



# Impress Ventures LIMITED

ABN · 15 009 212 319

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

# CORPORATE DIRECTORY

## Directors and Officers

*Eddie Smith*  
**Non-Executive Chairman**

*Douglas Jendry*  
**Managing Director**

*Robert Hall*  
**Executive Director**

*John Gillon*  
**Non-Executive Director**

*Andrew Meloncelli*  
**Company Secretary**

## Principal and Registered Office

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West Perth  
Western Australia 6005

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Western Australia 6872

Telephone +61 8 9214 2500  
Facsimile +61 8 9214 2511  
Email [info@impressventures.com.au](mailto:info@impressventures.com.au)  
Website [www.impressventures.com.au](http://www.impressventures.com.au)

## Auditors

RSM Bird Cameron Partners  
8 St George's Terrace  
Perth  
Western Australia 6000

Telephone +61 8 9261 9100  
Facsimile +61 8 9261 9101

## Bankers

Bank of Western Australia Limited  
108 St George's Terrace  
Perth  
Western Australia 6000

## Share Registry

Computershare Investor Services Pty Ltd  
Level 2, 45 St George's Terrace  
Perth  
Western Australia 6000

Telephone +61 8 1300 557 010  
Facsimile +61 8 9323 2033  
Website: [www.computershare.com](http://www.computershare.com)

## ASX Code

Listed on the Australian Stock Exchange under the code ITC.



## DIRECTORS' REPORT

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

### Directors

The names of directors who held office during or since the end of the half-year:

#### Name

Mr Douglas Jendry

Mr Eddie Smith

Mr John Gillon

Mr Robert Hall

Appointed 27 January 2006

Mr Chris Singleton

Resigned 17 November 2005

The directors have been in office since the beginning of the interim period unless otherwise stated.

### Adoption of Australian Equivalent to IFRS

This interim financial report has been prepared under Australian equivalents to IFRS. A reconciliation of differences between previous GAAP and Australian equivalents to IFRS has been included in Note 9 of this report.

### Production Activities

#### ***PEL 115, Cooper Basin, South Australia, 40% working interest***

##### *Mirage Oil Field*

The Mirage 1 well has been on continuous production since 27 July 2005. The well is currently producing via beam pump at a rate of approximately 380 barrels of oil per day.

The Operator has produced a report on the Mirage and Ventura Oil Fields including estimates of the ultimate recoveries expected for the two wells and comments on the fields.

The Mirage 1 well produces from the Murta Formation and is performing as expected and has produced over 37,000 barrels of oil to date. The Operator's report states as follows:

- The Mirage well is expected to have ultimate recoverable reserves of approximately 250,000 barrels to be produced over a 12 year life.
- The well will produce under natural decline until approximately 2017.
- A representative original oil in place figure for the field is approximately 4.2 million bbls with estimated recoverable reserves, under primary recovery, of over 1 million bbls. Impress considers that secondary recovery has the ability to increase this reserve to over 1.5 million bbls.

It must be emphasised that this is an estimate based on the performance of the Mirage well combined with the results of the 3D survey. Impress expects the appraisal wells to intersect better reservoir sands in the Murta and have improved production profiles. Following the drilling of the 3 appraisal wells, further information will be acquired prior to embarking on a field development program that could involve the drilling of up to 7 wells.

##### *Ventura Oil Field*

After some initial difficulties in setting up the pumping system the Ventura well commenced 24 hour operation on 11 October 2005.

The well is currently producing approximately 50 barrels of oil per day.

##### *Ventura 1 well*

The Ventura well produces from the McKinlay and as expected has intersected a limited reservoir. The well has produced 11,000 barrels of oil to date. The Operator's report states:



- A reasonable estimate for ultimate recoverable reserves is approximately 44,000 barrels to be produced over a 3 year life.
- It must be emphasised that this is an estimate for the recovery from the Ventura 1 well only and not the Ventura Field. Further analysis of the 3D data is continuing and may well lead to further drilling locations. At this stage it is not intended that any drilling will take place during 2006.

## Exploration Activities

### ***PEL 115, Cooper Basin, South Australia, 40% working interest***

#### *Mirage 3D Seismic Survey*

The results of the interpretation of the 3D seismic survey have been particularly encouraging both from a production and exploration viewpoint. Impress has reviewed the data with its own consultants and in conjunction with the Operator.

