KAROON GAS AUSTRALIA LIMITED
AND CONTROLLED ENTITIES
ABN 53 107 001 338

INTERIM FINANCIAL REPORT
FOR THE HALF-YEAR ENDED
31 DECEMBER 2005

KAROON GAS AUSTRALIA LIMITED
ABN 53 107 001 338
AND CONTROLLED ENTITIES

DIRECTORS' REPORT

Your Directors submit the financial report of the economic entity for the half-year ended 31 December 2005.

Directors

Mr Robert Hosking
Mr Mark Smith
Mr Geoff Atkins
Mr Stephen Power

Review of Operations

Browse Basin Assets WA-314-P and WA-315-P

Year Two Work Commitments Update

After being granted an extension within which to complete its Year 2 work commitments, Karoon is pleased to report that the first phase of the 3D seismic acquisition over the WA-314-P and WA-315-P permits was completed on the 1st of January 2006, on time and under budget.

The Veritas vessel "Pacific Sword" is contracted to complete the balance of the 2D/3D seismic acquisition over the first half of 2006. This seismic acquisition will cover 286 sq km of 3D seismic and 845 sq km of 2D seismic over WA-314-P and WA-315-P.

These seismic surveys will fulfil Karoon's year 2 work program commitments to the Government. The commitments consist of 400 square km. of 3D seismic in each permit by the permit year end

Karoon looks forward to the completion of the second phase of the 3D seismic survey and the results of the processing and interpretation.

Karoon interest 100%

Under its Farm-In arrangements with Liberty Petroleum Corporation, Karoon has fulfilled the year two work commitments and has lodged the required documentation to acquire 100% equity in the exploration permits WA-314-P and WA-315-P.

The exploration permits WA-315-P and WA-315-P are located off-shore North-Western Australia.

Joint Venture Update

The initial stage of the farm out process is effectively complete with national and international companies having entered confidentiality agreements and reviewed all the available data. Short list of farminee's have proceed to stage two and are conducting final reviews and acquiring board approvals to proceed to final to farm in negotiations in the near term. We are hopeful that the farm in will be complete in the near future.

Karoon's strategy is to protect equity levels and align with partners with LNG interests in progressing to a development as soon as possible, unhindered by conflicting interests. This strategy has generated strong supporting interest from an aggressive group of substantial companies looking to enter or enhance their position as a supplier/receiver in the expanding world LNG market

Forward plans

Exploration activity and expenditure going forward in WA-314-P and WA-315-P comprise at a minimum a two well commitment. (100% basis) Well commitments have to be made prior to the end of Year-2 ending on the 11th of February 2007.

Permit Year 3 commitments are for Geological, Geophysical and Geochemical studies.
The company will be obliged to satisfy the minimum expenditure commitments of the permits going forward, future expenditure will depend upon the success of the exploration moving forward, including the seismic surveys just carried out.

With drilling success, retention leases will be applied for over areas of the oil or gas discoveries.

Gippsland Assets PEP162 and EL4537

The 250 sq km West Gippsland 2D seismic survey in PEP162 and EL4537 was completed on the 10th of November 2005 on time and on budget. This survey is now being processed in preparation for mapping, analysis and prospect generation. Mapping, analysis and prospect generation shall be completed by the end of the 2nd quarter 2006.

The seismic program was designed to map the extent of the updip Megascolides structure and define new structures at the oil bearing Top Crayfish Group equivalent level. The seismic also mapped the extent and quality of CBM black coals across the EL4537 license to locate optimal drilling targets.

A drilling program is being planned, subject to seismic interpretation, in the second quarter of 2006. Rigs are currently being sourced in anticipation of successful seismic processing results.

Karoon interest 100%

Karoon Gas (through its 100% owned subsidiary Karoon Gas Pty Ltd) has a 100% Registered interest in PEP162 and EL4537, within the Western on-shore Gippsland Basin of Victoria. The Megascolides – 1 drilling site is located in PEP162 and EL4537, approximately 100 Kilometres South East of Melbourne.

Forward plans and expenditure

Exploration activity and expenditure going forward in PEP 162 are likely to involve the drilling of at least 1 well in a possible 3 well program over the period to the end of the permit term on the 13th of August 2007. At this point under state law the permit will be terminated. This program could involve an expenditure up to $6 million.

With any success from drilling, retention leases and production leases will be applied for over areas of the oil or gas discoveries.

For EL 4537 overlying PEP 162, CBM exploration will be linked to the oil and gas drilling program for PEP 162 using the same wells and data.

This report is signed in accordance with a resolution of the Board of Directors.

