part of this directors report for the year ended 30 June 2006.

Non-audit services

The following non-audit services were provided by the entity's auditor, Ernst & Young. The Directors are satisfied that the provision of non-audit services is compatible with the general standard of independence of auditors imposed by the Corporations Act. The nature and scope of each type of non-audit service provided means that auditor independence was not compromised.

Local and international tax services	\$224,000
Other assurance services	\$82,000
Total	<u>\$306,000</u>

Signed in accordance with a resolution of directors.



R.A. ELLIOTT

Chairman

West Perth, Western Australia

15 September, 2006

AUDITOR'S INDEPENDENCE DECLARATION



■ The Ernst & Young Building
11 Mounts Bay Road
Perth WA 6000
Australia

■ Tel 61 8 9429 2222
Fax 61 8 9429 2436

GPO Box M939
Perth WA 6843

Auditor's Independence Declaration to the Directors of Antares Energy Limited

In relation to our audit of the financial report of Antares Energy Limited for the financial year ended 30 June 2006, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the Corporations Act 2001 or any applicable code of professional conduct.

A handwritten signature in blue ink that reads 'Ernst & Young'.

Ernst & Young

A handwritten signature in blue ink that reads 'Gavin Buckingham'.

Gavin A Buckingham

Partner

15 September 2006

CORPORATE GOVERNANCE STATEMENT

The Board of Directors of Antares Energy Limited (the "Company") is responsible for the corporate governance of the Consolidated Entity. The Board guides and monitors the business and affairs of the Company on behalf of the shareholders by whom they are elected and to whom they are accountable.

In accordance with the Australian Stock Exchange Corporate Governance Council's (the Council) "Principles of Good Corporate Governance and Best Practice Recommendations" this Corporate Governance Statement contains certain specific information and discloses the extent to which the Company has followed the guidelines during the period. Where a recommendation has not been followed for all or part of the year, that fact must be disclosed, together with the reasons for the departure. The Company's Corporate Governance Statement is structured with reference to the Council's principles and recommendations which are as follows:

- | | |
|--------------|---|
| Principle 1 | Lay solid foundations for management and oversight; |
| Principle 2 | Structure the Board to add value; |
| Principle 3 | Promote ethical and responsible decision making; |
| Principle 4 | Safeguard integrity in financial reporting; |
| Principle 5 | Make timely and balanced disclosure; |
| Principle 6 | Respect the rights of shareholders; |
| Principle 7 | Recognise and manage risk; |
| Principle 8 | Encourage enhanced performance; |
| Principle 9 | Remunerate fairly and responsibly; |
| Principle 10 | Recognise the legitimate interests of shareholders. |

The Company's corporate governance practices were in place throughout the year ended 30 June 2006 and were fully compliant with the Council's best practice recommendations except where noted.

Copies of all Corporate Governance documentation is available on our website at: www.antaresenergy.com (Investor Relations/ Corporate Governance).

Structure of the Board

The skills, experience and expertise relevant to the position of director held by each director in office at the date of the annual report is included in the Directors' Report on page 9. Directors of the Company are considered to be independent when they are independent of management and free from any business or other relationship that could materially interfere with – or could reasonably be perceived to materially interfere with – the exercise of their unfettered and independent judgement.

In the context of director independence, "materiality" is considered from both the Company and individual director perspective. The determination of materiality requires consideration of both quantitative and qualitative elements. An item is presumed to be quantitatively immaterial if it is equal to or less than 5% of the appropriate base amount. It is presumed to be material (unless there is qualitative evidence to the contrary) if it is equal to or greater than 10% of the appropriate base amount. Qualitative factors considered include whether a relationship is strategically important, the competitive landscape, the nature of the relationship and the contractual or other arrangements governing it and other factors which point to the actual ability of the director in question to shape the direction of the Company. The appropriate base amount depends on the nature of the item being considered. For example, if a director's interest in a supplier is being considered, there would be two appropriate base amounts, the first being the Company's total purchases from suppliers and the second being the total sales to all customers by the supplier.

In accordance with the definition of independence above, and the materiality thresholds set, the following directors of the Company are considered to be independent:

Name	Position
R.A. Elliott	Chairman, Non-Executive Director
F.D. Campbell	Non-Executive Director
W.R.B. Hassell	Non-Executive Director

Recommendation 2.1 recommends that the majority of the Board be independent directors. This was the case throughout the year.

There are procedures in place, agreed by the Board, to enable directors, in furtherance of their duties, to seek independent professional advice at the Company's expense.

The term in office held by each director at the date of this report is as follows:

R.A. Elliott	5.2 years
F.D. Campbell	4.5 years
W.R.B. Hassell	2.1 years
H.M. McLaughlin	3.2 years
J.A. Cruickshank	2 years

The Company's Corporate Governance Policy states that the Board should have at least five directors.

The Board has established a Nomination Committee, which meets at least annually, to ensure that the Board continues to operate within the established guidelines, including where necessary, selecting candidates for the position of director. The Nomination Committee comprises a majority of independent directors. The Nomination Committee comprised the following members throughout the year:

R.A. Elliott (Chairman)
F.D. Campbell
W.R.B. Hassell
H.M. McLaughlin
J.A. Cruickshank

Given the small number of directors, currently all directors are members of the Nomination Committee. For details of directors' attendance at meetings of the Nomination Committee, refer to page 10.

Audit and Compliance Committee

The Board has established an Audit and Compliance Committee which operates under a terms of reference (charter) approved by the Board. It is the Board's responsibility to ensure that an effective internal control framework exists within the entity. This includes internal controls to deal with the effectiveness and efficiency of significant business processes, the safeguarding of assets, the maintenance of proper accounting records, and the reliability of financial information as well as non-financial considerations. The Board has delegated the responsibility for the establishment and maintenance of a framework of internal control (including the maintenance of a risk register) for the management of the Consolidated Entity to the Audit and Compliance Committee.

The Committee also provides the Board with additional assurance regarding the reliability of financial information for inclusion in the financial reports. All members of the Audit and Compliance Committee are non-executive directors.

CORPORATE GOVERNANCE STATEMENT

Audit and Compliance Committee (Cont.)

The members of the Audit and Compliance Committee during the year were:

W.R.B. Hassell (Chairman)

F.D. Campbell

R.A. Elliott

For details regarding the qualifications of the members, refer to page 9.

For details on the number of meetings of the Audit and Compliance Committee held during the year and the attendees at those meetings refer to the Director's Report on page 10.

Ethical and Responsible Decision Making

The Board of the Company actively promotes ethical and responsible decision-making. The standard of ethical behaviour required by directors and officers (including the Managing Director and Chief Executive Officer and Chief Financial Officer), is set out in a Directors and Officers Code of Conduct. Complimenting this is a Code of Conduct for all employees and directors. Both Code's form part of the Company's Corporate Governance documentation which is published on the Company's website.

External Auditor

As per the Audit and Compliance Committee Terms of Reference, the Audit and Compliance Committee conducted a review of the external auditor during the year. The Committee reviewed independence, performance in relation to the adequacy of the scope and quality of the annual statutory audit and half-year review and the fees charged. The Company's policy for the appointment of an external auditor is published on the Company's website. The Company's auditors have an ongoing policy of audit engagement partner rotation every five years.

Performance

The performance of the Board and key executives is reviewed regularly against both measurable and qualitative indicators. During the reporting period, the Nomination Committee conducted an internal performance evaluation which involved a review of the Board's performance.

Risk Management

The Company takes a proactive approach to risk management. The Board is responsible for ensuring that risks, and also opportunities, are identified on a timely basis and that the group's objectives and activities are aligned with the risks and opportunities identified by the Board. The Board has a separate Risk Management policy. The Board oversees the risk management of the Company through the Audit and Compliance Committee.

The Board, through the Audit and Compliance Committee, maintains a risk register ranking all the identified risks of the business and how the significant risks are being managed.

The Board has a number of mechanisms in place to ensure that management's objectives and activities are aligned with the risks identified by the Board. These include the following:

- Board approval of a strategic plan, which encompasses the group's vision, mission and strategy statements, designed to meet stakeholders needs and manage business risk.
- Implementation of Board approved operating plans and budgets and Board monitoring of progress against these budgets, including the establishment and monitoring of both financial and non-financial KPIs.
- Regular reviews of the risk register by the Audit and Compliance Committee and subsequent reporting to the Board.

Risk Management (Cont.)

Recommendation 7.1 recommends companies have an internal audit function. The Company does not have an internal audit function as the Board considers the Company is not yet large enough to justify the cost of doing so. Recommendation 7.3 recommends the Company make a description of its internal compliance and control system publicly available. At this stage the Company has not made such a description separately available as it considers that the information is already covered in the Risk Management Policy document.

Remuneration

It is the Company's objective to provide maximum stakeholder benefit from the retention of a high quality Board and executive team by remunerating directors and key executives fairly and appropriately with reference to relevant employment market conditions. To assist in achieving this objective, the Remuneration Committee links the nature and amount of executive directors' and officers' emoluments to the Company's financial and operational performance. The expected outcomes of the remuneration structure are:

- retention and motivation of key executives;
- attraction of quality management to the Company;
- performance incentives which allow executives to share the rewards of the success of the Company.

For details on the amount of remuneration and all monetary and non-monetary components paid to the (non-director) executive during the year and for all directors, refer to page 19. In relation to the payment of bonuses, options and other incentive payments, discretion is exercised by the Board, having regard to the overall performance of the Company and the performance of the individual during the period.

There is no scheme to provide retirement benefits, other than statutory superannuation, to non-executive directors.

The Board is responsible for determining and reviewing compensation arrangements for the directors themselves and the chief executive officer and the executive team. The Board has established a Remuneration Committee, comprising three non-executive directors. Members of the Remuneration Committee throughout the year were:

F.D. Campbell (Chairman)

R.A. Elliott

W.R.B. Hassell

For details on the number of meetings of the Remuneration Committee held during the year and the attendees at those meetings, refer to page 10.

Recognise the legitimate Interests of Stakeholders

The Board recognises the Company has a number of legal and other obligations to non-shareholder stakeholders such as employees, clients/customers and the community as a whole and is therefore committed to appropriate corporate practices.

The Board has a company-wide Code of Conduct which is published on the Company's website.

INCOME STATEMENT

For the Year Ended 30 June 2006

	Note	Consolidated		Parent	
		2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Continuing Operations					
Revenue	3	2,709	1,132	1,349	722
Cost of goods sold	4	(933)	(597)	-	-
Gross profit		1,776	535	1,349	722
Other income	3	93	539	93	450
Employee benefits	4	(3,206)	(2,894)	(2,398)	(2,682)
Other expenses excluding finance costs	4	(12,278)	(4,713)	(15,198)	(6,910)
Finance costs	4	(1,625)	(1,444)	(1,625)	(1,444)
Loss before income tax		(15,240)	(7,977)	(17,779)	(9,864)
Income tax benefit/(expense)	5	4	(38)	-	-
Loss after tax from continuing operations		(15,236)	(8,015)	(17,779)	(9,864)
Discontinued Operations					
Profit after tax from discontinued operations	6	20,783	8,678	32,933	-
Profit/(Loss) attributable to members of Antares Energy Limited		5,547	663	15,154	(9,864)
Earnings per share (cents per share)					
Basic for profit/(loss) per share for the period	7	3.5	0.4		
Basic for profit/(loss) per share from continuing operations	7	(9.5)	(5.0)		
Diluted profit/(loss) per share for the period	7	3.5	0.4		
Diluted profit/(loss) per share from continuing operations	7	(9.5)	(5.0)		

The income statement is to be read in conjunction with the notes to the financial statements.

BALANCE SHEET

As at 30 June 2006

	Note	Consolidated		Parent	
		2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
CURRENT ASSETS					
Cash and cash equivalents	8	33,909	1,380	32,827	1,711
Trade and other receivables	9	624	623	189	343
Inventories	10	7	50	-	-
Non-current assets classified as held for sale	6	-	36,218	-	-
Total current assets		34,540	38,271	33,016	2,054
NON-CURRENT ASSETS					
Trade and other receivables	9	-	-	15,407	30,758
Property, plant and equipment	12	171	211	21	52
Oil and gas properties	13	3,338	5,700	-	-
Deferred exploration and evaluation expenditure	14	11,035	9,293	-	-
Other financial assets	11	-	-	33	33
Total non-current assets		14,544	15,204	15,461	30,843
TOTAL ASSETS		49,084	53,475	48,477	32,897
CURRENT LIABILITIES					
Trade and other payables	16	941	3,418	381	611
Provisions	18	128	94	81	68
Interest-bearing loans and borrowings	17	9,866	-	9,866	-
Non-current liabilities classified as held for sale	6	-	8,572	-	-
Total current liabilities		10,935	12,084	10,328	679
NON-CURRENT LIABILITIES					
Interest-bearing loans and borrowings	17	-	9,467	-	9,467
Total non-current liabilities		-	9,467	-	9,467
TOTAL LIABILITIES		10,935	21,551	10,328	10,146
NET ASSETS		38,149	31,924	38,149	22,751
EQUITY					
Contributed equity	19 (a)	60,503	60,975	60,503	60,975
Reserves	19 (b)	1,640	490	1,511	795
Accumulated losses	19 (c)	(23,994)	(29,541)	(23,865)	(39,019)
TOTAL EQUITY		38,149	31,924	38,149	22,751

The balance sheet is to be read in conjunction with the notes to the financial statements.

STATEMENT OF CHANGES IN EQUITY

For the Year Ended 30 June 2006

CONSOLIDATED	(Accumulated				
	Ordinary Share Capital \$'000	Losses)/ Retained Earnings \$'000	Foreign Currency Reserve \$'000	Share Option Reserve \$'000	Total \$'000
2005					
Balance at 1 July 2004	60,960	(30,204)	-	238	30,994
Foreign currency translation differences	-	-	(305)	-	(305)
Total income and expense recognised directly in equity	-	-	(305)	-	(305)
Profit/(loss) for the period	-	663	-	-	663
Total income/expense for the period	-	663	(305)	-	358
Issue of Share capital	15	-	-	-	15
Cost of share based payments	-	-	-	557	557
Balance at 30 June 2005	60,975	(29,541)	(305)	795	31,924
2006					
Balance at 1 July 2005	60,975	(29,541)	(305)	795	31,924
Transfer to profit on de-consolidation of entity	-	-	38	-	38
Foreign currency translation differences	-	-	396	-	396
Total income and expense recognised directly in equity	-	-	434	-	434
Profit for the period	-	5,547	-	-	5,547
Total income/expense for the period	-	5,547	434	-	5,981
Share buy back	(972)	-	-	-	(972)
Exercise of share options	500	-	-	-	500
Cost of Share based payments	-	-	-	716	716
Balance at 30 June 2006	60,503	(23,994)	129	1,511	38,149
PARENT	(Accumulated				
	Ordinary Share Capital \$'000	Losses)/ Retained Earnings \$'000	Foreign Currency Reserve \$'000	Share Option Reserve \$'000	Total \$'000
2005					
Balance at 1 July 2004	60,960	(29,155)	-	238	32,043
Foreign currency translation differences	-	-	-	-	-
Total income and expense recognised directly in equity	-	-	-	-	-
Profit/(loss) for the period	-	(9,864)	-	-	(9,864)
Total income/expense for the period	-	(9,864)	-	-	(9,864)
Issue of Share capital	15	-	-	-	15
Cost of share based payments	-	-	-	557	557
Balance at 30 June 2005	60,975	(39,019)	-	795	22,751
2006					
Balance at 1 July 2005	60,975	(39,019)	-	795	22,751
Foreign currency translation differences	-	-	-	-	-
Total income and expense recognised directly in equity	-	-	-	-	-
Profit for the period	-	15,154	-	-	15,154
Total income/expense for the period	-	15,154	-	-	15,154
Share buy back	(972)	-	-	-	(972)
Exercise of share options	500	-	-	-	500
Cost of Share based payments	-	-	-	716	716
Balance at 30 June 2006	60,503	(23,865)	-	1,511	38,149

The statement of changes in equity is to be read in conjunction with the notes to the financial statements.