At the Mirage oil field, the survey has concluded that structurally the field covers over 2.5 square kilometers in an "L" shaped feature broadly trending north – south. The Mirage 1 well appears to be just north east of the crest of the feature.

The Jindivik and Lightning structures, to the east of Mirage, were confirmed as targets.

Further detailed work was carried out on the data specifically to assist in determining where better reservoir properties in the Murta Formation could be located. This work entailed studying the characteristics or 'attributes' of the seismic signal to indicated where more porous areas existed and hence better reservoir conditions.

The results of this work showed that there was a broadly east west trending "attribute" anomaly located to the north of the Mirage well. The Mirage well appears to have just intersected the southern part of this anomaly. The feature stretches from the west of Mirage to the east of the Lightning and Jindivik structures.

In addition the attribute work has indicated that the previously drilled dry holes in the permit at Burruna, Plotosus and Wirrha are all located in areas with unfavourable seismic characteristics. Analysis of these wells shows that despite oil shows in the Murta Formation there was no reservoir sand. In addition the Ventura 1 well, which produces from the McKinlay Formation (not the Murta), is also located in an unfavourable Murta reservoir area. Impress is encouraged by these results as they satisfactorily explain why these wells were not successful in the Murta.

It is Impress' view that the seismic work has indicated areas within the Murta Formation that have better reservoir quality than those at Mirage, as well as indicating a 'fairway' that could contain stratigraphic traps within the Murta Formation.

#### *Appraisal drilling*

The results of the structural analysis in conjunction with the 'attribute' work has led to three appraisal locations being determined. The locations lie to the north and east of Mirage 1 and are located to intersect both a structurally high area in conjunction with a positive seismic attribute. Impress expects that these wells will intersect Murta sands with improved reservoir characteristics and associated production.

The first appraisal well, Mirage 2, intersected the objective Murta horizon as expected and has been completed for production.

#### *Jindivik and Lightning Structures*

The Jindivik and Lightning structures lie to the east of Mirage. Jindivik is approximately 2 kilometres to the north-east while Lightning lies about 3 kilometres to the east.

Structural closure has been confirmed at both prospects and they both have favourable seismic attribute characteristics indicating reservoir in the Murta Formation. In addition they lie in a favourable position to receive oil charge from the source areas to the north and there is the strong possibility that other objective horizons such as the Birkhead and Hutton Formations have also received oil charge.

### ***PEL 104 and 111, Cooper Basin, South Australia, 40% working interest***

There are four wells to be drilled in the PEL 111 and 104 permits with the current rig.

These wells will be Jurassic oil tests located to the west of Australia's largest onshore oil field at Tirrawarra.



To date prospects and leads are recognized at Catalina, Ascender, Gannet, Liberator, Wirraway and Eagle. Further seismic was recorded during late 2005 at Wirraway, Ascender and Gannet to mature the prospects to drillable status. The final drill locations will be determined by mid March and the rig is expected to arrive in the area after the PEL 115 drilling in approximately April, 2006.

***PEL 86, 87 and 89, Cooper Basin, South Australia, 40% working interest***

There was no activity in the permits during the latter half of 2005. Exploration work is expected to commence in the latter half of 2006.

***Heron Resources/INCO Kalgoorlie Nickel Project (KNP)***

Impress Ventures Ltd was previously called Merritt Mining NL and was involved in mineral exploration in Western Australia during the 1990's.

The company had an interest in a number of nickel tenements known as Siberia Tank that were eventually sold to Centaur in exchange for a 10% free carried interest to production. The tenements are Prospecting Licences 24/3179 to 24/3184 inclusive.

The leases were subsequently acquired by Heron Resources Ltd.

***Operating Results***

The interim financial report to 31 December 2005 shows an operating loss of \$140,825 compared with a loss of \$615,178 for the half-year ended 31 December 2004.

***Auditor's Independence Declaration***

In accordance with section 307C of the Corporations Act 2001, the Directors have obtained a declaration of independence from RSM Bird Cameron Partners, the consolidated entity's auditors. The independence declaration is included at page 4 of the financial report.

Dated at West Perth 2 March 2006.