Director: Robert Hosking

Dated 15th March 2006

KAROON GAS AUSTRALIA LTD
AND CONTROLLED ENTITIES

A.C.N. 107 001 338

INDEPENDENT REVIEW REPORT
TO THE MEMBERS OF
KAROON GAS AUSTRALIA LTD

Scope

The interim financial report and directors' responsibility

The interim financial report comprises the statement of financial position, statement of financial performance, statement of cash flows, accompanying notes to the financial statements, and the directors' declaration for the consolidated entity, for the half-year ended 31 December 2005. The consolidated entity comprises both Karoon Gas Australia Ltd and the entities it controlled during that half-year.

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

Review approach

We conducted an independent review of the interim financial report in order to state whether, on the basis of the procedures described, anything has come to our attention that would indicate that the interim financial report is not presented fairly in accordance with Australian Accounting Standard AASB 1029: Interim Financial Reporting and other mandatory professional reporting requirements in Australia and statutory requirements so as to present a view which is consistent with our understanding of the consolidated entity's financial position and performance as represented by the results of its operations and its cash flows, and in order for the company to lodge the interim financial report with the Australian Securities & Investments Commission/Australian Stock Exchange Limited.

Our review has been conducted in accordance with Australian Auditing Standards applicable to review engagements. A review is limited primarily to inquiries of company personnel and analytical procedures applied to the financial data. These procedures do not provide all the evidence that would be required in an audit, thus the level of assurance provided is less than given in an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

Independence

In conducting our review, we followed applicable independence requirements of Australian professional ethical pronouncements and the Corporations Act 2001.

Statement

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the interim financial report of Karoon Gas Limited is not in accordance with:

(a) the Corporations Act 2001, including

(i) giving a true and fair view of the consolidated entity's financial position as at 31 December 2005 and of its performance for the half-year ended on that date; and

(ii) complying with Australian Accounting Standard AASB 1029: Interim Financial Reporting and the Corporations Regulations 2001; and

(b) other mandatory professional reporting requirements in Australia.

MITCHELL WILSON & PARTNERS

DOUG MITCHELL
Partner

271 Wattletree Road
MALVERN VIC 3144
Dated this 9th day of MARCH 2006

KAROON GAS AUSTRALIA LIMITED
ABN 53 107 001 338
AND CONTROLLED ENTITIES

CONSOLIDATED INCOME STATEMENT
FOR THE HALF-YEAR ENDED 31 DECEMBER 2005

	Economic Entity	
	31 December 2005 $	**31 December 2004 $**
Revenues from ordinary activities	569,250	79,826
Consultancy fees	(82,071)	(87,282)
Employee expenses	(56,086)	(16,941)
Directors fees and superannuation	(27,250)	(15,896)
Depreciation and amortisation expenses	(46,861)	(14,457)
Legal Fees	(47,600)	(2,725)
Travel and accommodation expenses	(70,144)	(6,717)
Property and Office costs	(103,535)	(51,968)
Professional Fees	(7,270)	(23,246)
Share Registry and listing fees	(56,330)	(21,474)
Other expenses from ordinary activities	(30,583)	(14,201)
Share of net losses of associates and joint ventures accounted for using the equity method	-	-
Profit/(Loss) from ordinary activities before income tax expense	41,520	(175,081)
Income tax expense relating to ordinary activities	(12,456)	-
Net Profit/(Loss) from ordinary activities after income tax attributable to members of the parent entity	29,064	(175,081)
Total changes in equity other than those resulting form transactions with owners as owners	29,064	(175,081)
Basic earnings per share	$0.0007	$(0.0040)
Diluted earnings per share	$0.0005	$(0.0027)

KAROON GAS AUSTRALIA LIMITED
ABN 53 107 001 338
AND CONTROLLED ENTITIES

CONSOLIDATED BALANCE SHEET
AS AT 31 DECEMBER 2005

	Economic Entity	
	31 December 2005 $	**30 June 2005 $**
CURRENT ASSETS		
Cash and Cash Equivalents	24,226,730	12,796,605
Receivables	947,635	131,895
Inventories	195,402	195,402
TOTAL CURRENT ASSETS	25,369,767	13,123,902
NON-CURRENT ASSETS		
Investments	2,267	2,267
Property, plant and equipment	161,339	117,763
Intangible Assets	136,231	144,794
Other – Exploration & Development	14,155,868	2,984,934
TOTAL NON-CURRENT ASSETS	14,455,705	3,249,758
TOTAL ASSETS	39,825,473	16,373,660
CURRENT LIABILITIES		
Payables	(10,094,215)	(154,733)
Provisions	(25,350	(2,521)
TOTAL CURRENT LIABILITIES	(10,119,565)	(157,254)
TOTAL LIABILITIES	(10,119,565)	(157,254)
NET ASSETS	29,705,908	16,216,406
EQUITY		
Contributed equity	29,676,844	16,990,949
Retained Earnings	29,064	(774.543)
TOTAL EQUITY	29,705,908	16,216,406

