



ABN: 59 078 012 745

**Half Year Report**  
**31 December 2005**

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<b>Contents</b>	<b>Page</b>
Directors' Report	1
Auditor's Independence Declaration	5
Independent Review Report to the members of Strike Oil Limited	6
Directors' Declaration	7
Condensed Income Statement	8
Condensed Balance Sheet	9
Condensed Statement of Changes in Equity	10
Condensed Cash Flow Statement	11
Notes to the Financial Statements	12

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## DIRECTORS' REPORT

Your directors submit the financial report of the consolidated entity for the half-year ended 31 December 2005, pursuant to the provisions of the Corporations Act 2001.

### DIRECTORS

The names of directors who held office during or since the end of the half year and until the date of this report are as below. Directors were in office for this entire period unless otherwise stated.

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J W Schneider	Chairman
S M Ashton	Managing Director
J M Durrant	Technical Director
D C Wrench	Non-executive Director
R Woodall	Non-executive Director
J Traicos	Non-executive Director (resigned 31 October 2005)

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### REVIEW OF OPERATIONS

#### Highlights

- Gas discovery at the Shefcik 1 well in the Gulf Coast, Texas and the expansion of the Gulf Coast drilling program.
- Increased Interests in four previously producing oilfields in Colorado, USA.
- Seismic program completed in nine permits in the Carnarvon Basin.
- Native Title agreements advanced and farm-out of 2 permits in the Cooper Basin.
- Capital raising by way of a Share Purchase Plan (SPP) was completed raising approximately \$2.2 million.

#### Significant Project Activities

##### Australia

- ***Carnarvon Basin***

Reprocessing of pre-existing seismic in many permits has been initiated to improve the data quality and assist in the recognition of new prospects and leads.

Seismic acquisition was completed successfully in permits TP/6, EP 342, EP 325, EP 424, TP18, EP420, TP/19, EP 421 and WA-340P. This was completed with no health safety or environmental incident.

**REVIEW OF OPERATIONS (Cont)**

The acquisition, coupled with the reprocessed data, is expected to mature existing prospects and leads and to develop new prospects for drilling in the 2006 year and onwards. The current high graded prospects are listed below:

<b>Prospect</b>	<b>Permit</b>	<b>Strike Oil Interest</b>	<b>Oil Potential (Millions bbls Recoverable)</b>
Hestia	WA-261-P	16.7%	20
Baniyas	EP 424	40%	60
Whalebone	EP 325	44.5%	40
Sharp Peak	TP/19	90%	80
North Santo-Grond	TP/6	100%	3 to 100

Note: Strike Oil has high equities in most of these leads and prospects and will be considering taking partners in selected permits. Strike Oil is the operator of all these permits with the exception of WA-261P.

- **Cooper Eromanga Basins**

Strike Oil has entered into a farm-in agreement with Advent Energy Limited ("Advent") whereby Advent will earn an interest in both PELA 71 and PELA 96 operated by Strike Oil, in the South Australian sector of the Cooper/Eromanga Basins.

Advent will be responsible for funding a total \$2.2 million of exploration expenditure to earn a 25% working interest in each permit. These funds will be directed to exploration, seismic and drilling activities in the permits once the Native Title Agreements have been finalised. Strike Oil's interests in PELA 71 will reduce to 50% and in PELA 96 it will reduce to 41%.

Both permits contain numerous oil prospects and leads in the Eromanga Basin sequence. On finalisation of the Native Title agreements seismic is planned in both permits followed soon after by prospect drilling.

Advent is an Australian public company proposing to list on the Australian Stock Exchange. The farm-in is conditional on Advent being listed company by 1 April 2006.

Progress is being made with respect to Native Title agreements for PELA 71, PELA 96 and ATP 633P. In ATP 633P, Native Title agreement has now been signed and the permit granted by the Queensland Government. Seismic acquisition is proposed for the second quarter of 2006.

- **Kingston Energy Project**

Strike Oil's subsidiary, Kingston Energy Pty Ltd, continues to evaluate the potential of the significant energy resources associated with the Kingston coal deposit in South Australia. Extensive historical data sets are being located and compiled into useable form for further evaluation.