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

**Douglas Jendry**  
**Managing Director**

# RSM Bird Cameron Partners

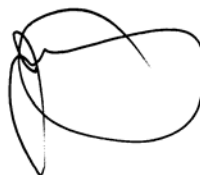
Chartered Accountants

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## AUDITOR'S INDEPENDENCE DECLARATION TO THE DIRECTORS OF IMPRESS VENTURES LIMITED

In relation to our review of the financial report of Impress Ventures Limited for the half-year ended 31 December 2005, to the best of our 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.

*RSM Bird Cameron Partners*  
RSM BIRD CAMERON PARTNERS  
Chartered Accountants



J A KOMNINOS  
Partner

Perth, WA  
Dated: 2 March 2006

## INDEPENDENT REVIEW REPORT TO THE MEMBERS OF IMPRESS VENTURES LIMITED

### Scope

#### *The financial report and directors' responsibility*

The financial report comprises the balance sheet, income statement, statement of changes in equity and cash flow statement, accompanying notes to the financial statements, and the directors' declaration for Impress Ventures Limited (the Company) and the consolidated entity, for the half-year ended 31 December 2005.

The consolidated entity comprises both the Company and the entities it controlled during the half-year.

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

#### *Review approach*

We conducted an independent review of the financial report in order to make a statement about it to the members of the Company, and in order for the Company to lodge the financial report with the Australian Stock Exchange and the Australian Securities and Investments Commission.

Our review was conducted in accordance with Australian Auditing Standards applicable to review engagements, in order to state whether, on the basis of the procedures described, anything has come to our attention that would indicate that the financial report is not presented fairly in accordance with the Corporations Act 2001, Accounting Standard AASB 134 "Interim Financial Reporting" and other mandatory financial reporting requirements in Australia, so as to present a view which is consistent with our understanding of the consolidated entity's financial position, and of its performance as represented by the results of its operations and cash flows.

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 is less than given in an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

#### *Independence*

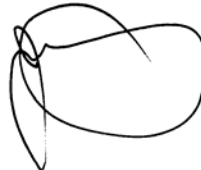
In conducting our review, we followed applicable independence requirements of Australian professional ethical pronouncements and the Corporations Act 2001. We have given to the directors of the Company a written Auditor's Independence Declaration, a copy of which is included in the financial report.

*Statement*

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the financial report of the consolidated entity, comprising of Impress Ventures Limited and the entities it controlled during the half-year is not in accordance with:

- (a) the Corporations Act 2001, including:
  - (i) giving a true and fair view of the financial position of the consolidated entity at 31 December 2005 and of its performance for the half-year ended on that date; and
  - (ii) complying with Accounting Standard AASB 134 "Interim Financial Reporting" and the Corporations Regulations 2001; and
- (b) other mandatory financial reporting requirements in Australia.

*RSM Bird Cameron Partners*  
RSM BIRD CAMERON PARTNERS  
Chartered Accountants



J A KOMNINOS  
Partner

Perth, WA  
Dated: 2 March 2006



## DIRECTORS' DECLARATION

The directors of the company declare that:

1. The financial statements and notes thereto set out on pages 8 to 21 are in accordance with the Corporations Act 2001, and:
  - (a) comply with Accounting Standard AASB 134 "Interim Financial Reporting" and the Corporations Regulations 2001; and
  - (b) giving a true and fair view of the financial position of the consolidated entity as at 31 December 2005 and of its performance, as represented by the results of its operations and cash flows for the half-year ended on that date.
2. There are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

Dated at West Perth 2 March 2006.

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

**Douglas Jendry**  
**Managing Director**



## INCOME STATEMENT

### FOR THE HALF-YEAR ENDED 31 DECEMBER 2005

	<b>Consolidated Entity</b>	
	<b>31.12.05</b>	<b>31.12.04</b>
	<b>\$</b>	<b>\$</b>
Sale of oil	752,908	-
Other revenue from ordinary activities	182,245	193,834
<b>Total Revenue</b>	<b>935,153</b>	<b>193,834</b>
Administrative expenses	444,865	331,151
Amortisation and depreciation expenses	392,701	3,465
Borrowing expenses	21,531	-
Exploration and development expenditure written off	142,109	423,198
Occupancy expenses	49,772	49,644
Other expenses	25,000	1,554
<b>Total Expenses</b>	<b>1,075,978</b>	<b>809,012</b>
<b>Loss from ordinary activities before related income tax expense</b>	<b>(140,825)</b>	<b>(615,178)</b>
Income tax expense relating to ordinary activities	-	-
<b>Loss from ordinary activities after income tax expense attributable to members of the parent entity</b>	<b>(140,825)</b>	<b>(615,178)</b>
Basic loss per share (cents per share)	(0.063)	(0.328)
Diluted loss per share (cents per share)	(0.063)	(0.328)

The accompanying notes form part of this interim financial report.