KAROON GAS AUSTRALIA LIMITED
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CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE HALF-YEAR ENDED 31 DECEMBER 2005

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE HALF-YEAR ENDED 31 DECEMBER 2005

	Note	$000 Share Capital Ordinary	$000 Retained Profits	$000 Asset Revaluation Reserve	$000 Minority Interests	$000 Total
Balance at *1.7.2004*		4,727	(148)	-	-	4,579
Shares Issued During the Year		1				1
Profit attributable to members of parent entity			(175)			(175)
Profit attributable to minority shareholders						
Sub-total			(175)			(175)
Dividends paid or provided for						
Balance at *31.12.2004*		4,728	(323)			4,405
Balance at *1.7.2005*		16,991	(775)			16,216
Shares issued during the year		13,460				13,460
Profit attributable to members of parent entity			29			29
Profit attributable to minority shareholders						
Revaluation increment						
Sub-total		30,451	(746)			29,705
Dividends paid or provided for						
Balance at *31.12.2005*		30,451	(746)			29,705

The accompanying notes form part of these financial statements.

KAROON GAS AUSTRALIA LIMITED
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CONSOLIDATED CASH FLOW STATEMENT
FOR THE HALF-YEAR ENDED 31 DECEMBER 2005

	Economic Entity	
	31 December 2005 $	**31 December 2004 $**
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	-	-
Payments to suppliers and employees	(292,721)	(206,679)
Borrowing Costs	-	-
Interest received	569,250	79,826
Net cash provided by (used in) operating activities	276,529	(126,853)
CASH FLOWS FROM INVESTING ACTIVITIES		
Payments for investments	-	-
Payment for property, plant and equipment	(90,438)	(89,117)
Payments for Exploration and Development	(2,256,634)	(2,143,416)
Net cash provided by (used in) investing activities	(2,347,072)	(2,232,533)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issue of shares	14,157,938	1,000
Payments of equity raising costs	(697,500)	-
Net cash provided by (used in) financing activities	13,460,438	1,000
Net increase (decrease) in cash held	11,389,895	(2,358,386)
Cash at 1 July 2005	12,796,605	4,225,633
Cash at 31 December 2005	24,186,500	1,867,247

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NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 31 DECEMBER 2005

NOTE 1: BASIS OF PREPARATION

The half-year consolidated financial statements are a general purpose financial report prepared in accordance with the requirements of the *Corporations Act 2001*, Australian Accounting Standard AASB 134: Interim Financial Reporting, Urgent Issues Group Interpretations and other authoritative pronouncements of the Australian Accounting Standards Board.

It is recommended that this financial report be read in conjunction with the annual financial report for the year ended 30 June 2005 and any public announcements made by Karoon Gas Australia Limited and its controlled entities during the half-year in accordance with continuous disclosure requirements arising under the *Corporations Act 2001*.

As this is the first interim financial report prepared under Australian equivalents to IFRS, the accounting policies applied are inconsistent with those applied in the 2005 annual report as this report was presented under previous Australian GAAP. Accordingly, a summary of the significant accounting policies under Australian equivalents to IFRS has been included below. A reconciliation of equity and profit and loss between previous GAAP and Australian equivalents to IFRS has been prepared per Note 2.

The half-year report does not include full disclosures of the type normally included in an annual financial report.

(a) Principles of Consolidation

A controlled entity is any entity controlled by Karoon Gas Australia Limited whereby Karoon Gas Australia Limited has the power to control the financial and operating policies of an entity so as to obtain benefits from its activities

All inter-company balances and transactions between entities in the economic entity, including any unrealised profits or losses, have been eliminated on consolidation. Accounting policies of subsidiaries have been changed where necessary to ensure consistencies with those policies applied by the parent entity.

(b) Income Tax

The charge for current income tax expense is based on the profit for the year adjusted for any non-assessable or disallowable items. It is calculated using tax rates that have been enacted or are substantively enacted at the balance sheet date.

(c) Inventories

Inventories are measured at the lower of cost and net realisable value. The cost of manufactured products includes direct materials, direct labour and an appropriate portion of variable and fixed overheads. Overheads are applied on the basis of normal operating capacity. Costs are assigned on the basis of weighted average costs.

(d) Property, Plant and Equipment

Each class of property, plant and equipment is carried at cost or fair value less, where applicable, any accumulated depreciation and impairment losses.