CASH FLOW STATEMENT

For the Year Ended 30 June 2006

	Note	Consolidated		Parent	
		2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Cash flows from operating activities					
Receipts from customers		9,032	22,948	-	-
Dividends received		-	-	-	51
Payments to suppliers and employees		(7,166)	(9,105)	(2,595)	(1,431)
Interest received		1,194	1,202	1,035	442
Interest paid		(1,252)	(1,045)	(1,252)	(1,019)
Income tax (paid)/received		(472)	(667)	-	-
Other income		-	26	-	261
Net cash inflows/(outflows) from operating activities		1,336	13,359	(2,812)	(1,696)
Cash flows from investing activities					
Payments for property, plant and equipment		(69)	(860)	(5)	(16)
Exploration, evaluation and development expenditure		(16,616)	(20,934)	(12)	-
Loans to subsidiaries		-	-	(16,014)	(14,986)
Net proceeds from sale of discontinued operation	6(e)	38,417	-	48,960	-
Expenses on sale of discontinued operation	6(d)	(3,606)	-	-	-
Proceeds from sale of controlled entity		-	10	-	10
Proceeds from sale of licence interests		291	10	210	10
Proceeds from sale of property, plant and equipment		17	25	17	25
Proceeds from rig sale in prior year		-	2,025	-	2,025
Net cash inflows/(outflows) from investing activities		18,434	(19,724)	33,156	(12,932)
Cash flows from financing activities					
Proceeds from borrowings		5,750	-	5,750	-
Repayment of borrowings		(5,750)	-	(5,750)	-
Payments for shares bought back on-market		(979)	-	(979)	-
Proceeds from issue of shares		500	15	500	15
Net cash (outflows)/inflows from financing activities		(479)	15	(479)	15
Net increase/(decrease) in cash and cash equivalents held					
		19,291	(6,350)	29,865	(14,613)
Cash and cash equivalents at the beginning of the financial year		12,806	19,692	1,711	16,752
Effects of exchange rate changes on cash		1,812	(536)	1,251	(428)
Cash and cash equivalents at the end of the financial year		33,909	12,806	32,827	1,711

The cashflow statement is to be read in conjunction with the notes to the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 30 June 2006

NOTE 1 BASIS OF PREPARATION

The financial report of Antares Energy Limited and its subsidiaries ("the Consolidated Entity") for the year ended 30 June 2006 was authorised for issue in accordance with a resolution of the Directors on 15 September 2006.

Antares Energy Limited is a company limited by shares incorporated and domiciled in Australia whose shares are publicly traded on the Australian Stock Exchange. The address of the registered office and principal place of business is Level 2, 5 Ord Street, West Perth, Western Australia, 6005.

The principal activity of Antares Energy Limited is the exploration and production of oil and gas, with current activities based primarily in Oklahoma and Texas states in the United States of America.

(a) Basis of preparation

The financial report is a general-purpose financial report, which has been prepared in accordance with the requirements of the Corporations Act 2001 applicable Accounting Standards and other mandatory professional reporting requirements (Urgent Issues Group Interpretations).

The financial report has been prepared in accordance with the historical cost convention.

The financial report is presented in Australian dollars and all values are rounded to the nearest thousand dollars (\$'000) unless otherwise stated under the option available to the company under ASIC Class Order 98/100. The company is an entity to which the class order applies.

(b) Statement of compliance

The financial report complies with Australian Accounting Standards, which include Australian equivalents to International Financial Reporting Standards ("AIFRS"). Compliance with AIFRS ensures that the financial report, comprising the financial statements and notes thereto, complies with the International Financial Reporting Standards (IFRS).

This is the first full financial report prepared based on AIFRS and comparatives for the year ended 30 June 2005 have been restated accordingly. A summary of the significant accounting policies of the Consolidated Entity under AIFRS are disclosed below. Reconciliations of AIFRS equity as at 1 July 2004 and as at 30 June 2005 and a reconciliation of profit/(loss) after tax for the year ended 30 June 2005 as prepared under AGAAP to that under AIFRS are detailed in Note 28 below.

From 1 July 2005, the Consolidated Entity elected to take the exemption under AASB 1 "First Time Adoption of AIFRS" to apply AASB 132 "Financial Instruments: Disclosure and Presentation" and AASB 139 "Financial Instruments: Recognition and Measurement" from 1 July 2005. Accordingly comparatives have not been restated.

The following accounting standards have recently been issued or amended but are not yet effective and have not been adopted for the annual reporting period ended 30 June 2006:

AASB Amendment	Affected Standard (s)	Application date of standard
2004-3	AASB 1 First-time adoption of AIFRS AASB 101 Presentation of Financial Statements AASB 124 Related Party Disclosures	1 January 2006
2005-1	AASB 139 Financial Instruments: Recognition and Measurement	1 January 2006
2005-4	AASB 139 Financial Instruments: Recognition and Measurement, AASB 132 Financial Instruments: Disclosure and Presentation, AASB 1 First-time adoption of AIFRS, AASB 1023 General insurance Contracts and AASB 1038 Life Insurance Contracts	1 January 2006
2005-5	AASB 1 First-time adoption of AIFRS and AASB 139 Financial Instruments: Recognition and Measurement	1 January 2006
2005-6	AASB 3 Business Combinations	1 January 2006
2005-9	AASB 4 Insurance Contracts, AASB 1023 General insurance Contracts, AASB 139 Financial Instruments: Recognition and Measurement and AASB 132 Financial Instruments: Disclosure and Presentation	1 January 2006

NOTE 1 BASIS OF PREPARATION (CONT.)**(b) Statement of compliance (Cont.)**

AASB Amendment	Affected Standard (s)	Application date of standard
2005-10	AASB 132 Financial Instruments: Disclosure and Presentation, AASB 101 Presentation of Financial Statements, AASB 114 Segment Reporting, AASB 117 Leases, AASB 133 Earnings per Share, AASB 139 Financial Instruments: Recognition and Measurement, AASB 1 First-time adoption of AIFRS, AASB 4 Insurance Contracts, AASB 1023 General insurance Contracts and AASB 1038 Life Insurance Contracts	1 January 2007
2006-1	AASB 121 The Effects of Change in Foreign Currency Rates	1 January 2006
New Standard	AASB 7 Financial Instruments: Disclosures	1 January 2007
2005-3	AASB 119 Employee Benefits	1 January 2006
New Standard	December 2004 version of AASB 119 Employee Benefits	1 January 2006

The following Urgent Issues Group Interpretations have recently been issued or amended but are not yet effective and have not been adopted for the annual reporting period ended 30 June 2006:

New or revised Standard/ UIG Affected Standard (s)	Application date of interpretation
UIG 4 Determining whether an Arrangement contains a Lease	1 January 2006
UIG 5 Rights to Interests in Decommissioning, Restoration and Environmental Rehabilitation Funds	1 January 2006
UIG 6 Liabilities Arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment	1 December 2005
UIG 7 Applying the Restatement Approach under AASB 129 Financial Reporting in Hyperinflationary Economies	1 March 2006
UIG 8 Scope of AASB 2	1 May 2006
UIG 9 Reassessment of Embedded Derivatives	1 June 2006

All the above accounting standards are applicable for annual reporting periods commencing on or after 1 January 2006. For the Consolidated Entity the above accounting standards will be applied from their application date. It is anticipated that there will be no change to accounting policy and hence no impact from the application of the above standards.

The following amendments are not applicable to the Consolidated Entity and therefore have no impact:

AASB Amendment	Affected Standard (s)	Application date of standard
2005-4	First-time adoption of AIFRS, AASB 1023 General insurance Contracts and AASB 1038 Life Insurance Contracts	1 January 2006
2005-9	AASB 4 Insurance Contracts, AASB 1023 General insurance Contracts	1 January 2006
2005-10	AASB 4 Insurance Contracts, AASB 1023 General insurance Contracts and AASB 1038 Life Insurance Contracts	1 January 2007

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 30 June 2006

NOTE 1 BASIS OF PREPARATION (CONT.)

(c) Principles of consolidation

The consolidated financial statements comprise the financial statements of Antares Energy Limited and its subsidiaries during the year ended 30 June 2006 ("the Consolidated Entity").

The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies.

In preparing the consolidated financial statements, all inter-company balances and transactions, income and expenses and profit and losses resulting from intra-group transactions have been eliminated in full.

Subsidiaries are fully consolidated from the date on which control is transferred to the Consolidated Entity and cease to be consolidated from the date on which control is transferred out of the Consolidated Entity.

(d) Property, plant and equipment

Plant and equipment is stated at cost less accumulated depreciation and any accumulated impairment losses.

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

Plant and equipment, other than freehold land, are depreciated to their residual values at rates based on the expected useful lives of the assets concerned. Oil and gas properties are depreciated on the Units of Production (UOP) basis using proven plus probable reserves.

The remaining assets use the straight line approach. The major categories of assets are depreciated as follows:

Category	Method
Plant and equipment	Straight line at 20% to 33%.
Oil and gas properties	Over the life of proved plus probable reserves (UOP).
Leasehold Improvements	The shorter of useful life and the lease term.

Currently there are no buildings owned by the Consolidated Entity.

Work in Progress assets are carried in the accounts at cost. They are not depreciated until they are installed at the intended location and ready for use in the manner at which they were intended to be used.

Impairment

The carrying values of 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 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.

NOTE 1 BASIS OF PREPARATION (CONT.)

(e) Exploration and evaluation

Expenditure on exploration and evaluation is accounted for in accordance with the "area of interest" method.

Exploration licence acquisition costs are capitalised and subject to half-yearly impairment testing.

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

- The expenditure relates to an exploration discovery that, at balance date, has not been recognised as an area of interest, as assessment of the existence or otherwise of economically recoverable reserves is not yet complete; or
- An area of interest is recognised, and it is expected that the expenditure will be recouped through successful exploitation of the area of interest, or alternatively, by its sale.

The costs of drilling exploration wells are initially capitalised pending the results of the well. Costs are expensed where the well does not result in the successful discovery of economically recoverable hydrocarbons and the recognition of an area of interest. Areas of interest may be recognised at either the field or the well level, depending on the nature of the project. Subsequent to the recognition of an area of interest, all further costs relating to the area of interest are capitalised.

Each potential or recognised area of interest is reviewed half yearly to determine whether economic quantities of reserves have been found or whether further exploration and evaluation work is underway or planned to support the continued carry forward of capitalised costs.

Upon approval for the commercial development of an area of interest, accumulated expenditure for the area of interest is transferred to oil and gas properties.

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.

AASB 6 Exploration for and Evaluation of Mineral Resources has been applied effective 1 July 2004.

(f) Impairment of assets

At each reporting date, the Consolidated Entity assesses whether there is any indication that an asset may be impaired. If any such indication of impairment exists, or when annual impairment testing for an asset is required, the Consolidated Entity makes a formal estimate of the asset's recoverable amount.

An asset's recoverable amount is the higher of fair value less costs to sell and its value in use. It is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets and the asset's value in use cannot be estimated to be close to its fair value. In such cases, the asset is tested for impairment as part of the cash-generating unit to which it belongs. When the carrying amount of an asset or cash-generating unit exceeds its recoverable amount, the asset or cash-generating unit is considered impaired and is written down to its recoverable amount.

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. Impairment losses relating to continuing operations are recognised in those expense categories consistent with the function of the impaired asset unless the asset is carried at a revalued amount (in which case the impairment loss is treated as a revaluation decrease).

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of recoverable amount, but only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit).

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 30 June 2006

NOTE 1 BASIS OF PREPARATION (CONT.)

(g) Provision for Restoration

The Consolidated Entity records the present value of the estimated cost of legal and constructive obligations to restore operating locations in the period in which the obligation arises. The nature of restoration activities includes the removal of facilities, abandonment of wells and restoration of affected areas.

Typically, the obligation arises when the asset is installed at the production location. When the liability is initially recorded, the estimated cost is capitalised by increasing the carrying amount of the related oil and gas properties. Over time, the liability is increased for the change in the present value based on a risk adjusted pre-tax discount rate appropriate to the risks inherent in the liability. The unwinding of the discount is recorded as an accretion charge within finance costs. The carrying amount capitalised in oil and gas properties is depreciated over the useful life of the related asset (refer Note 1(d)).

Costs incurred that relate to an existing condition caused by past operations, and do not have future economic benefit, are expensed.

(h) Trade and other receivables

The Consolidated Entity has elected to apply the option available under AASB 1 of adopting AASB 132 and AASB 139 from 1 July 2005. Outlined below are the relevant accounting policies for trade and other receivables applicable for the year ended 30 June 2006.

Accounting policies applicable from 1 July 2005

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 there is objective evidence that the Consolidated Entity will not be able to collect the full debt. Bad debts are written off when identified.

For the year ended 30 June 2005 the following accounting policy was in place:

Trade receivables are recognised and carried at original invoice amount less an allowance for any provision for any uncollectible debts.

(i) Cash and cash equivalents

Cash and short term deposits in the balance sheet comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less.

For the purposes of the Cash Flow Statement, cash and cash equivalents consist of cash and cash equivalents as defined above.

(j) Trade and other payables

The Consolidated Entity has elected to apply the option available under AASB 1 of adopting AASB 132 and AASB 139 from 1 July 2005. Outlined below is the relevant accounting policies for trade and other payables applicable for the year ended 30 June 2006.

Accounting policies applicable from 1 July 2005

Trade payables and other payables are carried at amortised costs and represent liabilities for goods and services provided to the Consolidated Entity prior to the end of the financial year that are unpaid and arise when the Consolidated Entity becomes obliged to make future payments in respect of the purchase of these goods and services.

For the year ended 30 June 2005 the following accounting policy was in place:

Liabilities for trade creditors and other amounts are carried at cost which is the fair value of the consideration to be paid in the future for goods and services received, whether or not billed to the Consolidated Entity.

(k) Provisions

Provisions are recognised when the Consolidated Entity has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

If the effect of the time value of money is material, provisions are discounted using a pre-tax rate that reflects the risks specific to the liability. When discounting is used, the increase in the provision due to the passage of time is recognised as a borrowing cost.

NOTE 1 BASIS OF PREPARATION (CONT.)

(l) Employee benefits

(i) Wages, salaries, bonus payments, annual leave and sick leave

Liabilities for wages and salaries, bonus payments, including non-monetary benefits, annual leave and accumulating sick leave expected to be settled within 12 months of the reporting date are recognised in other payables in respect of employees' services up to the reporting date. They are measured at the amounts expected to be paid when the liabilities are settled. Liabilities for non-accumulating sick leave are recognised when the leave is taken and are measured at the rates paid or payable.

(ii) Long service leave

The liability for long service leave is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using the projected unit credit method. Consideration is given to expected future wages and salary levels, experience of employee departures, and periods of service. Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity and currencies that match, as closely as possible, the estimated future cash outflows.

(m) Leases

Consolidated Entity as a lessee

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.

Finance leases, which transfer to the Consolidated Entity substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges recognised as an expense in profit or loss.

Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset and the lease term, if there is no reasonable certainty that the Consolidated Entity will obtain ownership by the end of the lease term.

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognised as an expense in the income statement on a straight-line basis over the lease term.

(n) Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Consolidated Entity and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

Sales Revenue

Sales revenue is recognised when the significant risks and rewards of ownership have passed to the buyer and the costs incurred or to be incurred in respect of the transaction can be measured reliably. Risks and rewards of ownership are considered passed to the buyer at the time of "delivery of goods to the customer". Delivery of product is by pipeline and under well specific contracts that define the place of transfer in ownership, the nominated transfer point has appropriate meter equipment installed. Product pricing is dependant upon product quality and delivery volumes rates, and base price marked to an appropriate commodity market benchmark.

Interest

Revenue is recognised as the 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.

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 30 June 2006

NOTE 1 BASIS OF PREPARATION (CONT.)

(o) Income tax

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the balance sheet date.

Deferred income tax is provided on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognised for all taxable temporary differences; except:

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

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry-forward of unused tax assets and unused tax losses can be utilized; except:

- when the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; or
- when the deductible temporary difference is associated with investments in subsidiaries, associates and interests in joint ventures, in which case the deferred tax asset is only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

Unrecognised deferred income tax assets are reassessed at each balance sheet date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantially enacted at the balance sheet date.

Income taxes relating to terms recognised directly in equity are recognised in equity and not in profit or loss.

(p) Other taxes

Revenues, expenses and assets are recognised net of the amount of GST except:

- when the GST incurred on a purchase of goods and services is not recoverable from the taxation authority in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- receivables and payables which are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the balance sheet.