## BALANCE SHEET

AS AT 31 DECEMBER 2005

	Consolidated Entity	
	31.12.05	30.6.05
	\$	\$
<b>Current Assets</b>		
Cash assets	2,967,660	1,855,471
Receivables	519,796	118,918
Inventories	12,631	-
<b>Total Current Assets</b>	<b>3,500,087</b>	<b>1,974,389</b>
<b>Non Current Assets</b>		
Receivables	14,029	-
Plant and equipment	80,024	13,497
Exploration and development expenditure	2,082,152	1,606,695
Oil properties	3,258,554	-
Other	134,674	-
<b>Total Non Current Assets</b>	<b>5,569,433</b>	<b>1,620,192</b>
<b>Total Assets</b>	<b>9,069,520</b>	<b>3,594,581</b>
<b>Current Liabilities</b>		
Payables	508,537	28,964
Provisions	48,658	43,222
<b>Total Current Liabilities</b>	<b>557,195</b>	<b>72,186</b>
<b>Non Current Liabilities</b>		
Interest bearing liabilities	700,000	-
<b>Total Non Current Liabilities</b>	<b>700,000</b>	<b>-</b>
<b>Total Liabilities</b>	<b>1,257,195</b>	<b>72,186</b>
<b>Net Assets</b>	<b>7,812,325</b>	<b>3,522,395</b>
<b>Equity</b>		
Contributed equity	20,894,369	16,463,614
Accumulated losses	(13,082,044)	(12,941,219)
<b>Total Equity</b>	<b>7,812,325</b>	<b>3,522,395</b>

The accompanying notes form part of this interim financial report.



## STATEMENT OF CHANGES IN EQUITY

### FOR THE HALF-YEAR ENDED 31 DECEMBER 2005

	Issued Capital \$	Accumulated Losses \$	Total Equity \$
<b>As at 1 July 2004</b>	<b>16,463,614</b>	<b>(12,028,267)</b>	<b>4,435,347</b>
Loss for the period	-	(615,178)	(615,178)
<b>As at 31 December 2004</b>	<b>16,463,614</b>	<b>(12,643,445)</b>	<b>3,820,169</b>
	Issued Capital \$	Accumulated Losses \$	Total Equity \$
<b>As at 1 July 2005</b>	<b>16,463,614</b>	<b>(12,941,219)</b>	<b>3,522,395</b>
Loss for the period	-	(140,825)	(140,825)
Shares Issued	4,430,755	-	4,430,755
<b>As at 31 December 2005</b>	<b>20,894,369</b>	<b>(13,082,044)</b>	<b>7,812,325</b>

The accompanying notes form part of this interim financial report.



## CASH FLOW STATEMENT

### FOR THE HALF-YEAR ENDED 31 DECEMBER 2005

	<b>Consolidated Entity</b>	
	<b>31.12.05</b>	<b>31.12.04</b>
	<b>\$</b>	<b>\$</b>
<b>Cash flows from operating activities</b>		
Receipts from customers	583,736	101,450
Payments to suppliers and employees	(497,282)	(452,934)
Interest received	41,571	83,223
Interest paid	(11,197)	-
<b>Net cash provided by/(used in) operating activities</b>	<b>116,828</b>	<b>(268,261)</b>
<b>Cash flows from investing activities</b>		
Cash acquired on consolidation of consolidated entity	64,856	-
Proceeds of loan from related entity	134,674	-
Payments for bonds	(14,029)	-
Payments for investments	(500,000)	(20,000)
Payments for plant and equipment	(12,917)	(11,293)
Payments for exploration and development expenditure	(1,875,478)	(1,110,240)
<b>Net cash (used in) investing activities</b>	<b>(2,202,894)</b>	<b>(1,141,533)</b>
<b>Cash flows from financing activities</b>		
Proceeds from issue of shares	2,796,268	-
Transaction costs from issue of shares	(73,013)	-
Proceeds from issue of convertible notes	500,000	-
Transaction costs from issue of convertible notes	(25,000)	-
<b>Net cash provided by financing activities</b>	<b>3,198,255</b>	<b>-</b>
<b>Net increase/(decrease) in cash held</b>	<b>1,112,189</b>	<b>(1,409,794)</b>
Cash at the beginning of the financial period	1,855,471	3,897,627
<b>Cash at the end of the financial period</b>	<b>2,967,660</b>	<b>2,487,833</b>

The accompanying notes form part of this interim financial report.