NOTE 1: BASIS OF PREPARATION (Continued)

(d) Property, Plant and Equipment (Continued)

Plant and equipment

Plant and equipment are measured on the cost basis less depreciation and impairment losses.

The carrying amount of plant and equipment is reviewed annually by directors to ensure it is not in excess of the recoverable amount from these assets. The recoverable amount is assessed on the basis of the expected net cash flows that will be received from the assets employment and subsequent disposal. The expected net cash flows have been discounted to their present values in determining recoverable amounts.

The cost of fixed assets constructed within the economic entity includes the cost of materials, direct labour, borrowing costs and an appropriate proportion of fixed and variable overheads.

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 group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Increases in the carrying amount arising on revaluation of land and buildings are credited to a revaluation reserve in shareholders' equity. Decreases that offset previous increases of the same asset are charged against fair value reserves directly in equity; all other decreases are charged to the income statement. Each year the difference between depreciation based on the revalued carrying amount of the asset charged to the income statement and depreciation based on the asset's original cost is transferred from the revaluation reserve to retained earnings.

Depreciation

The depreciable amount of all fixed assets including building and capitalised lease assets, but excluding freehold land, is depreciated on a straight line basis over their useful lives to the economic entity commencing from the time the asset is held ready for use. Leasehold improvements are depreciated over the shorter of either the unexpired period of the lease or the estimated useful lives of the improvements.

The depreciation rates used for each class of depreciable assets are:

Class of Fixed Asset	**Depreciation Rate**
Furniture & Fittings	*25%*
Motor Vehicles	*50%*
Office Equipment	*40%*
Computer Hardware	*40%*
Computer Software	*50%*

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These gains and losses are included in the income statement. When revalued assets are sold, amounts included in the revaluation reserve relating to that asset are transferred to retained earnings.

NOTE 1: BASIS OF PREPARATION (Continued)

(e) Exploration and Development Expenditure

Exploration, evaluation and development expenditure incurred is accumulated in respect of each identifiable area of interest. These costs are only carried forward to the extent that they are expected to be recouped through the successful development of the area or where activities in the area have not yet reached a stage that permits reasonable assessment of the existence of economically recoverable reserves.

Accumulated costs in relation to an abandoned area are written off in full against profit in the year in which the decision to abandon the area is made.

When production commences, the accumulated costs for the relevant area of interest are amortised over the life of the area according to the rate of depletion of the economically recoverable reserves.

A regular review is undertaken of each area of interest to determine the appropriateness of continuing to carry forward costs in relation to that area of interest.

Costs of site restoration are provided over the life of the facility from when exploration commences and are included in the costs of that stage. Site restoration costs include the dismantling and removal of mining plant, equipment and building structures, waste removal, and rehabilitation of the site in accordance with clauses of the mining permits. Such costs have been determined using estimates of future costs, current legal requirements and technology on an undiscounted basis.

Any changes in the estimates for the costs are accounted on a prospective basis. In determining the costs of site restoration, there is uncertainty regarding the nature and extent of the restoration due to community expectations and future legislation. Accordingly the costs have been determined on the basis that the restoration will be completed within one year of abandoning the site.

(f) Leases

Leases of fixed assets where substantially all the risks and benefits incidental to the ownership of the asset, but not the legal ownership that are transferred to entities in the economic entity are classified as finance leases.

Finance leases are capitalised by recording an asset and a liability at the lower of the amounts equal to the fair value of the leased property or the present value of the minimum lease payments, including any guaranteed residual values. Lease payments are allocated between the reduction of the lease liability and the lease interest expense for the period.

Leased assets are depreciated on a straight-line basis over their estimated useful lives where it is likely that the economic entity will obtain ownership of the asset or over the term of the lease.

Lease payments for operating leases, where substantially all the risks and benefits remain with the lessor, are charged as expenses in the periods in which they are incurred.

Lease incentives under operating leases are recognised as a liability and amortised on a straight-line basis over the life of the lease term.

(g) Financial Instruments

Recognition

Financial instruments are initially measured at cost on trade date, which includes transaction costs, when the related contractual rights or obligations exist. Subsequent to initial recognition these instruments are measured as set out below.

Financial assets at fair value through profit and loss

A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management and within the requirement of AASB 139: Recognition & Measurement of Financial Instruments. Derivatives are also recognized as held for trading unless they are designated as hedges. Realised and recognized gains and losses arising from changes in the fair

NOTE 1: BASIS OF PREPARATION (Continued)

value of these assets are included in the income statement in the period in which they arise.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are stated at amortised cost using the effective interest rate method.

Held-to-maturity investments

These investments have fixed maturities, and it is the group's intention to hold these investments to maturity. Any held-to-maturity investments held by the group are stated at amortised cost using the effective interest rate method.