**USA**

- **Gulf Coast, Texas Projects**

Strike Oil continues to expand its involvement in the Gulf Coast, Texas program with operator Cypress E&P Corporation. Strike Oil have committed to drill a further four wells, having drilled five wells during the past six months.

## REVIEW OF OPERATIONS (Cont)

The Shefcik No 1 well was drilled on the Mesquite B Prospect and reached its total depth of 12,000 feet (3,658 metres) in December 2005. Extensive gas shows were recorded from around 10,600 feet (3,231 metres) to 11,850 feet (3,612 metres).

Results from geophysical and mud logging on gas shows, together with comparisons of nearby wells, indicated that the well was likely to be commercial. The well was completed for flow testing and production. Testing subsequent to 31 December 2005 has produced a flow rate of 7.1 million cubic feet per day of gas and 170 barrels of condensate per day, confirming commerciality.

The prospect is estimated to contain ten to 15 billion cubic feet of recoverable gas. Public data from adjacent wells indicate the order of 20 barrels of condensate per million cubic feet with production rates in the range from 5.4 to 16.9 million cubic feet per day from similar zones to Shefcik 1.

Prior to 31 December 2005 the Webernck 1 well was spudded and had reached its total depth of 12,200 feet (3,719 metres). It has been fully logged and completed for production at the time of this report.

The Webernck 1 well was drilled on the Mesquite A prospect. It lies 700 metres to the south of the Shefcik 1 well and is targeting a separate gas prospect on the same structure. This prospect has additional potential of 15 to 20 billion cubic feet of gas.

Strike Oil has a 26¼% interest in both the Shefcik and Webernck wells.

Four other wells were drilled during the period, the Jabber 1, Sorrel 1, Lyman Gas Unit 1 and the Berndt 1, in which Strike Oil was earning a 10% interest in each. Three of the holes drilled were shallow gas wells and none encountered commercial hydrocarbons.

- **Rocky Mountains Projects**

Strike Oil acquired a 25% interest in the Tow Creek oil project, in the Rocky Mountains area, in Joint Venture with Comet Ridge Limited. During the period Strike Oil increased its interest to 37½%. The project involves the evaluation of 35 square kilometres (8,700 acres) of leases over parts and around four historic oil fields which have produced oil from the Niobrara Formation on the Tow Creek anticline, in Routt County, Colorado.

Comet Ridge Limited is the operator of this project and detailed geological, geophysical and reservoir engineering evaluation is being carried out prior to selection of drilling locations to be drilled in the second quarter of 2006.

## Cash Flow Assets

Strike Oil continues its efforts to evaluate and secure early cash flow projects in Australia and overseas. This work will continue and will be focussed on production acquisitions, appraisal, and development opportunities. Subsequent to 31 December 2005, Strike Oil has commenced receiving revenues from the production at the Mesquite project in Texas.

## Corporate

### **Annual General Meeting**

Strike Oil's annual general meeting (AGM) was held on 30 November 2005.

On 9 December 2005, 1,000,000 unlisted incentive options with a 35 cent exercise price were issued to each of Messrs Ashton and Durrant, the Managing Director and Technical Director respectively, following shareholder approval at the AGM. The options will expire on 31 December 2008 and will vest when Strike Oil's closing share price, as quoted on the ASX, is at or above 35 cents for a period of 20 consecutive trading days.

## REVIEW OF OPERATIONS (Cont)

### *Comet Ridge Limited*

Comet Ridge Limited ("Comet"), a company in which Strike owns 10%, has continued to make progress in establishing itself as an active oil and gas explorer in Australia and the USA. It recently opened an office in Denver, Colorado, headed by Comet's Managing Director, Andy Lydyard. Further information on Comet Ridge can be obtained from the company's website, at [www.cometridge.com.au](http://www.cometridge.com.au).

### *Capital Raising*

On 25 October 2005, Strike allotted 20,071,296 fully paid shares at a price of 11 cents each in respect of the Share Purchase Plan, carried out in October 2005.

Subsequent to 31 December 2005, the company made a placement of 22,000,000 fully paid shares at an issue price of 18 cents each, pursuant to a Prospectus dated 11 January 2006. Additionally, on 24 February 2006, the company announced a 1-for-5 non-renounceable entitlement issue of up to 37,113,697 new shares at an issue price of 28 cents per share, pursuant to a Prospectus dated 28 February 2006. The proposed closing date for the issue is 28 March 2006.