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

### NOTE 1. BASIS OF PREPARATION OF HALF-YEAR FINANCIAL STATEMENTS

The half-year financial report is a general purpose financial report prepared in accordance with the Corporations Act 2001 and AASB 134 "Interim Financial Reporting". Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 34 "Interim Financial Reporting".

The half-year financial report should be read in conjunction with the Annual Financial Report of Impress Ventures Limited as at 30 June 2005. It is also recommended that the half-year financial report be considered together with any public announcements made by Impress Ventures Limited and Controlled Entities during the half-year ended 31 December 2005 in accordance with the continuous disclosure obligations arising under the Corporations Act 2001.

As this is the first interim financial report prepared under Australian equivalent to IFRS, the accounting policies applied are inconsistent with those applied in 30 June 2005 annual report as this financial 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 9.

#### (a) Basis of accounting

For the purpose of preparing the half-year financial report, the half-year has been treated as a discrete reporting period.

The financial report covers the consolidated entity of Impress Ventures Limited and controlled entities. Impress Ventures Limited is a listed public company domiciled in Australia.

The financial report has been prepared on an accruals basis and is based on historical costs and does not take into account changing money values or, current valuations of non-current assets. Cost is based on the fair values of the consideration given in exchange for assets.

The following is a summary of the material accounting policies adopted by the consolidated entity in the preparation of the financial report. The accounting policies have been consistently applied, unless otherwise stated.

### NOTE 2. SIGNIFICANT ACCOUNTING POLICIES

#### (a) Principles of Consolidation

A controlled entity is any entity controlled by Impress Ventures Limited. Control exists where Impress Ventures Limited has the capacity to dominate the decision-making in relation to the financial and operating policies of another entity so that the other entity operates with Impress Ventures Limited to achieve the objectives of Impress Ventures Limited.

All inter-company balances and transactions between entities in the consolidated entity, including any unrealised profit or losses, have been eliminated on consolidation.

Where controlled entities have entered or left the consolidated entity during the period, their operating results have been included from the date control was obtained or until the date control ceased.

#### (b) Income Tax

The consolidated entity adopts the liability method of tax-effect accounting whereby the income tax expense is based on the profit from ordinary activities adjusted for any non-assessable or disallowed items.

Deferred tax is accounted for using the balance sheet liability method in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. No deferred income tax will be recognised from the initial recognition of an asset or liability, excluding a business combination, where there is no effect on accounting or taxable profit or loss.

Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realised or liability is settled. Deferred tax is credited in the income statement except where it relates to items that may be credited directly to equity, in which case the deferred tax is adjusted directly against equity.

Deferred income tax assets are recognised to the extent that it is probable that future tax profits will be available against which deductible temporary differences can be utilised.



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

### NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

The amount of benefits brought to account or which may be realised in the future is based on the assumption that no adverse change will occur in income taxation legislation and the anticipation that the consolidated entity will derive sufficient future assessable income to enable the benefit to be realised and comply with the conditions of deductibility imposed by the law.

Impress Ventures Limited and its wholly-owned Australian subsidiaries have formed an income tax consolidated group under the Tax Consolidation Regime. Impress Ventures Limited is responsible for recognising the current and deferred tax assets and liabilities for the tax consolidated group.

#### (c) Plant and Equipment

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

##### *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.

##### *Depreciation*

The depreciable amount of all plant and equipment is depreciated on a straight line basis over their useful lives to the consolidated entity commencing from the time the asset is held ready for use.

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

<i>Class of Fixed Asset</i>	<i>Depreciation Rate</i>
Plant and Equipment	10-33%

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.

#### (d) 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.

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.



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

### NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### (e) Oil properties

Oil properties include capitalised project expenditure, exploration and development expenditure and costs associated with lease and well equipment.