Available-for-sale financial assets

Available for sale financial assets include any financial assets not included in the above categories. Available-for-sale financial assets are reflected at fair value. Unrealised gains and losses arising from changes in fair value are taken directly to equity.

Financial liabilities

Non-derivative financial liabilities are recognized at amortised cost, comprising original debt less principal payments and recognized.

Derivative instruments

Derivative instruments are measured at fair value. Gains and losses arising from changes in fair value are taken to the income statement unless they are designated as hedges.

Fair value

Fair value is determined based on current bid prices for all quoted investments. Valuation techniques are applied to determine the fair value for all unlisted securities, including recent arm's length transactions, reference to similar instruments and option pricing models.

Impairment

At each reporting date, the group assess whether there is objective evidence that a financial instrument has been impaired. In the case of available-for sale financial instruments, a prolonged decline in the value of the instrument is considered to determine whether an impairment has arisen. Impairment losses are recognized in the income statement.

(h) Impairment of Assets

At each reporting date, the group reviews the carrying values of its tangible and intangible assets to determine whether there is any indication that those assets have been impaired. If such an indication exists, the recoverable amount of the asset, being the higher of the asset's fair value less costs to sell and value in use, is compared to the asset's carrying value. Any excess of the asset's carrying value over its recoverable amount is expensed to the income statement.

Impairment testing is performed annually for goodwill and intangible assets with indefinite lives.

Where it is not possible to estimate the recoverable amount of an individual asset, the group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

(i) Interests in Joint Ventures

The economic entity's share of the assets, liabilities, revenue and expenses of joint venture operations are included in the appropriate items of the consolidated statements of financial performance and financial position.

The economic entity's interests in joint venture entities are brought to account using the equity method of accounting in the consolidated financial statements. The parent entity's interests in joint venture entities are brought to account using the cost method.

(j) Intangibles

Goodwill

Goodwill and goodwill on consolidation are initially recorded at the amount by which the purchase price

NOTE 1: BASIS OF PREPARATION (Continued)

for a business or for an ownership interest in a controlled entity exceeds the fair value attributed to its net assets at date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill on acquisition of associates is included in investments in associates. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

(k) Foreign Currency Transactions and Balances

Functional and presentation currency

The functional currency of each of the group's entities is measured using the currency of the primary economic environment in which that entity operates. The consolidated financial statements are presented in Australian dollars which is the parent entity's functional and presentation currency.

Transaction and balances

Foreign currency transactions are translated into functional currency using the exchange rates prevailing at the date of the transaction. Foreign currency monetary items are translated at the year-end exchange rate. Non-monetary items measured at historical cost continue to be carried at the exchange rate at the date of the transaction. Non-monetary items measured at fair value are reported at the exchange rate at the date when fair values were determined.

Exchange differences arising on the translation of monetary items are recognised in the income statement, except where deferred in equity as a qualifying cash flow or net investment hedge.

Exchange difference arising on the translation of non-monetary items are recognised directly in equity to the extent that the gain or loss is directly recognised in equity, otherwise the exchange difference is recognised in the income statement.

Group companies

The financial results and position of foreign operations whose functional currency is different from the group's presentation currency are translated as follows:

Assets and liabilities are translated at year-end exchange rates prevailing at that reporting date.

Income and expenses are translated at average exchange rates for the period.

Retained profits are translated at the exchange rates prevailing at the date of the transaction.

Exchange differences arising on translation of foreign operations are transferred directly to the group's foreign currency translation reserve in the balance sheet. These differences are recognised in the income statement in the period in which the operation is disposed.

(l) Employee Benefits

Provision is made for the company's liability for employee benefits arising from services rendered by employees to balance date. Employee benefits that are expected to be settled within one year have been measured at the amounts expected to be paid when the liability is settled, plus related on-costs. Employee benefits payable later than one year have been measured at the present value of the estimated future cash outflows to be made for those benefits.

(m) Provisions

Provisions are recognised when the group has a legal or constructive obligation, as a result of past events, for which it is probable that an outflow of economic benefits will results and that outflow can be reliably measured.

(n) Cash and Cash Equivalents

Cash and cash equivalents includes cash on hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within short-borrowings in current liabilities on the balance sheet.

NOTE 1: BASIS OF PREPARATION (Continued)

(o) Revenue

Revenue from the sale of goods is recognised upon the delivery of goods to customers.

Interest revenue is recognised on a proportional basis taking into account the interest rates applicable to the financial assets.

Dividend revenue is recognised when the right to receive a dividend has been established. Dividends received from associates and joint venture entities are accounted for in accordance with the equity method of accounting.