Cash flows are included in the Cash Flow Statement on a gross basis and the GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the taxation authority are classified as operating cash flows.

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

NOTE 1 BASIS OF PREPARATION (CONT.)

(q) Interest bearing loans & borrowings - Convertible notes

The component of the convertible note that exhibits characteristics of a liability is recognised as a liability in the balance sheet, net of issue costs. The residual amount is recognised as equity in the balance sheet.

Placement costs and interest are payable on conversion or redemption. These costs will be accrued as expenses until conversion or redemption. Some or all of these expenses can be converted to ordinary shares. At that time, any amount that is requested to be converted will be recognised against the issued capital.

For the year to 30 June 2005, any transaction costs arising from the conversion of notes to fully paid ordinary shares are recognised directly in equity as a reduction of the proceeds from the convertible notes

(r) Borrowing Costs

Borrowing costs incurred for the construction of qualifying assets are capitalised during the period of time that is required to complete and prepare the asset for its intended use or sale. Assets are considered to be qualifying assets when this period of time is substantial (greater than 12 months). The interest rate used to determine the amount of borrowing costs to be capitalised is the weighted average interest rate applicable to the Consolidated Entity's outstanding borrowings during the year.

(s) Interest in a jointly controlled operation

The Consolidated Entity has interests in joint ventures that are jointly controlled operations. A joint venture is a contractual arrangement whereby two or more parties undertake an economic activity that is subject to joint control. A jointly controlled operation involves use of assets and other resources of the venture rather than establishment of a separate entity. The Consolidated Entity recognises its interest in a jointly controlled operation by recognising the assets that it controls and the liabilities that it incurs. The Consolidated Entity also recognises the expenses that it incurs and its share of the income that it earns from the sale of goods or services by a jointly controlled operation.

(t) Issued capital

Issued and paid up capital is recognised at the fair value of the consideration received by the Company. Any transaction costs arising on the issue of ordinary shares are recognised directly in equity as a reduction of the proceeds received.

(u) Earnings per share ("EPS")

Basic EPS is calculated as net profit attributable to members of the parent, adjusted to exclude costs of servicing equity (other than dividends) and preference shares, divided by the weighted average number of ordinary shares, adjusted for any bonus element.

Diluted EPS is calculated as the net profit attributed to members of the parent, adjusted for:

- costs of servicing equity (other than dividends) and preference shares;
- the after-tax effect of dividends and interest associated with the dilutive potential ordinary shares that have been recognised as expenses; and
- other non-discretionary changes in revenue and expenses during the period that would result from the dilution of potential ordinary shares;

divided by the weighted average number of ordinary shares and dilutive potential ordinary shares, adjusted for any bonus element.

(v) Inventories

Inventories are valued at the lower of cost and net realisable value.

Spares and consumables are valued at purchase cost on a first-in first-out basis. Surplus and obsolete items are identified and disposed of, or written down to realisable value pending disposal.

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 30 June 2006

NOTE 1 BASIS OF PREPARATION (CONT.)

(w) Foreign currency translation

Both the functional and presentation currency of Antares Energy Limited and its Australian subsidiaries is Australian dollars (\$). Entities within the Consolidated Entity that are based and operate outside of Australia use the functional currency of their domicile, provided the local economy is not subject to hyperinflation. Each entity in the Consolidated Entity uses its specific functional currency to measure the items included in the financial statements of that entity.

Transactions in foreign currency are initially recorded in the functional currency by applying the exchange ruling at the date of the transaction or the average for the period when translating a large number of transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the balance sheet date.

All exchange differences in the consolidated financial report are taken to the income statement.

Non-monetary items that are measured in terms of historic cost in a foreign currency are translated using the exchange rate as at the date of the initial transaction.

Non-monetary items are measured at fair value in a foreign currency are translated using the exchange rate as at the date when fair value was determined.

The functional currency of the Consolidated Entity's material foreign operation, Antares Energy Company, is United States dollars (USD).

As at the reporting date the assets and liabilities of this subsidiary were translated into the presentation currency of Antares Energy Limited at the rate of exchange ruling at the balance sheet date and their income statements are translated at the average exchange for the period.

The exchange differences arising on the translation are taken directly to a separate component of equity. On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the income statement.

(x) Share-based payment transactions

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 shares, options to acquire shares or rights over shares.

There are currently two forms of share based remuneration in place:

- Options granted to directors, senior executives and employees under the Employee Option Plan which was terminated on 7 November 2004; and
- Performance rights granted under the Performance Rights Plan to employees. Non-executive directors are not entitled to participate in this plan.

The cost of these equity-settled transactions with employees and directors is measured by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined using an appropriate model.

In valuing equity-settled transactions, account is taken of performance conditions where the conditions are either linked to the price of the shares of Antares Energy Limited, or will impact on the number of securities vesting.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award (the vesting period).

The cumulative expense recognised for equity-settled transactions at each reporting date until vesting date reflects (i) the extent to which the vesting period has expired and (ii) 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, of outstanding securities is reflected as additional share dilution in the computation of earnings per share.

NOTE 1 BASIS OF PREPARATION (CONT.)

(y) Investments in controlled entities

All investments are initially recognised at cost, being the fair value of the consideration given and including acquisition charges associated with the investment. Subsequent to the initial measurement, investments in controlled entities are carried at cost less accumulated impairment losses.

(z) Critical accounting estimates, assumptions and judgements

Estimates and assumptions are periodically evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Equally, the Consolidated Entity continually employs judgement in the application of its accounting policies.

(i) Critical Accounting Estimates and Assumptions

The Consolidated Entity makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

Impairment of assets

The Consolidated Entity's accounting policy for impairment is set out at Note 1(f). In determining the recoverable amount of assets, in the absence of quoted market prices, estimations are made regarding the present value of future cash flows using asset-specific discount rates. For oil and gas properties, expected future cash flow estimation is based on internal estimates of potential reserves, future production profiles, commodity prices and costs.

The internal estimates of recoverable quantities of proven and probable reserves used in the future cashflow estimations include assumptions regarding commodity prices, exchange rates, discount rates, production and transportation costs for future cash flows. It also requires interpretation of complex and difficult geological and geophysical models in order to make an assessment of the size, shape, depth and quality of reservoirs and their anticipated recoveries. The economic, geological and technical factors used to estimate reserves may change from period to period. Estimated recoverable reserves and their production profiles are integral to the amount of impairment, depreciation, depletion and amortisation charged to the income statement. We prepare internal recoverable reserve estimates in accordance with guidelines prepared by the Society of Petroleum Engineers.

The carrying value of oil and gas properties as at 30 June 2006 is \$3,338,000 (2005: \$5,700,000).

Share-based payment transactions

The Group measures the cost of equity-settled transactions with directors and employees by reference to the fair value of the equity instruments at the date at which they are granted. Equity settled transactions include options and performance rights. The fair value of an option is determined by an using a Black-Scholes option-pricing model using the assumptions detailed in note 15. The fair value of a performance right is determined by an external valuer using a modified Black-Scholes option-pricing model using the assumptions detailed in note 15.

(ii) Critical Judgements in Applying the Consolidated Entity's Accounting Policies

Exploration and evaluation

The Consolidated Entity's accounting policy for exploration and evaluation is set out at Note 2(e). The application of this policy necessarily requires management to make certain estimates and assumptions as to future events and circumstances, in particular, the assessment of whether economic quantities of reserves have been or will be found. Any such estimates and assumptions may change as new information becomes available. If, after having capitalised expenditure under our policy, it is determined that the Consolidated Entity is unlikely to recover the expenditure by future exploitation or sale, then the relevant capitalised amount will be written off to the income statement.

The carrying amount of exploration and evaluation as at 30 June 2006 is \$11,035,000 (2005: \$9,293,000).

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 30 June 2006

NOTE 2 SEGMENT REPORTING

(a) Geographical Segments

The Consolidated Entity's primary segment reporting format is geographical segments as the Consolidated Entity's risks and rates of return are effected predominantly by the fact that it operates in different countries.

During the year the Consolidated Entity operated in three geographical segments, being the USA, Turkey and Australia. All of the Consolidated Entity's operations in Turkey are reported under the discontinued operations section. Apart from Turkey, there are no other geographical sectors included in the discontinued operations section. The majority of the Consolidated Entity's exploration and production currently takes place in the USA. Some licence interests were previously owned in Australia, but most were disposed of during the 2004 and 2005 years.

Secondary segment information is reported by business segments.

(b) Business Segment

The Consolidated Entity operates in the hydrocarbon exploration and production business segment only.

Primary Reporting - Geographical Segments

2006	USA \$'000	Australia \$'000	Total Continuing Operations \$'000	Discontinued Operations Turkey \$'000	Total Operations \$'000
REVENUE					
External Sales	1,502	-	1,502	7,654	9,156
Other Revenue	35	1,172	1,207	123	1,330
Other Segments	-	301	301	-	301
Total segment revenue	1,537	1,473	3,010	7,777	10,787
Inter-segment elimination			(301)	-	(301)
Total Revenue from ordinary activities			2,709	7,777	10,486
RESULT					
Segment Result	(13,143)	(1,599)	(14,742)	3,433	(11,309)
Unallocated expense			-	-	-
Foreign exchange gain/(loss)			1,127	-	1,127
Profit/(loss) from ordinary activities before income tax			(13,615)	3,433	(10,182)
Finance costs			(1,625)	-	(1,625)
Income tax benefit/(expense)			4	(98)	(94)
			(15,236)	3,335	(11,901)
Gain on the sale of discontinued operation (note 6)			-	17,448	17,448
Net Profit/(Loss)			(15,236)	20,783	5,547

NOTE 2 SEGMENT REPORTING (CONT.)**Primary Reporting - Geographical Segments (Cont.)****2006 (Cont.)**

	USA \$'000	Australia \$'000	Total Continuing Operations \$'000	Discontinued Operations Turkey \$'000	Total Operations \$'000
ASSETS					
Segment Assets	15,915	33,169	49,084	-	49,084
Unallocated Assets			-	-	-
Total Assets			49,084	-	49,084
LIABILITIES					
Segment Liabilities	(597)	(10,338)	(10,935)	-	(10,935)
Tax Liabilities			-	-	-
Total Liabilities			(10,935)	-	(10,935)
OTHER					
Capital expenditure	12,610	42	12,652	484	13,136
Depreciation	62	39	101	504	605
Amortisation	533	-	533	639	1,172
Convertible notes amortisation	-	133	133	-	133
Convertible notes implicit interest	-	266	266	-	266
Exploration written off	5,221	30	5,251	-	5,251
Impairment	7,731	-	7,731	-	7,731
Total non-cash expenses	13,547	468	14,015	1,143	15,158
CASH FLOW INFORMATION					
Net cash flow from operating activities	(160)	(2,820)	(2,980)	4,316	1,336
Net cash flow from investing activities	(15,102)	38,386	23,284	(4,850)	18,434
Net cash flow from financing activities	-	(479)	(479)	-	(479)

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 30 June 2006

NOTE 2 SEGMENT REPORTING (CONT.)

Primary Reporting - Geographical Segments (Cont.)

2005

	USA \$'000	Australia \$'000	Total Continuing Operations \$'000	Discontinued Operations Turkey \$'000	Total Operations \$'000
REVENUE					
External Sales	617	-	617	22,469	23,086
Other Revenue	8	507	515	730	1,245
Other Segments	-	2,152	2,152	-	2,152
Total segment revenue	625	2,659	3,284	23,199	26,483
Inter-segment elimination			(2,152)	-	(2,152)
Total Revenue from ordinary activities			1,132	23,199	24,331
RESULT					
Segment Result	(2,420)	(750)	(3,170)	12,282	9,112
Unallocated expenses net of unallocated revenue			(2,822)	-	(2,822)
Foreign exchange gain/(loss)			(541)	(410)	(951)
Profit/(loss) from ordinary activities before income tax			(6,533)	11,872	5,339
Finance costs			(1,444)	(25)	(1,469)
Income tax benefit/(expense)			(38)	(3,169)	(3,207)
Net Profit/(Loss)			(8,015)	8,678	663
ASSETS					
Segment Assets	14,825	2,132	16,957	36,218	53,175
Unallocated Assets			300	-	300
Total Assets			17,257	36,218	53,475
LIABILITIES					
Segment Liabilities	(2,872)	(9,996)	(12,868)	(8,572)	(21,440)
Tax Liabilities			(111)	-	(111)
Total Liabilities			(12,979)	(8,572)	(21,551)

NOTE 2 SEGMENT REPORTING (CONT.)**Primary Reporting - Geographical Segments (Cont.)**

2005 (Cont.)					
	USA	Australia	Total	Discontinued	Total
	\$'000	\$'000	Continuing	Operations	Operations
			Operations	Turkey	
			\$'000	\$'000	\$'000
OTHER					
Capital expenditure	16,856	2,460	19,316	6,538	25,854
Depreciation	16	102	118	1,158	1,276
Amortisation	505	-	505	1,931	2,436
Convertible notes amortisation	-	133	133	-	133
Convertible notes implicit interest	-	266	266	-	266
Exploration written off	1,122	2,875	3,997	-	3,997
Impairment	369	-	369	-	369
Total non-cash expenses	2,012	3,376	5,388	3,089	8,477
CASH FLOW INFORMATION					
Net cash flow from operating activities	(150)	(2,008)	(2,158)	15,517	13,359
Net cash flow from investing activities	(14,397)	2,315	(12,082)	(7,642)	(19,724)
Net cash flow from financing activities	-	15	15	-	15

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 30 June 2006

	Consolidated		Parent	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
NOTE 3 REVENUE AND OTHER INCOME				
<i>(i) Revenue and other income from Continuing Operations</i>				
a) Revenue				
Sale of product	1,502	617	-	-
Finance revenue – bank interest receivable	1,207	515	1,172	484
Rendering of services	-	-	177	238
	<u>2,709</u>	<u>1,132</u>	<u>1,349</u>	<u>722</u>
b) Other Income				
Gain on disposal of interest in leases	80	150	-	150
Write back of restoration provisions	-	314	-	-
Gain on disposal of property, plant and equipment	13	12	13	12
Gain on disposal of controlled entity	-	50	-	50
Dividends from Subsidiaries	-	-	-	51
Sale of inventory	-	-	-	173
Other	-	13	80	14
	<u>93</u>	<u>539</u>	<u>93</u>	<u>450</u>
<i>(ii) Revenue and other income from Discontinued Operations (note 6)</i>				
a) Revenue				
Sale of product	7,654	22,470	-	-
Finance revenue – bank interest receivable	123	729	-	-
	<u>7,777</u>	<u>23,199</u>	<u>-</u>	<u>-</u>
NOTE 4 EXPENSES AND LOSSES/(GAINS)				
<i>(i) Expenses and losses/(gains) from continuing operations</i>				
a) Expenses				
Cost of goods sold:				
Depreciation and amortisation expenses	533	505	-	-
Other production costs	400	92	-	-
Total cost of goods sold	<u>933</u>	<u>597</u>	<u>-</u>	<u>-</u>
Other expenses:				
Operating lease payments	262	255	161	189
Impairment of intercompany loan	-	-	15,473	(2,353)
Write down of loans to controlled entity	-	-	-	9,353
General and Administrative expenses	2,979	3,852	585	2,452
Exploration and evaluation expenditure written off (note 14)	5,251	3,997	30	-
Impairment of oil and gas properties (note 13)	7,731	369	-	-
Costs recovered/capitalised	(3,945)	(3,760)	(1,051)	(2,731)
	<u>12,278</u>	<u>4,713</u>	<u>15,198</u>	<u>6,910</u>

NOTE 4 EXPENSES AND LOSSES/(GAINS) (CONT.)

a) Expenses (Cont.)