The company uses the units of production methods to amortise costs carried forward in relation to its oil properties. For this approach the calculations are based on "proved plus probable reserves" as determined by joint venture operator.

#### (f) Share-based payments

Share-based compensation benefits are provided to directors and executives.

The fair value of options granted to directors and executives is recognised as an employee benefit expense with a corresponding increase in contributed equity. The fair value is measured at grant date and recognised over the period during which the directors and/or executives becomes unconditionally entitled to the options.

The fair value at grant date is independently determined using an option pricing model that takes into account the exercise price, the term of the option, the vesting and performance criteria, the impact of dilution, the non-tradeable nature of the option, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk-free interest rate for the term of the option.

#### (g) 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.

#### (h) 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.

#### (i) Joint Ventures

The company's interest in unincorporated joint venture assets are accounted for by recognising its proportionate share in assets and liabilities from joint ventures.

Joint venture expenses and the company's entitlement to production are recognised on a pro rata basis according to the company's joint venture interest.

#### (j) Acquisition of Assets

The purchase method of accounting is used to account for all acquisitions of assets (including business combinations) regardless of whether equity instruments or other assets are acquired. Cost is measured as the fair value of the assets given, shares issued or liabilities incurred or assumed at the date of exchange plus costs directly attributable to the acquisition. Where equity instruments are issued in an acquisition, the value of the instruments is their published market price as at the date of exchange unless. Transaction costs arising on the issue of equity instruments are recognised directly in equity.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement, but only after a reassessment of the identification and measurement of the net assets acquired.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions.



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

**NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**(k) Revenues**

Revenue from oil sales is recognised when the company has control of a right to receive consideration for the oil sold.

Interest revenue is recognised on a time proportionate basis that takes into account the effective yield on the financial asset.

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

**(l) Goods and services tax**

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.

**NOTE 3. CONTRIBUTED EQUITY**

a) Paid up capital

281,617,323 (30.6.05: 187,366,923) ordinary shares

**Consolidated Entity**  
**31.12.05**      **30.6.05**  
**\$**                      **\$**

20,894,369      16,463,614

b) Movements

Balance 1 July 2005

Acquisition of Tacnas Pty Ltd – September 2005

Share Placement – September 2005

Share Placement – December 2005

Transaction costs from issue of shares

	<b>No of Shares</b>	<b>Paid Up Capital</b>
		<b>\$</b>
Balance 1 July 2005	187,366,923	16,463,614
Acquisition of Tacnas Pty Ltd – September 2005	35,000,000	1,715,000
Share Placement – September 2005	33,250,400	1,496,268
Share Placement – December 2005	26,000,000	1,300,000
Transaction costs from issue of shares	-	(80,513)
	281,617,323	20,894,369

**NOTE 4. NON-CASH FINANCING AND INVESTING ACTIVITIES**

On 13 September 2005, 35,000,000 fully paid ordinary shares and 4 Convertible Notes with a face value of \$50,000 per note (total value \$200,000) (coupon rate of 10% per annum and term to 9 September 2007) were issued in consideration for the acquisition of Tacnas Pty Ltd.



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

### NOTE 5. ACQUISITION AND DISPOSAL OF CONTROLLED ENTITIES

The following controlled entities were acquired during the half-year:

The consolidated entity acquired 100% of Tacnas Pty Ltd on 13 September 2005.

	\$
Total purchase consideration	2,415,000
Less shares/convertible notes issued to vendors	<u>(1,915,000)</u>
	500,000
Cash balances acquired	<u>(64,856)</u>
Cash outflow	<u>435,144</u>
Fair value of assets and liabilities acquired	
Cash	64,856
Receivables	11,093
Exploration and development expenditure	677,920
Oil properties	2,164,302
Payables	<u>(503,171)</u>
	<u>2,415,000</u>

The contribution of Tacnas Pty Ltd to the consolidated net loss, from the acquisition date to 31 December 2005, was \$104,190.

### NOTE 6. SEGMENT REPORTING

The consolidated entity operates in one segment being the oil and gas industry in Australia.

### 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

During January 2006, the Company issued 22,000,000 fully paid ordinary shares at 5 cents per share and 36,342,598 fully paid ordinary shares at 6 cents per share to various sophisticated investors raising \$3,280,555 (before capital raising costs).