Revenue from the rendering of a service is recognised upon the delivery of the service to the customers.

All revenue is stated net of the amount of goods and services tax (GST).

(p) Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Tax Office. In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense. Receivables and payables in the balance sheet are shown inclusive of GST.

Cash flows are presented in the cash flow statement on a gross basis, except for the GST component of investing and financing activities, which are disclosed as operating cash flows.

(q) Comparative Figures

When required by Accounting Standards, comparative figures have been adjusted to conform to changes in presentation for the current financial year.

(r) Rounding of Amounts

The parent entity has applied the relief available to it under ASIC Class Order 98/100 and accordingly, amounts in the financial report and directors' report have been rounded off to the nearest $1,000.

6. COMMITMENTS

Operating Lease Commitments

	Economic Entity 31 December 2005 $	Economic Entity 30 June 2005 $
Future Operating Lease rentals not provided for in the financial statements and payable:		
Within one year	55,956	55,960
Later than one year but not later than five years	122,448	70,453
Total	178,404	135,720

Capital Expenditure Commitments

	2006	2007	2008
PEP 162	1,500,000	2,000,000	
EL 4537	103,800	121,500	
WA-314-P	3,000,000	30,000,000	1,000,000
WA-315-P	3,000,000	30,000,000	1,000,000
Total	7,603,800	62,121,500	2,000,000

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NOTE 2: FIRST-TIME ADOPTION OF AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS	Note	Previous GAAP at 1.7.2004	Economic Entity Adjustments on introduction of Australian equivalents to IFRS	Australian equivalents to IFRS at 1.7.2004
Reconciliation of Equity at 1 July 2004		**$000**	**$000**	**$000**
ASSETS				
CURRENT ASSETS				
Cash and cash equivalents		4,225,633		4,225,633
Trade and other receivables		66,046		66,046
Inventories		195,402		195,402
TOTAL CURRENT ASSETS		4,487,081		4,487,081
NON-CURRENT ASSETS				
Trade and other receivables				
Inventories				
Investments accounted for using the equity method		1,212		1,212
Property, plant and equipment		46,795		46,795
Deferred tax assets				
Intangible assets	2b	161,920	(161,920)	-
Other – Exploration & Development		71,394		71,394
TOTAL NON-CURRENT ASSETS		281,321	(161,920)	119,401
TOTAL ASSETS		4,768,402	(161,920)	4,606,482
CURRENT LIABILITIES				
Trade and other payables		(189,764)		(189,764)
Short-term borrowings				
Current tax liabilities				
TOTAL CURRENT LIABILITIES		(189,764)		(189,764)
NON-CURRENT LIABILITIES				
Trade and other payables				
TOTAL NON-CURRENT LIABILITIES				
TOTAL LIABILITIES		(189,764)		(189,764)
NET ASSETS		4,578,638	(161,920)	4,416,718
EQUITY				
Issued capital		4,726,731		4,726,731
Reserves	2d			
Retained earnings	2e	(148.092)	(161,920)	(310,012)
Parent interest				
Minority equity interest				
TOTAL EQUITY		4,578,638	(161,920)	4,416,719

KAROON GAS AUSTRALIA LIMITED
ABN 53 107 001 338
AND CONTROLLED ENTITIES

NOTES TO THE FINANCIAL STATEMENTS
FOR THE HALF-YEAR ENDED 31 DECEMBER 2005

			Economic Entity	
NOTE 2: FIRST-TIME ADOPTION OF AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (Continued)	**Note**	**Previous GAAP at 31.12.2004**	**Adjustments on introduction of Australian equivalents to IFRS**	**Australian equivalents to IFRS at 31.12.2004**
Reconciliation of Equity at 31 December 2004		**$000**	**$000**	**$000**
ASSETS				
CURRENT ASSETS				
Cash and cash equivalents		1,905,772		1,905,772
Trade and other receivables		184,033		184,033
Inventories		195,402		195,402
Other current assets				
TOTAL CURRENT ASSETS		2,285,207		2,285,207
NON-CURRENT ASSETS				
Trade and other receivables				
Investments accounted for using the equity method		2,267		2,267
Inventories				
Property, plant and equipment	**2f**	121,455		121,455
Deferred tax assets	**2a**			
Intangible assets	**2b**	157,621	(157,621)	-
Other – Exploration & Development		2,498,080		2,498,080
TOTAL NON-CURRENT ASSETS		2,779,423	(157,621)	2,621,802
TOTAL ASSETS		5,064,630	(157,621)	4,907,009
CURRENT LIABILITIES				
Trade and other payables		646,886		646,886
Short-term borrowings				
Current tax liabilities				
Short-term provisions		13,186		13,186
Other current liabilities				
TOTAL CURRENT LIABILITIES		660,073		660,073
NON-CURRENT LIABILITIES				
Trade and other payables				
TOTAL NON-CURRENT LIABILITIES				
TOTAL LIABILITIES		660,073		660,073
NET ASSETS		4,404,557	(157,621)	4,246,936
EQUITY				
Issued capital		4,727,731		4,727,731
Reserves	**2d**			
Retained earnings	**2e**	(323,174)	(157,621)	(480,795)
Parent interest				
Minority equity interest				
TOTAL EQUITY		4,404,557	(157,621)	4,246,936