	Consolidated		Parent	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Finance costs:				
Convertible notes interest paid/payable	1,000	1,000	1,000	1,000
Convertible notes implicit interest (note 17)	266	266	266	266
Convertible notes issue costs amortisation	133	133	133	133
Facility fees and interest	226	45	226	45
	<u>1,625</u>	<u>1,444</u>	<u>1,625</u>	<u>1,444</u>
Employee benefits				
Wages and salaries	2,281	2,198	1,544	1,992
Share based payments	716	557	716	557
Leave provisions	188	118	117	112
Other	21	21	21	21
	<u>3,206</u>	<u>2,894</u>	<u>2,398</u>	<u>2,682</u>
Reconciliation of depreciation and amortisation:				
Depreciation of property, plant & equipment	101	118	38	101
Amortisation of oil and gas properties	533	505	-	-
Total depreciation and amortisation expenses	<u>634</u>	<u>623</u>	<u>38</u>	<u>101</u>
- included in cost of goods sold	533	505	-	-
- included in general and administrative	101	118	38	101
Total depreciation and amortisation charges	<u>634</u>	<u>623</u>	<u>38</u>	<u>101</u>
<i>(ii) Expenses and losses/(gains) from discontinued operations (note 6)</i>				
a) Expenses				
Cost of goods sold:				
Depreciation and amortisation expenses	1,131	3,129	-	-
Provision for restoration	34	104	-	-
Other production costs	1,998	6,092	-	-
Total cost of goods sold	<u>3,163</u>	<u>9,325</u>	<u>-</u>	<u>-</u>
Other expenses:				
Depreciation	12	(10)	-	-
General and administration	1,169	1,602	-	-
Foreign exchange loss	-	410	-	-
Other expenses	1,181	2,002	-	-
Total expenses	<u>4,344</u>	<u>11,327</u>	<u>-</u>	<u>-</u>
Reconciliation of depreciation and amortisation:				
Depreciation of property, plant & equipment	504	1,158	-	-
Amortisation of costs of areas of interest in production	639	1,961	-	-
Total depreciation and amortisation expenses	<u>1,143</u>	<u>3,119</u>	<u>-</u>	<u>-</u>
- included in cost of goods sold	1,131	3,129	-	-
- included in general and administrative	12	(10)	-	-
Total depreciation and amortisation charges	<u>1,143</u>	<u>3,119</u>	<u>-</u>	<u>-</u>

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 30 June 2006

	Consolidated		Parent	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
NOTE 5 INCOME TAX				
The major components of income tax expense are:				
Income Statement				
<i>Current Income Tax</i>				
Current Income Tax Charge	94	1,169	2,137	-
<i>Deferred Income Tax</i>				
Relating to origination and reversal of timing differences	(12)	2,038	(4)	115
Disposal of subsidiary	(2,195)	-	-	-
Benefits arising from previously unrecognised tax losses, tax credits or temporary differences of a prior period that is used to reduce deferred tax expense.	2,207	-	-	(115)
Tax losses recognised	-	-	(2,133)	-
	94	3,207	-	-
(a) A reconciliation between tax expense and the product of accounting profit before income tax multiplied by the Group's applicable income tax rate is as follows:				
Accounting profit before income tax	5,641	3,870	15,154	(9,864)
At Group's statutory income tax rate of 30%	1,692	1,161	4,546	(2,959)
Tax effect of permanent differences:				
- change in corporate tax rate - Turkey	-	359	-	-
- investment incentives in Turkey	-	137	-	-
- other permanent differences	-	277	-	138
- non assessable intercompany dividend	-	-	-	(15)
- interentity transactions not recognised	-	-	(4,332)	-
- intercompany debt writeoff	-	-	5,095	-
- Disposal of Subsidiary	(3,379)	-	(3,478)	-
- Share based payments	215	167	215	167
- DTA not bought to account	1,566	1,106	-	2,669
- Tax losses utilised	-	-	(2,046)	-
Income tax (benefit) / expense	94	3,207	-	-
Reconciliation of income tax (benefit)/expense				
- continuing operations	(4)	38	-	-
- discontinued operations	98	3,169	-	-
	94	3,207	-	-

NOTE 5. INCOME TAX (CONT.)
CONSOLIDATED

2006

Deferred tax balances

Taxable and deductible temporary differences arise from the following:

Deferred tax assets

Provisions	1,313	(1,274)	-	39
Losses available for offset against future taxable income (USA)	1,194	-	-	1,194
Losses available for offset against future taxable income (Australian)	11,123	(2,137)	-	8,986
	13,630	(3,411)	-	10,219

Deferred tax liabilities (i)

Property, Plant and Equipment	(3,480)	3,480	-	-
	(3,480)	3,480	-	-

Less Unrecognised Net Deferred Tax Assets

	13,630	(3,411)	-	10,219
	(3,480)	3,480	-	-

(i) Net deferred tax liability recognised relating to Turkish operations.

2005

Deferred tax balances

Taxable and deductible temporary differences arise from the following:

Deferred tax assets

Provisions	783	530	-	1,313
Losses available for offset against future taxable income (Australian)	9,393	1,730	-	11,123
Losses available for offset against future taxable income (USA)	54	1,140	-	1,194
Deferred income	97	(97)	-	-
	10,327	3,303	-	13,630

Deferred tax liabilities (i)

Property, Plant and Equipment	(1,442)	(2,038)	-	(3,480)
	(1,442)	(2,038)	-	(3,480)

Less Unrecognised Net Deferred Tax Assets

	10,327	3,303	-	13,630
	(1,442)	(2,038)	-	(3,480)

(i) Net deferred tax liability recognised relating to Turkish operations.

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 30 June 2006

	Opening Balance \$'000	Charged to income \$'000	Charged to equity \$'000	Closing Balance \$'000
NOTE 5. INCOME TAX (CONT.)				
PARENT				
2006				
Deferred tax balances				
Taxable and deductible temporary differences arise from the following:				
<i>Deferred tax assets</i>				
Provisions	21	4	-	25
Losses available for offset against future taxable income (Australian)	11,123	(2,137)	-	8,986
	11,144	(2,133)	-	9,011
<i>Less Unrecognised Net Deferred Tax Assets</i>	(11,144)	2,133	-	(9,011)
	-	-	-	-
2005				
Deferred tax balances				
Taxable and deductible temporary differences arise from the following:				
<i>Deferred tax assets</i>				
Provisions	39	(18)	-	21
Losses available for offset against future taxable income (Australian)	9,393	1,730	-	11,123
Deferred income	97	(97)	-	-
	9,529	1,615	-	11,144
<i>Less Unrecognised Net Deferred Tax Assets</i>	(9,529)	(1,615)	-	(11,144)
	-	-	-	-

Consolidated

Parent

2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
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Unrecognised deferred tax balances

The following deferred tax assets have not been brought to account as follows:

Tax losses - revenue (Australian)	8,986	11,123	8,986	11,123
Tax losses (US)	1,194	1,194	-	-
Temporary difference	39	1,313	25	21
	10,219	13,630	9,011	11,144

Tax consolidation

Effective 1 July 2002, for the purposes of income taxation, Antares Energy Limited and its 100% owned Australian controlled entities formed a tax consolidated group. Members of the group have entered into a tax sharing arrangement. The tax sharing agreement provides for the allocation of income tax liabilities between the entities should the head entity default on its tax payment obligations. At the balance date, the possibility of default is remote. The head entity of the tax consolidated group is Antares Energy Limited.

NOTE 6 DISCONTINUED OPERATIONS

The sale of the shares in Amity Oil International Pty Ltd, whose assets included reserves, production facilities and exploration prospects in Turkey was completed on 28 October 2005. The proceeds from the sale include a cash component already received and potential payments under the terms of the Sale Agreement (note 22(c))

- a) The results of the discontinued operation for year until disposal on 28 October 2005 are presented below.

	2006 \$'000	2005 \$'000
Revenue (note 3(ii))	7,777	23,199
Expenses (note 4(ii))	(4,344)	(11,327)
Finance costs	-	(25)
Profit before income tax from discontinued operations	3,433	11,847
Tax expense	(98)	(3,169)
Profit after tax attributable to discontinued operations	3,335	8,678
Gain on sale of discontinued operation	17,448	-
Income tax expense on gain on sale of discontinued operation	-	-
Gain on sale of discontinued operation after income tax expense	17,448	-
Total profit from discontinued operation	20,783	8,678

- b) The major classes of assets and liabilities of Amity Oil International Pty Ltd at 28 October 2005, being the time of sale, measured at the lower of carrying amount and fair value less costs to sell were as follows:

	28 October 2005 \$'000
<i>Assets</i>	
Cash	11,044
Trade and other receivables	6,136
Inventory	290
Property, plant and equipment (note 12)	16,739
	34,209
<i>Liabilities</i>	
Trade and other payables	1,700
Provision for taxes	3,819
Other provisions	321
	5,840
Net assets attributable to discontinued operations	28,369

- c) The net cash flows of Amity Oil International Pty Ltd to 28 October 2005 are as follows:

	2006 \$'000
Operating activities	4,316
Investing activities	(4,850)
Financing activities	-
Net cash outflow	(534)

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 30 June 2006

NOTE 6 DISCONTINUED OPERATIONS (CONT.)

d) Calculation of gain on disposal	2006 \$'000
	<hr/>
Consideration received in cash	49,461
Less:	
- costs of transaction	(3,606)
- foreign currency translation reserve	(38)
- net assets disposed of	(28,369)
	<hr/>
Gain on disposal before income tax (note 3(b))	17,448
Income tax expense	-
	<hr/>
Gain on disposal after income tax	<u>17,448</u>

The proceeds on the sale exceeded the book value of the related net assets and accordingly, no impairment losses were recognised on the reclassification of these operations as held for sale. The \$17,448,000 differs by \$173,000 from the \$17,275,000 shown in the half-year financial statements to 31 December 2005 due to a correction in the foreign currency effect of the translation into Australian dollars, including the foreign currency translation reserve of the subsidiary at 28 October 2005.

e) Net cash inflow on disposal	2006 \$'000
	<hr/>
Cash and cash equivalents consideration	49,461
Less cash and cash equivalents balance disposed of	(11,044)
	<hr/>
Reflected in the cash flow statement	<u>38,417</u>

f) Earnings per share (cents per share):	2006	2005
	<hr/>	<hr/>
Basic from discontinued operations	13.0	5.4
Diluted from discontinued operations	13.0	5.4

NOTE 7 EARNINGS PER SHARE

Basic earnings per share amounts are calculated by dividing net profit for the year attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year.

Diluted earnings per share amounts are calculated by dividing the net profit attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares that would be issued on the conversion of all the dilutive potential ordinary shares into ordinary shares.

The following reflects the income and share data used in the basic and diluted earnings per share computations:

	Consolidated	
	2006	2005
	\$'000	\$'000
	<hr/>	<hr/>
Net loss attributable to ordinary equity holders of the parent from continuing operations.	(15,236)	(8,015)
Net profit attributable to ordinary equity holders of the parent from discontinued operations. (Note 6)	20,783	8,678
	<hr/>	<hr/>
Net profit attributable to ordinary equity holders of the parent (used in calculating basic and diluted earnings per share)	5,547	663

NOTE 7 EARNINGS PER SHARE (CONT.)

	2006 Thousands	2005 Thousands
Weighted average number of ordinary shares for basic earnings per share	160,305	159,876
Effect of dilution and accretion:		
Share options	-	1,000
Vested performance rights not yet exercised	25	-
Share buy-back*	(50)	-
Weighted average number of ordinary shares adjusted for the effect of dilution	160,280	160,876

*There have been 50,000 ordinary shares bought back and cancelled between the reporting date and the date of completion of these financial statements.

	Consolidated	
	2006 \$'000	2005 \$'000

To calculate earnings per share amounts for the discontinued operation the weighted average number of ordinary shares for both basic and diluted earnings per share is as in the table above. The following table provides the profit figure used as the numerator:

Net profit attributable to ordinary equity holders of the parent from discontinued operations. (Note 6)

- for basic earnings per share	20,783	8,678
- for diluted earnings per share	20,783	8,678

	Consolidated		Parent	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Cash at bank and on hand	5,809	1,380	4,727	1,711
Short term deposits	28,100	-	28,100	-
	33,909	1,380	32,827	1,711

NOTE 8 CASH AND CASH EQUIVALENTS

Cash at bank and on hand
Short term deposits

Cash at bank earns interest at floating rates based on daily bank deposit rates.

During the year to 30 June the Company put in place a short term finance facility while the sale of its Turkish subsidiary, Amity Oil International Pty Ltd was being completed. This facility was paid out on completion of the sale. No facility was in place at 30 June 2006.

Short-term deposits are made for varying periods of between 1 and 4 months depending on the cash requirements of the Consolidated Entity. These deposits earn interest at the respective short term-deposit rates.

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 30 June 2006

	Consolidated		Parent	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
NOTE 8 CASH AND CASH EQUIVALENTS (CONT.)				
Reconciliation of net profit after tax to net cashflows				
Net profit/(loss)	5,547	663	15,154	(9,864)
Non-cash Items:				
Depreciation and amortisation	634	3,741	38	101
Exploration expenditure written off	5,251	3,997	30	-
Impairment of oil and gas properties	7,731	369	-	-
Finance costs	399	425	399	425
Share based payments	716	557	716	557
Gain on sale of inventory	-	-	-	177
Gain on sale of property, plant and equipment	(93)	-	(270)	-
Gain on sale of subsidiary	(20,783)	-	(32,933)	-
Operating cashflow of discontinued operations prior to sale	4,316	-	-	-
Provision for non-recovery of loans to controlled entities	-	-	15,473	2,362
Expenses of on-market share buy-back	7	-	7	-
Write off of inter-company loan	-	-	-	4,639
Provision for diminution of investments in controlled entities	-	388	-	-
Foreign exchange movement	(1,622)	-	(1,127)	-
Change in operating assets and liabilities:				
Decrease (increase) in receivables	(566)	(1,358)	(37)	101
Decrease (increase) in inventory	-	115	-	-
Increase (decrease) in creditors and payables	(235)	2,280	(275)	(133)
Increase (decrease) in provisions	54	(419)	13	(61)
Increase (decrease) in tax provision	(20)	562	-	-
Increase (decrease) in deferred income tax liability	-	2,039	-	-
Net cash from operating activities	1,336	13,359	(2,812)	(1,696)

	Consolidated		Parent	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
NOTE 9 TRADE AND OTHER RECEIVABLES				
Current				
Trade receivables (i)	-	188	-	-
Other receivables (ii)	624	435	189	343
	<u>624</u>	<u>623</u>	<u>189</u>	<u>343</u>
Non-current				
Related party receivables (iii)	-	-	30,880	33,120
Provision for non-recovery of intercompany loans	-	-	(15,473)	(2,362)
	<u>-</u>	<u>-</u>	<u>15,407</u>	<u>30,758</u>
(i) Trade receivables are non-interest bearing and are generally 30-90 day terms.				
(ii) Other receivables includes revenue accruals for gas delivered into third party pipelines.				
(iii) For terms and conditions relating to related party receivables refer to note 24 (iii).				

	Consolidated		Parent	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
NOTE 10 INVENTORIES				
Inventory (materials) - at cost	7	50	-	-
There are no inventory write-downs recognised as an expense during the year (2005: \$nil) for the Consolidated Entity or the Company.				

	Consolidated		Parent	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
NOTE 11 OTHER FINANCIAL ASSETS (NON-CURRENT)				
Investments in controlled entities (note 24)	-	-	33	33

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 30 June 2006

	Consolidated		Parent	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
NOTE 12 PROPERTY, PLANT AND EQUIPMENT				
Office equipment, vehicles and furniture - cost	646	692	418	517
Accumulated depreciation	(475)	(481)	(397)	(465)
Total Property, Plant and Equipment	171	211	21	52

Reconciliation of the carrying amounts of property, plant and equipment at the beginning and end of the current financial year:

Office equipment, vehicles and furniture

Balance at start of year	211	150	52	150
Additions	61	187	12	16
Exchange differences from translation	4	4	-	-
Disposals - at cost	(111)	(64)	(111)	(64)
Depreciation	(101)	(117)	(39)	(101)
Disposals - accumulated depreciation	107	51	107	51
Balance at end of year	171	211	21	52

NOTE 13 OIL AND GAS PROPERTIES

Oil and gas properties

- at cost	4,377	6,205	-	-
- accumulated amortisation	(1,039)	(505)	-	-
	3,338	5,700	-	-

Reconciliation

Reconciliation of carrying amounts of oil and gas properties at the beginning and end of the current financial year:

At Cost

Balance at start of year	6,205	-	-	-
Additions	4,681	-	-	-
Impairment*	(7,731)	(369)	-	-
Transfer from exploration and evaluation	1,229	6,574	-	-
Foreign exchange translation	(7)	-	-	-
Balance at end of year	4,377	6,205	-	-

Accumulated amortisation

Balance at start of year	(505)	-	-	-
Amortisation	(533)	(505)	-	-
Foreign exchange translation	(1)	-	-	-
Balance at end of year	(1,039)	(505)	-	-

*The \$7,731,000 impairment loss represents the write-down of certain oil and gas properties in the USA to recoverable amount. This has been recognised in the income statement in the line item "Expenses excluding finance costs". The recoverable amount was based on value in use and was determined at the cash-generating unit level. In determining value in use for the cash-generating unit, the cash flows were discounted at a rate of 10% on a pre-tax basis.