On 25 January 2006, the Company acquired a 12.5% interest in PEL 86, 87, 89, 104, 111 and 115 from Entek Energy Limited. 35,000,000 fully paid ordinary shares, \$1,500,000 cash and 5,000,000 unlisted options with an exercise price of 8 cents and expiry date of 27 January 2008 was the consideration.

As at 31 January 2006, the consolidated entity had cash assets of approximately \$4.731 million.

Mirage 2 spudded on 31 January 2006 and has been drilled to a total depth of 1655m. The well is being completed as an oil producer from the Murta reservoir section previously encountered in Mirage 1. Production testing to optimise flow rates from the well is anticipated during March 2006. Mirage 3 spudded on 27 February 2006.



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

**NOTE 9. FIRST-TIME ADOPTION OF AUSTRALIAN EQUIVALENTS TO INTERNATIONAL  
FINANCIAL REPORTING STANDARDS**

Reconciliation of Equity at 1 July 2004	Previous GAAP	Adjustments on introduction of Australian equivalents to IFRS	Australian equivalents to IFRS
	\$	\$	\$
<b>Current Assets</b>			
Cash assets	3,897,627	-	3,897,627
Receivables	31,844	-	31,844
Inventories	4,661	-	4,661
<b>Total Current Assets</b>	<u>3,934,132</u>	-	<u>3,934,132</u>
<b>Non-Current Assets</b>			
Other financial assets	30,000	-	30,000
Plant and equipment	9,715	-	9,715
Exploration and development expenditure	596,034	-	596,034
<b>Total Non-Current Assets</b>	<u>635,749</u>	-	<u>635,749</u>
<b>Total Assets</b>	<u>4,569,881</u>	-	<u>4,569,881</u>
<b>Current Liabilities</b>			
Payables	102,511	-	102,511
Provisions	32,023	-	32,023
<b>Total Current Liabilities</b>	<u>134,534</u>	-	<u>134,534</u>
<b>Total Liabilities</b>	<u>134,534</u>	-	<u>134,534</u>
<b>Net Assets</b>	<u>4,435,347</u>	-	<u>4,435,347</u>
<b>Equity</b>			
Contributed equity	16,463,614	-	16,463,614
Accumulated losses	(12,028,267)	-	(12,028,267)
<b>Total Equity</b>	<u>4,435,347</u>	-	<u>4,435,347</u>



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

**NOTE 9. FIRST-TIME ADOPTION OF AUSTRALIAN EQUIVALENTS TO INTERNATIONAL  
FINANCIAL REPORTING STANDARDS (Continued)**

Reconciliation of Equity at 31 December 2004	Previous GAAP	Adjustments on introduction of Australian equivalents to IFRS	Australian equivalents to IFRS
	\$	\$	\$
<b>Current Assets</b>			
Cash assets	2,487,833	-	2,487,833
Receivables	23,402	-	23,402
<b>Total Current Assets</b>	<u>2,511,235</u>	-	<u>2,511,235</u>
<b>Non-Current Assets</b>			
Other financial assets	58,500	-	58,500
Plant and equipment	17,545	-	17,545
Exploration and development expenditure	1,294,471	-	1,294,471
<b>Total Non-Current Assets</b>	<u>1,370,516</u>	-	<u>1,370,516</u>
<b>Total Assets</b>	<u>3,881,751</u>	-	<u>3,881,751</u>
<b>Current Liabilities</b>			
Payables	20,779	-	20,779
Provisions	40,803	-	40,803
<b>Total Current Liabilities</b>	<u>61,582</u>	-	<u>61,582</u>
<b>Total Liabilities</b>	<u>61,582</u>	-	<u>61,582</u>
<b>Net Assets</b>	<u>3,820,169</u>	-	<u>3,820,169</u>
<b>Equity</b>			
Contributed equity	16,463,614	-	16,463,614
Accumulated losses	(12,643,445)	-	(12,643,445)
<b>Total Equity</b>	<u>3,820,169</u>	-	<u>3,820,169</u>