KAROON GAS AUSTRALIA LIMITED
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NOTES TO THE FINANCIAL STATEMENTS
FOR THE HALF-YEAR ENDED 31 DECEMBER 2005

			Economic Entity	
NOTE 2: FIRST-TIME ADOPTION OF AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (Continued)	**Note**	**Previous GAAP at 30.6.05**	**Adjustments on introduction of Australian equivalents to IFRS**	**Australian equivalents to IFRS at 30.6.2005**
Reconciliation of Equity at 30 June 2005		**$000**	**$000**	**$000**
ASSETS				
CURRENT ASSETS				
Cash and cash equivalents		12,796,605		12,796,605
Trade and other receivables		131,895		131,895
Inventories		195,402		195,402
Other current assets				
TOTAL CURRENT ASSETS		13,123,902		13,123,902
NON-CURRENT ASSETS				
Trade and other receivables				
Investments accounted for using the equity method		2,267		2,267
Inventories				
Property, plant and equipment	**2f**	117,763		117,763
Deferred tax assets	**2a**			
Intangible assets	**2b**	144,794	(144,794)	-
Other – Exploration & Development		2,984,934		2,984,934
TOTAL NON-CURRENT ASSETS		3,249,758	(144,794)	3,104,964
TOTAL ASSETS		16,373,660	(144,794)	16,228,866
CURRENT LIABILITIES				
Trade and other payables		(154,733)		(154,733)
Short-term borrowings				
Current tax liabilities				
Short-term provisions		(2,521)		(2,521)
Other current liabilities				
TOTAL CURRENT LIABILITIES		(157,254)		(157,254)
NON-CURRENT LIABILITIES				
Trade and other payables				
TOTAL NON-CURRENT LIABILITIES				
TOTAL LIABILITIES		(157,254)		(157,254)
NET ASSETS		16,216,406	(144,794)	16,071,612
EQUITY				
Issued capital		16,990,949		16,990,949
Reserves	**2d**			
Retained earnings	**2e**	(774,543)	(144,794)	(919,337)
Parent interest				
Minority equity interest				
TOTAL EQUITY		16,216,406	(144,794)	16,071,612

		Economic Entity		
NOTE 2: FIRST-TIME ADOPTION OF AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (Continued)	**Note**	**Previous GAAP at**	**Adjustments on introduction of Australian equivalents to IFRS**	**Australian equivalents to IFRS at**
Reconciliation of Profit or Loss for the half-year 31 December 2004		**$000**	**$000**	**$000**
Revenue		79,826		79,826
Changes in inventories of finished goods and work in progress				
Raw materials and consumables used				
Employee benefits expense				
Depreciation and amortisation expense	**2b**	(18,756)	4,299	(14,457)
Finance costs				
Impairment of property, plant and equipment	**2f**			
Other expenses		(236,151)		(236,151)
Share of net profits of associates				
Profit before income tax		(175,081)	4,299	(170,782)
Income tax expense	**2g**			
Profit from continuing operations		(175,081)	4,299	(170,782)
Profit from discontinued operations	**2h**			
Profit for the year		(175,081)	4,299	(170,782)
Profit attributable to minority equity interest	**2h**			
Profit attributable to members of the parent entity		(175,081)	4,299	(170,782)
Reconciliation of Profit or Loss for the full year to 30 June 2005				
Revenue		157,976		157,976
Changes in inventories of finished goods and work in progress				
Raw materials and consumables used				
Employee benefits expense				
Depreciation and amortisation expense	**2b**	(65,225)	17,126	(48,099)
Finance costs				
Impairment of property, plant and equipment	**2f**			
Other expenses		(719,201)		(719,201)
Share of net profits of associates				
Profit before income tax		(626,450)	17,126	(609,324)
Income tax expense	**2g**			
Profit from continuing operations		(626,450)	17,126	(609,324)
Profit from discontinued operations	**2h**			
Profit for the year		(626,450)	17,126	(609,324)
Profit attributable to minority equity interest	**2h**			
Profit attributable to members of the parent entity		(626,450)	17,126	(609,324)