NOTE 14 DEFERRED EXPLORATION AND EVALUATION EXPENDITURE

Exploration and evaluation costs carried forward in respect of areas of interest:

Exploration and/or evaluation phase

Consolidated		Parent	
2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
11,035	9,293	-	-

The ultimate recoupment of costs carried forward for the exploration and evaluation phase is dependent on the successful development and commercial exploitation or sale of the respective areas.

Reconciliation

Reconciliation of carrying amounts of exploration and evaluation expenditure at the beginning and end of the current financial year:

Balance at start of year	9,293	515	-	-
Additions	7,910	19,129	30	-
Transferred to oil and gas properties	(1,229)	(6,574)	-	-
Expenditure written off	(5,251)	(3,997)	(30)	-
Foreign exchange translation	312	220	-	-
Balance at end of year	11,035	9,293	-	-

NOTE 15 SHARE OPTIONS & PERFORMANCE RIGHTS

Share Options

The parent entity has granted certain options that are exercisable in whole or in part on or before the expiry dates shown below. All options were issued at no cost. At balance date the following options remain to be exercised:

Date of Grant	Date of Expiry	Note	\$1.22	\$1.35
			Options	Options
2006				
11 November 2002	11 November 2006		400,000	-
20 December 2002	20 December 2006	15(a)	315,000	-
24 January 2003	24 January 2007	15(a)	100,000	-
23 April 2003	23 April 2007		170,000	-
1 July 2003	1 July 2007		-	1,500,000
30 July 2003	30 July 2007		25,000	-
12 December 2003	12 December 2007	15(a)	230,000	-
13 July 2004	13 July 2008	15(a)	275,000	-
			<u>1,515,000</u>	<u>1,500,000</u>

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 30 June 2006

NOTE 15 SHARE OPTIONS & PERFORMANCE RIGHTS (CONT.)

	Date of Grant	Date of Expiry	Note	50 Cent Options	\$1.22 Options	\$1.33 Options	\$1.35 Options
2005							
	26 September 2000	26 September 2005		1,000,000	-	-	-
	29 November 2001	29 November 2005		-	400,000	-	-
	11 November 2002	11 November 2006		-	400,000	-	-
	20 December 2002	20 December 2006	15(a)	-	315,000	-	-
	24 January 2003	24 January 2007	15(a)	-	100,000	-	-
	23 April 2003	23 April 2007		-	240,000	-	-
	1 July 2003	1 July 2007		-	-	-	1,500,000
	30 July 2003	30 July 2007		-	25,000	-	-
	28 August 2003	28 August 2007	15(a)	-	-	16,667	-
	12 December 2003	12 December 2007	15(a)	-	246,667	-	-
	13 July 2004	13 July 2008	15(a)	-	275,000	-	-
				<u>1,000,000</u>	<u>2,001,667</u>	<u>16,667</u>	<u>1,500,000</u>

The weighted average remaining contractual life for the share options outstanding as at 30 June 2006 is between 4 and 25 months (2005: 2 and 37 months).

The range of exercise prices for options outstanding at the end of the year was \$1.22-\$1.35 (2005: \$1.22 - \$1.35).

During the financial year ended 30 June 2006:

- (i) 1,000,000 \$0.50 options expiring on 26 September 2005 were exercised for a value of \$500,000;
- (ii) 400,000 \$1.22 options expired unexercised on 29 November 2005;
- (iii) 33,334 options issued under the Employee Option Plan (see note 15(a)) lapsed during the year.
- (iv) 70,000 options expiring on 23 April 2007 lapsed during the year upon the termination of a Turkish contractor.

(a) Employee Option Plan:

An employee option plan was approved by shareholders at the Company's Annual General Meeting on 7 November 2002.

This plan was terminated by the Board on 7 October 2004. Accordingly the Board cannot issue any further options under the plan. Under the plan, Antares Energy Limited, at the discretion of the Board, granted options to subscribe for ordinary shares in Antares Energy Limited to employees of the Consolidated Entity. The options, issued for nil consideration, were granted in accordance with guidelines established by the directors of Antares Energy Limited. The options were issued for a term of 4 years and vest one third on each of the first, second and third anniversary of the date of grant. The options cannot be transferred and will not be quoted on the ASX. As at 30 June 2006, the Consolidated Entity had 13 employees.

NOTE 15 SHARE OPTIONS & PERFORMANCE RIGHTS (CONT.)

Share Options (Cont.)

The fair value of each option is estimated on the date of grant using a Black-Scholes option-pricing model. No grants were made during the year ended 30 June 2006. The following weighted average assumptions were used for the grant made during the year ended 30 June 2005:

Dividend yield	0%
Expected volatility	50.5%
Historical volatility	50.5%
Risk-free interest rate	6.0%
Expected life of the option	4 years

The dividend yield is assumed to remain at zero. The expected life of the options is not necessarily indicative of exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome. The fair value of each option granted in 2005 is 20.5 cents.

The fair value of an option issued under the Employee Option Plan is expensed in the financial statements. The amount expensed is based on the fair value of the option at grant date, amortised over the vesting period. In total, \$253,000 is expensed in the financial statements the year ended 30 June 2006 (2005: \$277,000) and disclosed in note 4.

Information with respect to the number of options granted under the employee option plan is as follows:

		2006		2005	
		Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Balance at beginning of year	15(a)(i)	953,334	\$1.22	1,355,000	\$1.22
- granted	15(a)(ii)	-	-	275,000	\$1.22
- lapsed		(33,334)	\$1.27	(676,666)	\$1.22
- exercised		-	-	-	-
Balance at end of year	15(a)(iii)	<u>920,000</u>	\$1.22	<u>953,334</u>	\$1.22
Exercisable at end of year (i.e. vested)		660,000	\$1.22	456,666	\$1.22

(i) Options held at the beginning of the reporting period

The following table summarises information about options held by employees at the beginning of the reporting period:

Date of Grant	Date of Expiry	Weighted average exercise price	Number of Options 2006	Number of Options 2005
13 July 2004	13 July 2008	\$1.22	275,000	-
12 December 2003	12 December 2007	\$1.22	246,667	390,000
28 August 2003	28 August 2007	\$1.33	16,667	50,000
24 January 2003	24 January 2007	\$1.22	100,000	100,000
20 December 2002	20 December 2006	\$1.22	315,000	815,000
			<u>953,334</u>	<u>1,355,000</u>

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 30 June 2006

NOTE 15 SHARE OPTIONS & PERFORMANCE RIGHTS (CONT.)

Share Options (Cont.)

(ii) Options granted during the reporting period

There were no options granted by Antares Energy Limited to employees during the year. In 2005 the following were granted:

Date of Grant	Date of Expiry	Weighted average exercise price	Number of Options 2006	Number of Options 2005
13 July 2004	13 July 2008	\$1.22	-	275,000

(iii) Options held as at the end of the reporting period

The following table summarises information about options held by employees as at the end of the reporting period:

Date of Grant	Date of Expiry	Weighted average exercise price	Number of Options 2006	Number of Options 2005
13 July 2004	13 July 2008	\$1.22	275,000	275,000
12 December 2003	12 December 2007	\$1.22	230,000	246,667
28 August 2003	28 August 2007	\$1.33	-	16,667
24 January 2003	24 January 2007	\$1.22	100,000	100,000
20 December 2002	20 December 2006	\$1.22	315,000	315,000
			<u>920,000</u>	<u>953,334</u>

Performance Rights

At the Company's annual general meeting on 23 November 2004, shareholders approved a Performance Rights Plan. Under the plan the Board can determine the number of rights to be issued and the performance hurdles and performance period that govern the vesting of the rights.

The current unvested rights on issue will vest, dependent on performance hurdles and service conditions, 33.3% on 31 December 2006 and 66.7% on 31 December 2007. The performance hurdles are as follows:

	Hurdle Weighting
A) Market capitalisation	20%
B) Hydrocarbon production	25%
C) Hydrocarbon reserves replacement	25%
D) Finding and development costs	10%
E) Earnings before interest, tax, depreciation, amortisation and exploration write-offs (EBITDAX)	10%
F) Comparison of percentage growth in market capitalisation per annum with peer group of eight companies*	10%
	<u>100%</u>

*The peer group comprises of Arc Energy (ASX: ARQ), Amadeus Energy (ASX: AMU), Tomahawk (ASX: THK), Mosaic Oil (ASX: MOS), Petsec Energy (ASX: PSA), Roc Oil (ASX: ROC), Tap Oil (ASX: TAP) and Carrizo Oil and Gas (NASDAQNM: CRZO).

NOTE 15 SHARE OPTIONS & PERFORMANCE RIGHTS (CONT.)

Performance Rights (Cont.)

In accordance with the terms and conditions of the Performance Rights Plan, the parent entity has granted performance rights that are exercisable in whole or in part on or before the expiry date shown below. All rights were issued at no cost. At balance date the following rights remain to be exercised:

	Date of Grant	Date of Expiry	Number of Rights		
			Unvested	Vested	Total
2006	12 January 2005	12 January 2010	2,407,500	17,500	2,425,000
	6 October 2005	6 October 2010	487,500	6,250	493,750
	9 January 2006	9 January 2011	137,500	1,250	138,750
	4 May 2006	4 May 2011	187,500	-	187,500
			<u>3,220,000</u>	<u>25,000</u>	<u>3,245,000</u>
2005	12 January 2005	12 January 2010	3,340,000	-	3,340,000

Information with respect to the movement in the number of performance rights on issue under the Performance Rights Plan is as follows:

	2006	2005
Balance at beginning of year	3,340,000	-
- granted	987,500	3,560,000
- lapsed	(974,000)	(220,000)
- exercised	(108,500)	-
Balance at end of year	<u>3,245,000</u>	<u>3,340,000</u>
Exercisable at end of year (i.e. vested)	25,000	-

Details of performance rights granted during the year are as follows:

Date of Grant	Date of Expiry	Fair Value at Grant Date	2006		2005	
12 January 2005	12 January 2010	\$0.59	-		3,560,000	
6 October 2005	6 October 2010	\$0.49	650,000			-
9 January 2006	9 January 2011	\$0.35	150,000			-
4 May 2006	4 May 2011	\$0.36	187,500			-
			<u>987,500</u>			<u>3,560,000</u>

These rights are not quoted on ASX.

The Performance Rights Plan Rules are available on the Company's web site at www.antaresenergy.com.

The fair value of each right is estimated on the date of grant using a modified Black-Scholes model. The weighted average assumptions used for the grants made are as follows:

	Date of Grant			
	12 January 2005	6 October 2005	9 January 2006	4 May 2006
Dividend yield	0%	0%	0%	0%
Expected volatility	49.7%	49.9%	52.0%	50.9%
Historical volatility	49.7%	49.9%	52.0%	50.9%
Risk-free interest rate	5.16%	5.23%	5.09%	5.78%
Expected life of the right	5 years	5 years	5 years	5 years
Spot price on grant date	\$0.690	\$0.570	\$0.430	\$0.435

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 30 June 2006

NOTE 15 SHARE OPTIONS & PERFORMANCE RIGHTS (CONT.)

Performance Rights (Cont.)

The dividend yield is assumed to remain at zero. The expected life of the right is not necessarily indicative of exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome.

Hurdles A and F are market related hurdles. As such the fair value of rights under these hurdles are calculated at grant date and have been priced accordingly using the modified Black-Scholes model. Hurdle F has also used a Monte Carlo simulation to determine the indicative value. Values also differ over the different vesting years.

Hurdles B to E are non-market related hurdles, and as per AASB 2 "Share-based Payments", no estimate of value impact has been incorporated into the valuation. As the dividend yield is zero, the value at grant is the spot price. The amount expensed in the financial statements is the fair value at the date of grant amortised over the vesting period of the right. For the non-market related performance hurdles (hurdles B to E), the number of rights used to calculate the expense is reduced to the number of rights that directors consider likely to vest as a result of the performance hurdles being met. Amounts expensed in previous years for rights that do not ultimately vest due to performance hurdles not being met are written back in the year they would have vested had the performance hurdles been met.

For the year to 30 June 2006, \$463,000 (2005: \$280,000) was expensed in the financial statements and disclosed in note 4.

	Consolidated		Parent	
	2006	2005	2006	2005
	\$'000	\$'000	\$'000	\$'000

NOTE 16 TRADE AND OTHER PAYABLES (CURRENT)

Trade creditors and accruals	941	3,418	381	611
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Trade creditors are non-interest bearing and generally payable within normal time frames for the industry.

	Consolidated		Parent	
	2006	2005	2006	2005
	\$'000	\$'000	\$'000	\$'000

NOTE 17 INTEREST-BEARING LOANS AND BORROWINGS

Convertible Notes

Current	9,866	-	9,866	-
Non-Current	-	9,467	-	9,467

On 31 October 2003 the Company issued 5,000,000 unsecured convertible notes at \$2 each. The convertible notes are a compound financial instrument comprising both an equity component and a debt component. At the time of issue the convertible notes were classified \$800,000 as equity component and \$9,200,000 as debt component. At 30 June 2006, the debt component has increased to \$9,866,000 (2005: \$9,467,000) by the addition of implicit interest charges (Note 4). Interest is payable quarterly in arrears at 10% per annum. The notes mature on 30 October 2013. The first reset date is 31 October 2006. At the reset date, noteholders can elect to redeem their notes for \$2 each and hence the liability is classified as current when for the year to 30 June 2005 it was classified as non-current. At the reset date the Company may also change the interest rate and the conversion rate and must set the next reset date.

NOTE 18 PROVISIONS (CURRENT)

	Consolidated		Parent	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Employee leave benefits	128	75	81	68
Provision for tax	-	19	-	-
	<u>128</u>	<u>94</u>	<u>81</u>	<u>68</u>

**Employee Leave Benefits Provision
Reconciliation of Movements**

Opening balance 1 July 2005	75	68
Arising during the year	188	117
Utilised	(122)	(91)
Unused amounts reversed	(13)	(13)
Closing balance 30 June 2006	<u>128</u>	<u>81</u>

NOTE 19 CONTRIBUTED EQUITY AND RESERVES

(a) Issued and paid up capital:

Fully paid ordinary shares	<u>60,503</u>	<u>60,975</u>	<u>60,503</u>	<u>60,975</u>
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The only shares the Company has on issue are fully paid ordinary shares. These shares have the right to receive dividends as declared and, in the event of a winding up of the Company, to participate in the proceeds of the sale of all surplus assets in proportion to the number of and amounts paid up on shares held.

Ordinary shares entitle the holder to one vote, either in person or by proxy, at a meeting of the Company.

Effective 1 July 1998, the Corporations Legislation in place abolished the concepts of authorised capital and par value shares. Accordingly the parent does not have authorised capital nor par value in respect of its issued shares.

	2006		2005	
	No. of shares	\$'000	No. of shares	\$'000
Movement in ordinary shares on issue:				
Beginning of the financial year	159,878,586	60,975	159,863,512	60,960
Shares issued on exercise of \$0.50 options	1,000,000	500	-	-
Shares issued on exercise of \$1.00 options	-	-	15,074	15
Shares issued for nil consideration as a result of the exercise of vested performance rights	108,500	-	-	-
Shares bought back on-market	(2,437,086)	(972)	-	-
End of the financial year	<u>158,550,000</u>	<u>60,503</u>	<u>159,878,586</u>	<u>60,975</u>

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 30 June 2006

NOTE 19 CONTRIBUTED EQUITY AND RESERVES (CONT.)