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

**NOTE 9. FIRST-TIME ADOPTION OF AUSTRALIAN EQUIVALENTS TO INTERNATIONAL  
FINANCIAL REPORTING STANDARDS (Continued)**

Reconciliation of Equity at 30 June 2005	Previous GAAP	Adjustments on introduction of Australian equivalents to IFRS	Australian equivalents to IFRS
	\$	\$	\$
<b>Current Assets</b>			
Cash assets	1,855,471	-	1,855,471
Receivables	118,918	-	118,918
<b>Total Current Assets</b>	<u>1,974,389</u>	<u>-</u>	<u>1,974,389</u>
<b>Non-Current Assets</b>			
Plant and equipment	13,497	-	13,497
Exploration and development expenditure	1,606,695	-	1,606,695
<b>Total Non-Current Assets</b>	<u>1,620,192</u>	<u>-</u>	<u>1,620,192</u>
<b>Total Assets</b>	<u>3,594,581</u>	<u>-</u>	<u>3,594,581</u>
<b>Current Liabilities</b>			
Payables	28,964	-	28,964
Provisions	43,222	-	43,222
<b>Total Current Liabilities</b>	<u>72,186</u>	<u>-</u>	<u>72,186</u>
<b>Total Liabilities</b>	<u>72,186</u>	<u>-</u>	<u>72,186</u>
<b>Net Assets</b>	<u>3,522,395</u>	<u>-</u>	<u>3,522,395</u>
<b>Equity</b>			
Contributed equity	16,463,614	-	16,463,614
Accumulated losses	(12,941,219)	-	(12,941,219)
<b>Total Equity</b>	<u>3,522,395</u>	<u>-</u>	<u>3,522,395</u>



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

**NOTE 9. FIRST-TIME ADOPTION OF AUSTRALIAN EQUIVALENTS TO INTERNATIONAL  
FINANCIAL REPORTING STANDARDS (Continued)**

Reconciliation of Loss for the half-year ended 31 December 2004	Previous GAAP	Effect of transition to Australian equivalents to IFRS	Australian equivalents to IFRS
	\$	\$	\$
Sale of oil	-	-	-
Other revenue from ordinary activities	193,834	-	193,834
<b>Total Revenue</b>	<b>193,834</b>	<b>-</b>	<b>193,834</b>
Administrative expenses	331,151	-	331,151
Amortisation and depreciation expenses	3,465	-	3,465
Borrowing expenses	-	-	-
Exploration expenditure written off	423,198	-	423,198
Occupancy expenses	49,644	-	49,644
Other expenses	1,554	-	1,554
<b>Total Expenses</b>	<b>809,012</b>	<b>-</b>	<b>809,012</b>
<b>Loss from ordinary activities before related income tax expense</b>	<b>(615,178)</b>	<b>-</b>	<b>(615,178)</b>
Income tax expense relating to ordinary activities	-	-	-
<b>Loss from ordinary activities after income tax expense</b>	<b>(615,178)</b>	<b>-</b>	<b>(615,178)</b>
Basic loss per share (cents per share)	(0.328)		(0.328)
Diluted loss per share (cents per share)	(0.328)		(0.328)



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

**NOTE 9. FIRST-TIME ADOPTION OF AUSTRALIAN EQUIVALENTS TO INTERNATIONAL  
FINANCIAL REPORTING STANDARDS (Continued)**

Reconciliation of Loss for the year ended 30 June 2005	Previous GAAP	Effect of transition to Australian equivalents to IFRS	Australian equivalents to IFRS
	\$	\$	\$
Sale of oil	105,731	-	105,731
Other revenue from ordinary activities	478,628	-	478,628
<b>Total Revenue</b>	<b>584,359</b>	<b>-</b>	<b>584,359</b>
Administrative expenses	735,840	-	735,840
Amortisation and depreciation expenses	7,811	-	7,811
Exploration expenditure written off	600,815	-	600,815
Occupancy expenses	94,345	-	94,345
Other expenses	58,500	-	58,500
<b>Total Expenses</b>	<b>1,497,311</b>	<b>-</b>	<b>1,497,311</b>
<b>Loss from ordinary activities before related income tax expense</b>	<b>(912,952)</b>	<b>-</b>	<b>(912,952)</b>
Income tax expense relating to ordinary activities	-	-	-
<b>Loss from ordinary activities after income tax expense</b>	<b>(912,952)</b>	<b>-</b>	<b>(912,952)</b>
Basic loss per share (cents per share)	(0.487)		(0.487)
Diluted loss per share (cents per share)	(0.487)		(0.487)