NOTE 2: FIRST-TIME ADOPTION OF AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (Continued)	**30.6.2005**	**31.12.2004**	**1.7.2004**
Notes to the Reconciliations of Equity and Profit and Loss at 1 July 2004, 31 December 2004 and 30 June 2005	**$000**	**$000**	**$000**
(a) Deferred tax assets comprise:			
Deferred tax provided on the impairment of property, plant and equipment (refer 2(f))			
Total			

(b)Under AASB 3, goodwill is no longer amortised but subject to annual impairment testing. All goodwill amortised under previous GAAP has been reversed. Goodwill amounting to $100,000 has been reversed to retained earnings at 1 July 2004. Goodwill amounting to $100,000 previously amortised in the 2005 full financial year has been reversed in the income statement for the year ended 30 June 2005. Goodwill amounting to $50,000 previously amortised for the 2004 half year has been reversed in the income statement for the half year ended 31 December 2004.

(c) Deferred tax liabilities comprise:			
Deferred tax on revaluation of non-current assets			
Total			
(d) Reserves comprise:			
Deferred tax adjustment to reserves on revaluation of non-current assets			
Minority equity interest relating to the above adjustment			
Total			
(e) Retained earnings comprise:			
Reversal of goodwill previously amortised (refer2(b))	144,794	157,621	161,920
Impairment loss on property, plant and equipment (refer 2(f))			
Total			

(f) An impairment loss amounting to $1,200,000 has been recognised under the Australian equivalents to IFRS relating to plant and machinery which has been written down to its recoverable amount. This has been recognised in the income statement for the year ended 30 June 2005 and the half-year ended 31 December 2005.

NOTE 2: FIRST-TIME ADOPTION OF AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (Continued)	**30.6.2005**	**31.12.2004**	**1.7.2004**
(g) Income tax expense comprises:			
Deferred tax expense on impairment of property, plant and equipment			
Total			

(h)Reclassifications have been made to the income statement for the year ended 2005 and the half year ended 31 December 2005 as follows. Under Australian equivalents to IFRS, the results of discontinued operations must be reflected as one line item in the income statement and revenues and expenses not separately identified. This reclassification has no effect on net profit for the 2005 full financial year and half year to 31 December 2005.

(i)Under Australian equivalents to IFRS, short-term deposits are classified as cash as opposed to receivables. All short-term deposits amounting to $130,000 in the comparative period have been reclassified to cash and cash equivalents.

NOTE 3: CHANGES IN ACCOUNTING POLICY

Under AASB 139: Financial Instruments: Recognition and Measurement, available-for-sale financial assets are required to be revalued at each reporting date, with revaluation increments or decrements to be taken directly to a financial asset revaluation reserve.

AASB 139 has prospective application for years commencing on or after 1 January 2005. Previous Australian Accounting Standards have been applied to comparative financial information.

	Economic Entity	
	31.12.2005	**31.12.2004**
	$000	**$000**
NOTE 4: PROFIT FROM ORDINARY ACTIVITIES		
The following revenue and expense items are relevant in explaining the financial performance for the interim period:		
Write-off of capitalised exploration expenditure on areas of interest abandoned during the period	-	-
Net loss on disposal of manufacturing division	-	-
Net gain on the disposal of investment in controlled entity	-	-
NOTE 5: DIVIDENDS		
Distributions paid	-	-
	-	-

Note 6. SEGMENT INFORMATION

Primary Reporting – Business Segments

	Western Australia	**Victoria**	**Economic Entity**
2005			
Total Segment Revenue	-	-	568,518
Revenue from Ordinary Activities	-	-	568,518
Segment Result	-	-	38,380
Loss from ordinary activities before income tax expense	-	-	38,380

	Western Australia	**Victoria**	**Economic Entity**
2004			
Total Segment Revenue	-	-	79.826
Revenue from Ordinary Activities	-	-	79,826
Segment Result	-	-	(175,081)
Loss from ordinary activities before income tax expense	-	-	(175,081)

Note 7 : CONTINGENT LIABILITIES

There has been no change in contingent liabilities since the last annual reporting date.

Note 8 : EVENTS SUBSEQUENT TO REPORTING DATE

There have been no significant events since the last reporting date.

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DIRECTORS DECLARATION

The directors of the company declare that:

1. The financial statements and notes, as set out on pages 4 to 10:

   a) comply with Accounting Standard AASB 1029: Interim Financial Reporting and the Corporations Regulations; and

   b) give a true and fair view of the consolidated entity's financial position as at 31 December 2005 and of its performance for the half-year ended on that date.

2. In the directors' opinion there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the Board of Directors.

Director: Robert Hosking

Dated 15th March 2006