	Consolidated			Parent	
	Foreign Currency translation reserve (i) \$'000	Share option reserve (ii) \$'000	Total \$'000	Share option reserve (ii) \$'000	Total \$'000
(b) Reserves					
Movements in the reserves:					
Balance at 1 July 2004	-	238	238	238	238
Share based payments	-	557	557	557	557
Currency translation differences	(305)	-	(305)	-	-
Balance at 30 June 2005	(305)	795	490	795	795
Share based payments	-	716	716	716	716
Transfer to profit on deconsolidation of entity	38	-	38	-	-
Currency translation differences	396	-	396	-	-
Balance at end of year	129	1,511	1,640	1,511	1,511

(i) Foreign currency translation reserve

The foreign currency translation reserve is used to record exchange differences arising from the translation of the financial statements of foreign subsidiaries.

(ii) Share option reserve

This reserve is used to record the value of equity benefits provided to employees and directors as part of their remuneration. Refer to note 15 for further details of these plans.

(c) Movements in accumulated losses were as follows:	Consolidated		Parent	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Balance at beginning of year	(29,541)	(30,204)	(39,019)	(29,155)
Net profit/(loss) attributable to members of Antares Energy Limited	5,547	663	15,154	(9,864)
Balance at end of year	(23,994)	(29,541)	(23,865)	(39,019)

NOTE 20 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

(a) Cash flow interest rate risk

The Consolidated Entity's exposure to interest rate risk is minimal as it has no borrowings with variable interest rates. The interest rate on the convertible notes is fixed at 10% per annum with a possible reset at 31 October 2006. If the rate is reset, the new rate will be fixed until the next reset date, which at this stage has not been set.

(b) Credit risk

The Consolidated Entity's maximum exposure to credit risk is limited to the carrying value of the financial assets, net of any provisions for doubtful debts, as disclosed in the balance sheet and notes to the financial statements.

The Consolidated Entity does not have any material credit risk to any single debtor group or group of debtors under financial arrangements entered into by the Consolidated Entity.

There are no derivative contracts in place.

(c) Fair value

The fair values of all monetary financial assets and liabilities approximate their carrying values. No financial assets or financial liabilities are readily traded on organised markets in standardised form.

The aggregate fair values and carrying amounts of financial assets and liabilities are disclosed in the balance sheet and in the notes to and forming part of the financial statements.

(d) Foreign exchange risk

The Consolidated Entity's main operations are in the USA with a corporate office maintained in Australia. This raises three exposures to foreign exchange risk:

1. Transactional risk. Apart from relatively small ongoing expenses, the significant exploration expenditure in the future will be in United States dollars (USD). All cash reserves are currently held in USD with a small balance maintained in Australian dollars (AUD) to cover the corporate office expenses. This seeks to mitigate the transactional currency risks of operating in the USA.
2. The Convertible note liability is denominated in Australian dollars. As at 30 June 2006, the Board of the Company had not yet resolved whether or not the notes would be redeemed at the reset date of 31 October 2006, therefore the repayment commitment was not firm in either value or timing. When there is a firm commitment to repay the liability, a foreign exchange contract will be entered into in order to fix the AUD funds required.
3. The Consolidated Entity's balance sheet can be affected significantly by movements in the USD/AUD exchange rates. The Consolidated entity does not seek to hedge this exposure.

At 30 June 2006 the Consolidated Entity had no forward foreign exchange contracts in place.

(e) Liquidity risk

The Consolidated Entity has sufficient available funds to meet its financial commitments. Apart from the convertible notes there are no borrowings at 30 June 2006.

(f) Commodity risk

The Consolidated Entity does not hedge commodity prices for future oil and gas production.

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 30 June 2006

NOTE 21 FINANCIAL INSTRUMENTS

(a) Interest rate risk

The following table sets out the carrying amount, by maturity, of the financial instruments exposed to interest rate risk at 30 June 2006.

2006	WEIGHTED AVERAGE EFFECTIVE INTEREST RATE %	FLOATING INTEREST RATE \$'000	FIXED INTEREST RATE MATURING IN 1 YEAR OR LESS \$'000	NON INTEREST BEARING RATE \$'000	TOTAL \$'000
<i>Consolidated</i>					
FINANCIAL ASSETS					
Cash and deposits	4.9	5,566	28,100	243	33,909
Trade debtors and receivables		-	-	624	624
		5,566	28,100	867	34,533
FINANCIAL LIABILITIES					
Payables		-	-	941	941
Convertible Notes	10	-	9,866	-	9,866
		-	9,866	941	10,807
Net Financial Assets		5,566	18,234	(74)	23,726
<i>Parent</i>					
FINANCIAL ASSETS					
Cash and deposits	4.9	4,726	28,100	1	32,827
Trade debtors and receivables		-	-	189	189
		4,726	28,100	190	33,016
FINANCIAL LIABILITIES					
Payables		-	-	381	381
Convertible Notes	10	-	9,866	-	9,866
		-	9,866	381	10,247
Net Financial Assets		4,726	18,234	(191)	22,769

NOTE 21 FINANCIAL INSTRUMENTS (CONT.)

2005	WEIGHTED AVERAGE EFFECTIVE INTEREST RATE %	FLOATING INTEREST RATE \$'000	FIXED INTEREST RATE MATURING > 1 YEAR BUT < 2 YEARS \$'000	NON INTEREST BEARING \$'000	TOTAL \$'000
<i>Consolidated</i>					
FINANCIAL ASSETS					
Cash and deposits	4.2	1,209	-	171	1,380
Trade debtors and receivables		-	-	623	623
		1,209	-	794	2,003
FINANCIAL LIABILITIES					
Payables		-	-	3,418	3,418
Convertible Notes	10	-	9,467	-	9,467
		-	9,467	3,418	12,885
Net Financial Assets		1,209	(9,467)	(2,624)	(10,882)
<i>Parent</i>					
FINANCIAL ASSETS					
Cash and deposits	4.7	1,706	-	5	1,711
Trade debtors and receivables		-	-	343	343
		1,706	-	348	2,054
FINANCIAL LIABILITIES					
Payables		-	-	611	611
Convertible Notes	10	-	9,467	-	9,467
		-	9,467	611	10,078
Net Financial Assets		1,706	(9,467)	(263)	(8,024)

NOTE 22 COMMITMENTS FOR EXPENDITURE AND CONTINGENCIES

There are no outstanding commitments or contingent liabilities not provided for in the financial statements of the Consolidated Entity as at 30 June 2006 other than:

(a) Exploration Commitments

Estimated expenditures at reporting date, committed to but not provided for, including:

- commitments to maintain rights of tenure to its petroleum exploration permits being permit rentals and minimum expenditure obligations; and
- commitments under farmin agreements, participation agreements and joint operating agreements.

	Consolidated		Parent	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Not later than one year	2,872	1,308	-	-
Later than one year but not later than 5 years	-	654	-	-
Later than five years	-	-	-	-
	2,872	1,962	-	-

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 30 June 2006

NOTE 22 COMMITMENTS FOR EXPENDITURE AND CONTINGENCIES (CONT.)

These commitments may vary according to whether:

- (i) any of the existing permits are relinquished or converted to other forms of title;
- (ii) any of the existing permits are farmed out or sold;
- (iii) any new permits are acquired; and
- (iv) existing permit expenditure conditions are varied.

(b) Operating Lease Commitments – Consolidated Entity as a Lessee

The Consolidated Entity has non-cancellable operating leases for office premises in Perth and Dallas and office equipment.

	Consolidated		Parent	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Minimum lease payments:				
Not later than one year	143	191	59	140
Later than one year but not later than 5 years	216	76	84	12
Later than five years	-	-	-	-
Total	359	267	143	152

(c) Contingent Assets and Liabilities

On 28 October 2005 Antares completed the sale of 100% of the share capital of Amity Oil International Pty Ltd., its wholly owned subsidiary to Zorlu Petrogas. The principal asset of this subsidiary is a 50% interest in the Thrace joint venture in Turkey which contains the Gocerler, Adatepe and Cayirdere gas fields.

Under the sale agreement:

- a) Antares is entitled to up to an additional USD4.4 million over the 24 months from 28 October 2005 if eight nominated exploration prospects are successful discoveries or are not drilled within the 24 month time frame. 50% of each of the eight success fees (total USD2.2 million) is covered by a letter of credit.
- b) Antares has provided commercial warranties and indemnities to Zorlu.
- c) Zorlu has the right to set off any amount validly claimed under the sale agreement against the 50% of the success fee payable that is not covered by the letter of credit.

The exploration commitments reported at 30 June 2005 related specifically to Amity Oil International Pty Ltd. Following the sale the Group no longer has any exploration commitments in Turkey.

NOTE 23 INTEREST IN JOINTLY CONTROLLED OPERATIONS

The Consolidated Entity has interests in various unincorporated joint ventures. The share of assets, liabilities, revenues and expenses of the jointly controlled operations, which are included in the financial statements, are as follows:

	Consolidated		Parent	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
CURRENT ASSETS				
Cash and cash equivalents	-	-	-	-
Trade and other receivables	237	88	-	-
Inventories	-	-	-	-
Total current assets	237	88	-	-
NON-CURRENT ASSETS				
Property, plant and equipment	-	-	-	-
Oil and Gas Properties	894	-	-	-
Deferred exploration and evaluation expenditure	6,751	15,170	-	-
Total non-current assets	7,645	15,170	-	-
TOTAL ASSETS	7,882	15,258	-	-
CURRENT LIABILITIES				
Trade and other payables	195	2,523	-	-
Provisions	-	-	-	-
Total current liabilities	195	2,523	-	-
TOTAL LIABILITIES	195	2,523	-	-
NET ASSETS	7,687	12,735	-	-
Revenues	637	601	-	-
Expenses	(4,788)	(2,064)	-	-
NET PROFIT/(LOSS) BEFORE INCOME TAX	(4,151)	(1,463)	-	-
Income tax expense	-	-	-	-
Net profit/(loss) after tax	(4,151)	(1,463)	-	-

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 30 June 2006

NOTE 23 INTEREST IN JOINTLY CONTROLLED OPERATIONS (CONT.)

- (i) There are no outstanding commitments or contingent liabilities specific to the joint ventures not provided for in the financial statements of the Consolidated Entity as at 30 June 2006 other than estimated exploration expenditures at reporting date, committed to but not provided for, including:
- commitments to maintain rights of tenure to its petroleum exploration permits being permit rentals and minimum expenditure obligations; and
 - commitments under farmin agreements, participation agreements and joint operating agreements

	Consolidated		Parent	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Not later than one year	2,872	1,308	-	-
Later than one year but not later than 5 years	-	654	-	-
Later than 5 years	-	-	-	-
	<u>2,872</u>	<u>1,962</u>	<u>-</u>	<u>-</u>

These commitments may vary according to whether:

- (a) any of the existing permits are relinquished or converted to other forms of title;
 - (b) any of the existing permits are farmed out or sold;
 - (c) any new permits are acquired; and
 - (d) existing permit expenditure conditions are varied.
- (ii) At 30 June 2006 the Consolidated Entity held the following interests in oil and gas production and exploration joint ventures:

Joint Venture	Working Interest	
	2006	2005
Section 3 – Ellis County, Oklahoma	91.6%	91.6%
Section 10 – Ellis County, Oklahoma	79.5%	79.5%
Section 34 – Ellis County, Oklahoma	92.9%	92.9%
Yukon 1 & 2 – Beaver County, Oklahoma	87.5%	87.5%
Kelln Trust 5-1 – Ellis County, Oklahoma	34.0%	-
Kelln 94-1 – Lipscomb County, Texas	18.9%	-
Porter's Creek – Wharton County, Texas	25.0%	25.0%
Wilbeck – Wharton County, Texas	30.0%	30.0%
Kenedy Ranch (Group A) – Kenedy County, Texas	5.0%	-
Kenedy Ranch (Group B) – Kenedy County, Texas	50.0%	-
Shaeffer Ranch – Jim Wells, Live Oak and Duvall Counties, Texas	50.0%	-
Oyster Creek – Brazoria County, Texas	75.0%	-

- (iii) Principal activities of jointly controlled operations

Petroleum exploration and production is the principle activity of all of the joint ventures that the Consolidated Entity is a participant in at 30 June 2006. All joint operations are located onshore in either Texas or Oklahoma, USA.

NOTE 24 RELATED PARTY DISCLOSURES

(i) ULTIMATE PARENT

Antares Energy Limited is the ultimate parent company.

(ii) CONSOLIDATED ENTITY

At year end the Consolidated Entity consisted of the subsidiaries listed in the following table:

	Country of Incorporation	Class of Share	% Equity interest		Investment (\$'000)	
			2006	2005	2006	2005
<i>Controlled entities of Antares Energy Limited:</i>						
Amity Oil International Pty Ltd	Australia	Ord Shares	-	100	-	-
International Oil and Gas Services B.V.	Netherlands	Ord Shares	100	100	33	33
Southern Amity Limited	Australia	Ord Shares	100	100	-	-
Santa Energy Pty Ltd	Australia	Ord Shares	100	100	-	-
					33	33
<i>Controlled entities of Santa Energy Pty Ltd:</i>						
Antares Energy Company	USA	Common Stock	100	100	12,345	5,939
<i>Controlled entities of Southern Amity Limited:</i>						
Bonaparte Gulf Oil & Gas Pty Ltd	Australia	Ord Shares	-	100	-	-
Latrobe Oil & Gas Pty Ltd	Australia	Ord Shares	-	100	-	-

During the financial year ended 30 June 2006:

- (a) Amity Oil International Pty Ltd was sold. Refer to note 6.
- (b) An application was made to voluntarily deregister Southern Amity Limited.
- (c) An application was made to voluntarily deregister International Oil and Gas Services B.V.
- (d) Bonaparte Gulf Oil & Gas Pty Ltd was deregistered.
- (e) Latrobe Oil & Gas Pty Ltd was deregistered.

During the financial year ended 30 June 2005:

- (a) Roebuck Resources, Inc was liquidated.
- (b) Southern Amity, Inc was sold to an unrelated company.
- (c) Great Southern Oil NL was deregistered.
- (d) Bonaparte Gulf Petroleum NL was deregistered.

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 30 June 2006

NOTE 24 RELATED PARTY DISCLOSURES (CONT.)

(iii) WHOLLY OWNED GROUP TRANSACTIONS

Transactions between Antares Energy Limited and other entities in the wholly-owned group during the years ended 30 June 2006 and 2005 consisted of:

- (a) loans advanced by Antares Energy Limited. No interest was charged on these during 2005 and 2006;
- (b) loans repaid to Antares Energy Limited;
- (c) Roebuck Resources, Inc repaid its Preferred Stock class of capital to Antares Energy Limited;
- (d) debt forgiveness within the wholly-owned group;
- (e) the charging of employee time and other costs of wholly-owned controlled entities to other wholly-owned controlled entities on a commercial basis;
- (f) the sale of Amity Oil International Pty Ltd involved the payment of a dividend and capitalisation of the loan account payable to Antares Energy Limited at completion of the transaction; and
- (g) investments in wholly-owned controlled entities.

	Parent	
	2006	2005
	\$'000	\$'000
Aggregate amounts included in the determination of net profit before income tax that resulted from transactions with entities in the wholly-owned group:		
Recovery of costs	1,948	2,731
Aggregate amounts receivable from entities in the wholly-owned group at balance date:		
Antares Energy Company	18,687	6,086
Santa Energy Pty Ltd	12,193	8,681
International Oil and Gas Services B.V.	-	30
Total due from continuing operations	30,880	14,797
Amity Oil International Pty Ltd	-	18,323
	30,880	33,120
Provision for non-recovery	(15,473)	(2,362)
	15,407	30,758

The amounts due from entities within the group are currently non-interest bearing and have no set repayment terms.

NOTE 25 EVENTS AFTER THE BALANCE SHEET DATE

No matter or circumstance has arisen since 30 June 2006 that has significantly affected or may significantly affect the operation, results or state of affairs of the Consolidated Entity in the following or future years except for the following:

Yellow Rose Project

On 27 July 2006 the Company announced that its USA subsidiary, Antares Energy Company had executed an agreement to participate in the Yellow Rose project. The agreement details Antares Energy Company's participation on a ground floor basis in the acquisition of a 61 square mile (approximately 39,000 acres) 3D seismic survey in South Texas. The project is nearby the Shaeffer Ranch project. Under the agreement, Antares will have 50% of the project which will be operated by San Isidro Development Company, L.C. ("San Isidro Development") who holds the other 50% of the project. San Isidro Development is also Antares' 50% partner and operator of the Shaeffer Ranch project.

The seismic acquisition is tentatively scheduled to begin on or about 1 March 2007. It is expected that it will take approximately 2 months to acquire the data and another 2 months to have it processed. Initial costs up to the point of drilling the first well are estimated to be approximately USD2.2 million net to Antares depending on the finalisation of the land option and lease costs.

Antares Energy will be responsible for the technical aspects of the acquisition, processing and interpretation of the seismic and will fund the internal geological and geophysical manpower costs required through to drilling the first well.

Once the seismic is interpreted and prospects developed, both parties will have the ability to farmout specific prospects for drilling if they choose to reduce their working interest from 50%.

Reset of Terms of Convertible Notes

On 13 September 2006 the Company announced the Board's decision that the terms and conditions of the Convertible Notes after 31 October 2006 will remain the same as those currently in place, specifically:

Interest Rate:	10% per annum (payable quarterly in arrears)
Conversion Rate:	1:1 (each note is convertible into one fully paid ordinary share)
Next reset date:	31 October 2009

NOTE 26 AUDITOR'S REMUNERATION

The auditor of Antares Energy Limited is
Ernst & Young.

	Consolidated		Parent	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Amounts received or due and receivable by Ernst & Young Australia in relation to the entity or any other entity in the Consolidated Entity:				
- an auditor review of the financial report	103	120	95	120
- other assurance services	82	-	82	-
- tax and compliance services	224	223	224	223
	<u>409</u>	<u>343</u>	<u>401</u>	<u>343</u>

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 30 June 2006

NOTE 27 DIRECTOR AND EXECUTIVE DISCLOSURES

(a) Details of Key Management Personnel

(i) Directors

R.A. Elliott	Chairman (non-executive)
F.D. Campbell	Director (non-executive)
W.R.B. Hassell	Director (non-executive)
H.M. McLaughlin	Managing Director and Chief Executive Officer
J.A. Cruickshank	Director (executive)

(ii) Executives

D.J. Rich	Company Secretary and Chief Financial Officer
D.M. Scull	Vice President - New Ventures and acting General Manager - USA

There were no changes in the key management personnel between the end of the financial year and the date of this report.

(b) Remuneration of Key Management Personnel

(i) Remuneration Policy

The Remuneration Committee of the Board of Directors is responsible for making recommendations to the Board on remuneration policies applicable to directors and executives of the Company.

Remuneration levels for directors, senior executives of the Company, and relevant executives of the Consolidated Entity ("the directors and senior executives") are competitively set to attract and retain appropriately qualified and experienced directors and senior executives. The Remuneration Committee evaluates the appropriateness of remuneration packages given trends in comparative companies and the objectives of the Company's remuneration strategy.

The remuneration structures explained below are designed to attract suitable qualified candidates, reward the achievement of strategic objectives, and achieve the broader outcome of creation of value for shareholders. The remuneration structures take into account:

- the capability and experience of the directors and senior executives;
- the ability of directors and senior executives to control the performance of the relevant area of responsibility;
- the performance of the Consolidated Entity including:
 - the success of exploration and production operations;
 - the Consolidated Entity's earnings; and
 - the growth in share price and returns to shareholders; and
- the amount of incentives within each director or senior executive's remuneration.

Remuneration packages typically include a mix of fixed and variable remuneration and short and long-term performance-based incentives.

(ii) Managing director and executives

(A) Fixed remuneration

Fixed remuneration consists of base remuneration (which is calculated on a total cost basis and includes any FBT charges related to employee benefits), as well as employer contributions to superannuation funds.

Remuneration levels are reviewed annually by the remuneration committee through a process that considers individual, segment and overall performance of the Consolidated Entity. A review of externally provided remuneration data is conducted to ensure the managing director's and the executives' remuneration is competitive in the market place. A senior executive's remuneration is also reviewed on promotion.

NOTE 27 DIRECTOR AND EXECUTIVE DISCLOSURES (CONT.)**(b) Remuneration of Key Management Personnel (Cont.)****(B) Variable remuneration**

Variable remuneration is designed to reward the managing director and senior executives for meeting or exceeding financial, operational and/or individual objectives or expectations. Those incentives are an "at risk" bonus provided in the form of cash and/or performance rights. Previously such remuneration had also taken the form of options over ordinary shares in the Company.

Each year, as part of the strategic plan, the board sets the KPI's (key performance indicators) for the Company. The KPI's take into consideration shareholder, operational and financial measures.

(C) Performance Rights

Any performance rights granted are issued under the Performance Rights Plan as approved by shareholders at the annual general meeting held on 23 November 2004. The Board formulated the Performance Rights Plan to align the long-term creation of value for shareholders with rewards to employees, including executive directors.

Under the plan the Board can determine the number of rights to be issued and the performance hurdles and performance period that govern the vesting of the rights.

The current unvested rights on issue are dependent on performance hurdles and service conditions and will vest 33.33% on 31 December 2006 and 66.67% on 31 December 2007. The performance hurdles are detailed in Note 15.

Terms and Conditions for Each Grant of Performance Rights

2006					
	Granted Number	Grant Date	Value per right at grant date (\$)	First Exercise Date*	Last Exercise Date
Executive					
D.J. Rich	100,000	9 January 2006	0.35	31 March 2007	9 January 2011
2005					
	Granted Number	Grant Date	Value per right at grant date (\$)	First Exercise Date**	Last Exercise Date
Directors					
H.M. McLaughlin	1,000,000	12 January 2005	0.59	31 March 2006	12 January 2010
J.A. Cruickshank	600,000	12 January 2005	0.59	31 March 2006	12 January 2010
Executives					
D.J. Rich	600,000	12 January 2005	0.59	31 March 2006	12 January 2010
D.M. Scull	600,000				
Total:	<u>2,800,000</u>				

* This is the approximate first exercise date for the performance period ended 31 December 2006.

** This is the approximate first exercise date for the performance period ended 31 December 2005.

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 30 June 2006

NOTE 27 DIRECTOR AND EXECUTIVE DISCLOSURES (CONT.)

(b) Remuneration of Key Management Personnel (Cont.)

The movement in performance rights held by key management personnel during the year is as follows:

Unvested Performance Rights Holdings of Directors and Executives

2006	Total Number on Issue at 1 July 2005	Total Number Granted During the Year	Total Number Vested During the Year	Total Number Lapsed During the Year	Total Number on Issue at 30 June 2006
Directors					
R.A. Elliott	-	-	-	-	-
F.D. Campbell	-	-	-	-	-
W.R.B. Hassell	-	-	-	-	-
H.M. McLaughlin	1,000,000	-	(25,000)	(225,000)	750,000
J.A. Cruickshank	600,000	-	(15,000)	(135,000)	450,000
Executives					
D.J. Rich	600,000	100,000	(15,000)	(135,000)	550,000
D.M. Scull	600,000	-	(15,000)	(135,000)	450,000
Total:	2,800,000	100,000	(70,000)	(630,000)	2,200,000

No performance rights vested or lapsed in the year to 30 June 2005. The number of rights granted and held at 30 June 2005 is set out in the table above.

Vested Performance Rights holdings of Directors and Executives

2006	Total Number on Issue at 1 July 2005	Total Number Vested During the Year	Total Number Exercised During the Year	Total Number on Issue at 30 June 2006
Specified Directors				
R.A. Elliott	-	-	-	-
F.D. Campbell	-	-	-	-
W.R.B. Hassell	-	-	-	-
H.M. McLaughlin	-	25,000	(25,000)	-
J.A. Cruickshank	-	15,000	(15,000)	-
Specified Executives				
D.J. Rich	-	15,000	(15,000)	-
D.M. Scull	-	15,000	-	15,000
Total:	-	70,000	(55,000)	15,000

No performance rights vested in the year to 30 June 2005.

NOTE 27 DIRECTOR AND EXECUTIVE DISCLOSURES (CONT.)

(b) Compensation of Key Management Personnel (Cont.)

(D) Options

No options were granted to key management personnel during the year to 30 June 2006. In the year to 30 June 2005 275,000 options were granted to Mr D.M. Scull under the Employee Option Plan on 13 July 2004. These options vest one third after years one, two and three and expire on 13 July 2008. The fair value of the options at the date of grant was 20.5 cents. The Employee Option Plan was terminated by the Board on 7 October 2004.

(E) Cash Bonus

Where an executive has performed at a level beyond that which would normally be required in his role or achieved an outcome beyond expectations, either over a period of time or on a specific task, the remuneration committee may, in its absolute discretion, recommend that the Board grant a cash bonus to the individual or individuals.

(F) Other benefits

Other than the provision of car parking, no other benefits are provided to directors or senior executives.

(G) Employment Contracts

It is the Consolidated Entity's policy that employment agreements for senior executives, excluding the Chief Executive Officer, are unlimited in term but capable of termination with between one and three months notice and that the Consolidated Entity retains the right to terminate the contract immediately, by making payment in lieu of notice.

The Consolidated Entity has entered into an unlimited term employment agreement with each senior executive, excluding the Chief Executive Officer. The employment agreement outlines the components of remuneration paid to the executives but does not prescribe how remuneration levels are modified year to year. Remuneration levels are reviewed each year to take into account cost-of-living changes, any change in the scope of the role performed by the executive and any changes required to meet the principles of the remuneration policy.

The Chief Executive Officer is the only executive with a fixed term employment agreement. On 30 March 2006 the Company entered into a new employment agreement with the Chief Executive Officer, Mr Howard McLaughlin, which expires on 30 June 2008. Under the new terms the Company may terminate the agreement (other than for cause) by providing an amount equivalent to the greater of 12 months notice or the balance of the term. The Chief Executive Officer may terminate the agreement by giving three months notice. Upon termination by the Chief Executive Officer, unvested options and performance rights will expire immediately and vested options and performance rights will expire three months after termination. As at 30 June 2006, there are no other fixed term employment agreements.

(H) Non-executive directors

Total remuneration for all non-executive directors, last voted upon by shareholders at the 2002 AGM, is not to exceed \$250,000 per annum. Fees are set based on a review of externally provided remuneration data with reference to fees paid to other non-executive directors of comparable companies.

Non-executive directors do not receive incentive-based remuneration and do not receive any retirement benefits other than statutory requirements.

(iii) Compensation by Category: Key Management Personnel

	Consolidated		Parent	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Short-Term	1,252,996	1,128,835	988,819	887,470
Post Employment	44,967	48,272	44,967	39,867
Share-based Payments	558,007	713,112	457,601	662,723
	<u>1,855,970</u>	<u>1,890,219</u>	<u>1,491,387</u>	<u>1,590,060</u>

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 30 June 2006

NOTE 27 DIRECTOR AND EXECUTIVE DISCLOSURES (CONT.)

(b) Remuneration of Key Management Personnel (Cont.)

(iv) Compensation of Key Management Personnel for year ended 30 June 2006 (Consolidated)

	Short-Term			Post	Share-Based		Total	Total Performance Related
	Salary & Fees	Cash Bonus	Non	Superannuation	Options (i)	Performance Rights (ii)		
			Monetary Benefits					
Directors								
R.A. Elliott	60,000	-	-	5,400	-	-	65,400	-
F.D. Campbell	38,150	-	-	-	4,178	-	42,328	9.87%
W.R.B. Hassell	35,000	-	-	3,150	-	-	38,150	-
H.M. McLaughlin	363,998	15,000	-	12,139	190,417	109,925	691,479	45.60%
J.A. Cruickshank	216,138	8,000	1,130	12,139	-	65,955	303,362	24.38%
Total	713,286	23,000	1,130	32,828	194,595	175,880	1,140,719	
Executives								
D.J. Rich	237,138	12,000	2,265	12,139	12,432	74,694	350,668	28.27%
D.M. Scull	247,652	9,345	7,180	-	34,451	65,955	364,583	30.10%
Total	484,790	21,345	9,445	12,139	46,883	140,649	715,251	

Compensation of Key Management Personnel for year ended 30 June 2005 (Consolidated)

	Short-Term			Post	Share-Based		Total	Total Performance Related
	Salary & Fees	Cash Bonus	Non	Superannuation	Options (i)	Performance Rights (ii)		
			Monetary Benefits					
Directors								
R.A. Elliott	60,000	-	-	5,400	12,622	-	78,022	16.18%
F.D. Campbell	38,150	-	-	-	10,444	-	48,594	21.49%
W.R.B. Hassell	28,972	-	-	2,608	-	-	31,580	-
H.M. McLaughlin	343,998	25,000	-	11,585	418,917	83,981	883,481	59.75%
J.A. Cruickshank	150,967	-	-	8,689	-	50,389	210,045	23.99%
Total	622,087	25,000	-	28,282	441,983	134,370	1,251,722	
Executives								
D.J. Rich	220,383	20,000	-	11,585	35,981	50,389	338,338	31.44%
D.M. Scull	207,821	32,006	1,538	8,405	-	50,389	300,159	27.45%
Total	428,204	52,006	1,538	19,990	35,981	100,778	638,497	

(i) Although a value has been attributed to the options and expensed in the financial statements, it should be noted that the directors and executives have not received this amount and the options may have no actual financial value unless the options achieve their exercise price as set out in the table on page 17 above under "Options".

(ii) Although a value has been attributed to the performance rights and expensed in the financial statements, it should be noted that the directors and executives have not received this amount and the performance rights may have no actual financial value unless the predetermined performance hurdles are achieved.

Consolidated Entity totals in respect of the financial year ended 2005 do not necessarily equal the sums of amounts disclosed for 2005 for individuals disclosed as key management personnel in 2006, as different individuals were key management personnel in 2005.

NOTE 27 DIRECTOR AND EXECUTIVE DISCLOSURES (CONT.)**(b) Remuneration of Key Management Personnel (Cont.)***(v) Option holdings of Key Management Personnel (Consolidated)*

The following tables outline options held by key management personnel during the year:

2006	Balance at beginning of period 1 July 2005	Options Exercised	Options Lapsed	Net change Other	Balance at end of period 30 June 2006	Vested at 30 June 2006*
						Total
Directors						
R.A. Elliott	400,000	-	(400,000)	-	-	-
F.D. Campbell	400,000	-	-	-	400,000	400,000
W.R.B. Hassell	-	-	-	-	-	-
H.M. McLaughlin	1,500,000	-	-	-	1,500,000	1,000,000
J.A. Cruickshank [^]	1,000,000	(1,000,000)	-	-	-	-
Executives						
D.J. Rich	375,000	-	-	-	375,000	341,666
D.M. Scull	275,000	-	-	-	275,000	91,666
Total	3,950,000	(1,000,000)	(400,000)	-	2,550,000	1,833,332

* All options vested at 30 June 2006 are exercisable.

[^] The options held and exercised by Mr Cruickshank were not remuneration options, the options were purchased on an arms length basis. The options were exercised during the year at 50 cents each.

2005	Balance at beginning of period 1 July 2004	Granted as Remuneration	Options Exercised	Net change Other	Balance at end of period 30 June 2005	Vested at 30 June 2005*
						Total
Directors						
R.A. Elliott	400,000	-	-	-	400,000	400,000
F.D. Campbell	431,250	-	-	(31,250)	400,000	266,666
W.R.B. Hassell+	-	-	-	-	-	-
H.M. McLaughlin	1,500,000	-	-	-	1,500,000	500,000
J.A. Cruickshank+ [^]	-	-	-	1,000,000	1,000,000	1,000,000
Executives						
D.J. Rich	375,000	-	-	-	375,000	216,667
D.M. Scull	-	275,000	-	-	275,000	-
Total	2,706,250	275,000	-	968,750	3,950,000	2,383,333

* All options vested at 30 June 2005 are exercisable.

+ Mr Hassell and Mr Cruickshank held no options at the time of their appointments to the Board on 3 September 2004 and 8 October 2004 respectively.

[^] Mr Cruickshank bought 1,000,000 50 cent options in an arms length transaction in November 2004.

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 30 June 2006

NOTE 27 DIRECTOR AND EXECUTIVE DISCLOSURES (CONT.)

(b) Remuneration of Key Management Personnel (Cont.)

(vi) Shareholdings of Key Management Personnel (Consolidated)

2006	Balance 1 July 05	Granted as Remuneration	On Exercise of Options	Net Change Other	Balance 30 June 06
Directors					
R.A. Elliott	320,000	-	-	1,725,000	2,045,000
F.D. Campbell	125,000	-	-	-	125,000
W.R.B. Hassell	65,000	-	-	100,000	165,000
H.M. McLaughlin	122,000	-	-	920,000	1,042,000
J.A. Cruickshank	4,825,000	-	1,000,000	35,000	5,860,000
Executive					
D.J. Rich	33,229	-	-	84,050	117,279
Total	5,490,229	-	1,000,000	2,864,050	9,354,279

2005	Balance 1 July 04	Granted as Remuneration	On Exercise of Options	Net Change Other	Balance 30 June 05
Directors					
R.A. Elliott	255,907	-	-	64,093	320,000
F.D. Campbell	125,000	-	-	-	125,000
W.R.B. Hassell*	11,500	-	-	53,500	65,000
H.M. McLaughlin	41,000	-	-	81,000	122,000
J.A. Cruickshank*	3,500,000	-	-	1,325,000	4,825,000
Executive					
D.J. Rich	7,025	-	-	26,204	33,229
Total	3,940,432	-	-	1,549,797	5,490,229

* Mr. Hassell's opening balance is at 3 September 2004, when he was appointed a director.
Mr. Cruickshank's opening balance is at 8 October 2004, when he was appointed a director.

(vii) Convertible Note holdings of Key Management Personnel (Consolidated)

As at 30 June 2006 the following Key Management Personnel held convertible notes:

2006	Balance 1 July 2005	Net Change Other	Balance 30 June 2006
Directors			
R.A. Elliott	112,000	15,000	127,000
W.R.B. Hassell	15,000	-	15,000
H.M. McLaughlin	24,060	-	24,060
Executive			
D.J. Rich	5,400	-	5,400
Total	156,460	15,000	171,460

NOTE 27 DIRECTOR AND EXECUTIVE DISCLOSURES (CONT.)

(b) Remuneration of Key Management Personnel (Cont.)

(vii) Convertible Note holdings of Key Management Personnel (Consolidated) (Cont.)

2005	Balance 1 July 2004	Net Change Other	Balance 30 June 2005
Directors			
R.A. Elliott	25,000	87,000	112,000
W.R.B. Hassell*	-	15,000	15,000
H.M. McLaughlin	-	24,060	24,060
Executive			
D.J. Rich	-	5,400	5,400
Total	25,000	131,460	156,460

* Mr Hassell held no convertible notes upon his appointment as a director on 3 September 2004.

(viii) Loans to Key Management Personnel

During the years ended 30 June 2005 and 2006 there were no loans made to any Key Management Personnel and there were no loans outstanding as at 30 June 2005 or 2006.

(ix) Other transactions and balances with Key Management Personnel

During the years to 30 June 2005 and 2006 there were no transactions with Key Management Personnel other than those described above. At 30 June 2005 and 2006 there were no balances outstanding in relation to Key Management Personnel other than those described above.

NOTE 28 TRANSITION TO AIFRS

For all periods up to and including the year ended 30 June 2005, the Consolidated Entity prepared its financial statements in accordance with Australian generally accepted accounting practice (AGAAP). These financial statements for the year ended 30 June 2006 are the first the Consolidated Entity is required to prepare in accordance with Australian equivalents to International Financial Reporting Standards (AIFRS).

Accordingly, the Consolidated Entity prepared financial statements that comply with AIFRS applicable for periods beginning on or after 1 January 2005 and the significant accounting policies meeting those requirements are described in note 1. In preparing these financial statements, the Consolidated Entity has started from an opening balance sheet as at 1 July 2004, the Consolidated Entity's date of transition to AIFRS, and make those changes in accounting policies and other restatements required by AASB 1 *First-time adoption of AIFRS*.

This note explains the principal adjustments made by the Consolidated Entity in restating its AGAAP balance sheet as at 1 July 2004 and its previously published AGAAP financial statements for the year ended 30 June 2005.

Exemptions applied

AASB 1 allows first-time adopters certain exemptions from the general requirement to apply AIFRS retrospectively.

The Consolidated Entity has taken the following exemptions:

- Comparative information for financial instruments is prepared in accordance with AGAAP and the Company and Consolidated Entity have adopted AASB 132: *Financial Instruments: Disclosure and Presentation* and AASB 139 *Financial Instruments: Recognition and Measurement* from 1 July 2005.
- Cumulative currency translation differences for all foreign operations are deemed to be zero as at 1 July 2004.
- AASB 2 *Share-based Payment* has not been applied to any equity instruments that were granted on or before 7 November 2002, nor has it been applied to equity instruments granted after 7 November 2002 that vested before 1 January 2005.

Explanation of material adjustments to the cash flow statement

There are no material differences between the cash flow statement presented under AIFRS and the cash flow statement presented under previous AGAAP.

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 30 June 2006

NOTE 28 TRANSITION TO AIFRS (CONT.)

Impact of adoption of AIFRS

The impacts of adopting AIFRS on the total equity and profit after tax as reported under previous Australian Generally Accepted Accounting Principles applicable before 1 January 2005 ("AGAAP") are illustrated below.

Reconciliation of total equity as presented under previous AGAAP to that under AIFRS:

	Consolidated		Parent	
	30 June 2005 \$'000	1 July 2004 \$'000	30 June 2005 \$'000	1 July 2004 \$'000
Equity under AGAAP	32,217	32,043	22,751	32,043
Amended restoration charges (i)	(139)	(167)	-	-
Changes in foreign exchange translation reserves (ii)	(154)	(882)	-	-
Total Equity under AIFRS	31,924	30,994	22,751	32,043

- (i) Under AASB 137 "Provisions, Contingent Liabilities and Contingent Assets" the present value of future restoration costs have been provided for and the entries under the superseded accounting policies reversed.
- (ii) Under AASB 121 "The Effect of Changes in Foreign Exchange Rates"; operations outside of Australia were determined to have a functional currency other than Australian Dollars. This required the Operation's results to be translated into Australian Dollars as a presentation currency that gave rise to further movements in the foreign exchange translation reserve above those recorded for AGAAP.

Reconciliation of profit/(loss) after tax as presented under previous AGAAP to that under AIFRS:

	Consolidated 30 June 2005 \$'000	Parent 30 June 2005 \$'000
Profit/(loss) after tax as previously reported	1,231	(9,307)
Less profit from Discontinued operations as included in the results for the year (iii)	(8,647)	-
AGAAP loss from continuing operations	(7,416)	(9,307)
Recognition of share-based payment expense (i)	(557)	(557)
Changes in foreign exchange treatment (ii)	(42)	-
Loss after tax from continuing operations	(8,015)	(9,864)
Add AIFRS profit from discontinued operation (iii)	8,678	-
Profit/(loss) after tax under AIFRS	663	(9,864)

- (i) Share-based payment costs are charged to the income statement under AASB 2 "Share-based Payment" but not under AGAAP.
- (ii) Under AASB 121 "The Effect of Changes in Foreign Exchange Rates"; continuing operations outside of Australia were determined to have a functional currency other than Australian Dollars, this required the Operation's results to be translated into Australian Dollars on consolidation. This translation gave rise to further movements in the foreign exchange gains and losses above those recorded for AGAAP.
- (iii) As required under AASB 5, profits from discontinued operations are disclosed separately.

Explanation of material adjustments to the cash flow statements

There are no material differences between the cash flow statements presented under AIFRS and those presented under AGAAP.

Explanation of material adjustments recognised upon adoption of AASB 132 and AASB 139.

There are no material adjustments required at 1 July 2005 upon adoption of AASB 132 and AASB 139.

DIRECTORS' DECLARATION

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

- (1) In the opinion of the directors:
 - (a) the financial statements and notes of the Company and of the Consolidated Entity are in accordance with the Corporations Act 2001, including:
 - (i) giving a true and fair view of the Company's and Consolidated Entity's financial position as at 30 June 2006 and of their performance for the year ended on that date; and
 - (ii) complying with Accounting Standards and Corporations Regulations 2001; and
 - (b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.
- (2) This declaration has been made after receiving the declarations required to be made to the directors in accordance with section 295A of the Corporations Act 2001 for the financial period ending 30 June 2006.

On behalf of the Board



R.A. ELLIOTT

Chairman

West Perth, Western Australia

15 September, 2006

INDEPENDENT AUDIT REPORT



■ The Ernst & Young Building
11 Mounts Bay Road
Perth WA 6000
Australia

■ Tel 61 8 9429 2222
Fax 61 8 9429 2436

GPO Box M939
Perth WA 6843

Independent audit report to members of Antares Energy Limited

Scope

The financial report and directors' responsibility

The financial report comprises the balance sheet, income statement, statement of changes in equity, statement of cash flows, accompanying notes to the financial statements, and the directors' declaration for Antares Energy Limited (the company) and the consolidated entity, for the year ended 30 June 2006. The consolidated entity comprises both the company and the entities it controlled during that year.

The directors of the company are responsible for preparing a financial report that gives a true and fair view of the financial position and performance of the company and the consolidated entity, and that complies with Accounting Standards in Australia, in accordance with the Corporations Act 2001. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report.

Audit approach

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

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

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

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

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

We performed procedures to assess whether the substance of business transactions was accurately reflected in the financial report. These and our other procedures did not include consideration or judgement of the appropriateness or reasonableness of the business plans or strategies adopted by the directors and management of the company.

Liability limited by a scheme
approved under Professional
Standards Legislation.

Independence

We are independent of the company and the consolidated entity and have met the independence requirements of Australian professional ethical pronouncements and the Corporations Act 2001. We have given to the directors of the company a written Auditor's Independence Declaration a copy of which is included in the Directors' Report. In addition to our audit of the financial report, we were engaged to undertake the services disclosed in the notes to the financial statements. The provision of these services has not impaired our independence.

Audit opinion

In our opinion the financial report of Antares Energy Limited is in accordance with:

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



Ernst & Young



Gavin A Buckingham

Partner

Perth

15 September 2006

SHAREHOLDER INFORMATION

as at 9 October 2006

Ordinary Shares

(a)	Twenty Largest Shareholders	Number of Shares	% of issued shares
1.	Yandal Investments Pty Ltd	10,000,000	6.31%
2.	ANZ Nominees Limited	8,816,883	5.56%
3.	Citicorp Nominees Pty Limited	8,077,890	5.09%
4.	National Nominees Limited	7,399,400	4.67%
5.	Cruickshank, James Andrew	6,340,000	4.00%
6.	Citicorp Nominees Pty Ltd	5,469,104	3.45%
7.	Link Enterprises (International)	4,450,000	2.81%
8.	J P Morgan Nominees Australia	3,090,390	1.95%
9.	Athabasca Pty Ltd	2,500,000	1.58%
10.	Metro West Investments Pty	2,500,000	1.58%
11.	Westpac Custodian Nominees	2,122,791	1.34%
12.	Lessar Pty Ltd	2,013,000	1.27%
13.	Merrill Lynch (Australia)	1,752,261	1.11%
14.	Newport Securities Pty Ltd	1,590,000	1.00%
15.	Johjam Pty Ltd	1,500,000	0.95%
16.	A Eikofin B V B	1,340,000	0.85%
17.	L & E Fisher Nominees Pty Ltd	1,284,855	0.81%
18.	Clohessy, Mark	1,250,000	0.79%
19.	HSBC Custody Nominees	1,230,344	0.78%
20.	McLaughlin, Howard	1,130,500	0.71%
	Total	73,857,418	46.61%

(b)	Distribution of Shareholdings	Number of Shareholders	Number of Shares Held
	1 - 1,000	841	371,808
	1,001 - 5,000	1,450	4,411,441
	5,001 - 10,000	920	7,542,719
	10,001 - 100,000	1,372	41,756,590
	100,001 - and over	140	104,467,442
	Total	4,723	158,550,000

(c)	Substantial Shareholders	Number of Shares	% of Issued Shares
	Commonwealth Bank of Australia	13,476,139	8.50%
	Yandal Investments Pty Ltd	10,000,000	6.31%

(d) Unmarketable Parcels

There were 872 members holding less than a marketable parcel of shares in the Company.

(e) Voting Rights

Voting rights of members are governed by the Company's Constitution. In summary, on a show of hands, every member present in person or by proxy shall have one vote and in the event of a poll every such member shall be entitled to one vote for each ordinary fully paid share held.

(f) Exchanges

Antares Energy Limited is listed on the Australian Stock Exchange. Ordinary shares are listed under the AZZ code.

(g) On-market Share Buy-Back

On 2 October 2006 the Company commenced an on-market share buy-back under which it may buy back up to 10% of its issued capital over a maximum period of 12 months.

Convertible Notes

(a) Twenty Largest Convertible Note holders	Number of Convertible Notes	% of issued Convertible Notes
1. HSBC Custody Nominees	1,866,400	37.33%
2. Metro West Investments Pty Ltd	332,487	6.65%
3. Kaysu Holdings No. 2 Pty Ltd	220,000	4.40%
4. Fogbell Nominees Pty Ltd	218,083	4.36%
5. ANZ Nominees Limited	210,000	4.20%
6. Yardi Jason	136,000	2.72%
7. Dorrان Pty Ltd	100,000	2.00%
8. Gimbala Pty Ltd	100,000	2.00%
9. Kampar Pty Ltd	97,300	1.95%
10. Link Enterprises (International)	86,999	1.74%
11. Miels Jane Alexandra	50,000	1.00%
12. Salom Gordon Llewellyn	50,000	1.00%
13. O'Brien Duncan	50,000	1.00%
14. Luala Pty Ltd	37,500	0.75%
15. Newman Jocelyn	37,000	0.74%
16. Robos Pty Ltd	35,000	0.70%
17. Kaysu Holdings No. 2 Pty Ltd	35,000	0.70%
18. Berger Equities Pty Ltd	32,768	0.66%
19. Capital Enterprises (WA)	30,000	0.60%
20. Dewickham David Robert	27,500	0.55%
Total	3,752,037	75.05%

(b) Distribution of Convertible Note Holdings	Number of Convertible Note Holders	Number of Convertible Notes Held
1 - 1,000	10	8,619
1,001 - 5,000	114	370,097
5,001 - 10,000	32	278,689
10,001 - 100,000	49	1,359,625
100,001 - and over	6	2,982,970
Total	211	5,000,000

(c) Voting Rights

Except as required by the Corporations Act, the Notes do not carry any right, and the Noteholders, in that capacity, do not have any right to vote at any general meeting of the Company.

(d) Exchanges

Antares Energy Limited Convertible Notes are listed on the Australian Stock Exchange under the code AZZG.

LIST OF INTERESTS

as at 9 October 2006

USA

Wells

Project	State	County	Wells	Working Interest	Net Revenue Interest
Ellis County	OK	Ellis	Ellis-1	99.5%	76.86%
			Ellis-2	99.5%	77.13%
			Ellis-4	79.5%	61.38%
			Kelln Trust 5-1	34.0%	27.56%
			Kelln 94-1	18.9%	14.19%
Wilbeck	TX	Wharton	Wilbeck-1	30.0%	21.60%
Porters Creek	TX	Wharton	Porters Creek-1	25.0%	18.75%
Kenedy Ranch Group A	TX	Kenedy	KMF228-1	5.0%	3.50%
Oyster Creek	TX	Brazoria	Harrison-1	75.0%	55.50%

Exploration Leases and Option

Project	State	County	Gross Acres	Net Acres
Ellis	OK	Ellis	12,326	6,109
Yukon	OK	Beaver	1,920	1,632
Kenedy Ranch Group A	TX	Kenedy	7,087	354
Kenedy Ranch Group B	TX	Kenedy	3,785	1,892
Shaeffer Ranch	TX	Duwall Live Oak Jim Wells	44,952	21,760
Yellow Rose	TX	McMullen		
Oyster Creek	TX	Brazoria		



Oyster Creek - Harrison-1 Well.



Level 2, 5 Ord Street
West Perth, WA, 6005
Telephone: + 61 (0) 8 9324 2177
Facsimile: + 61 (0) 8 9324 1224
Email: mail@antaresenergy.com
Website: www.antaresenergy.com
Australian Stock Exchange Code: AZZ