### *Resignation of Director*

John Traicos resigned as a non-executive director of Strike Oil effective the 31 October 2005.

John made a significant contribution to the company over his five year term and the Board and management thank him for his contribution.

## AUDITOR'S INDEPENDENCE DECLARATION

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out on page 5.

## ADOPTION OF AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS ("A-IFRS")

This interim 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 2 of this report.

This report is signed in accordance with a resolution of the Board of Directors, pursuant to s.306(3) of the Corporations Act 2001.



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**S M Ashton**

Managing Director

Dated this 16th day of March 2006

The Board of Directors  
Strike Oil Limited  
10<sup>th</sup> Floor  
26 St Georges Terrace  
Perth WA 6000

16 March 2006

Dear Board Members

## Strike Oil Limited

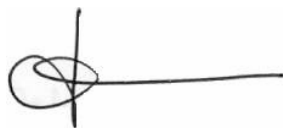
In accordance with section 307C of the Corporations Act 2001, I am pleased to provide the following declaration of independence to the directors of Strike Oil Limited.

As lead audit partner for the review of the financial statements of Strike Oil Limited for the financial half-year ended 31 December 2005, I declare that to the best of my knowledge and belief, there have been no contraventions of:

- (i) the auditor independence requirements of the Corporations Act 2001 in relation to the review; and
- (ii) any applicable code of professional conduct in relation to the review.

Yours sincerely

*Deloitte Touche Tohmatsu*  
**DELOITTE TOUCHE TOHMATSU**



**Leanne Karamfiles**  
Partner  
Chartered Accountants

## Independent review report to the members of Strike Oil Limited

### Scope

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

The financial report comprises the balance sheet, income statement, cash flow statement, statement of changes in equity, accompanying notes to the financial statements and the directors' declaration for the consolidated entity for the half-year ended 31 December 2005 as set out on pages 7 to 21. The consolidated entity comprises both Strike Oil Limited (the company) and the entities it controlled at the end of the half-year or from time to time during the half-year.

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

### *Review Approach*

We have performed an independent review of the 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 financial report is not presented fairly in accordance with the Corporations Act 2001, Accounting Standards AASB 134 'Interim Financial Reporting' and AASB 1 "First-time Adoption of Australian Equivalents to International Financial Reporting Standards" and other mandatory professional reporting requirements in Australia, 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 financial report with the Australian Securities and Investments Commission.

Our review was conducted in accordance with Australian Auditing Standards applicable to review engagements. A review is limited primarily to inquiries of the entity's 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.

### Statement

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Strike Oil 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 Accounting Standards AASB 134 'Interim Financial Reporting' and AASB 1 "First-time Adoption of Australian Equivalents to International Financial Reporting Standards" and the Corporations Regulations 2001; and
- (b) other mandatory professional reporting requirements in Australia.

*Deloitte Touche Tohmatsu*  
**DELOITTE TOUCHE TOHMATSU**



**Leanne Karamfiles**  
Partner  
Chartered Accountants  
Perth, 16 March 2006

## DIRECTORS' DECLARATION

The directors of the company declare that:

1. The financial statements and notes, as set out on pages 8 to 21.
  - a. comply with Accounting Standard AASB 134: *Interim Financial Reporting* and the Corporations Act 2001; 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 then ended.
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.

Signed in accordance with a resolution of the directors, pursuant to s.303(5) of the Corporations Act 2001.

On behalf of the directors



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**S M Ashton**

Managing Director

Dated this 16th day of March 2006

**CONDENSED INCOME STATEMENT  
FOR THE HALF YEAR ENDED 31 DECEMBER 2005**

	Consolidated	
	Half Year 31 Dec 2005	Half Year 31 Dec 2004
	\$	\$
Revenue	776,310	654,331
Exploration written-off	(754,478)	(6,321,038)
Employee benefits expense	(728,013)	(707,109)
Corporate costs	(186,657)	(189,878)
Insurance costs	(57,722)	(21,399)
Technology costs	(56,877)	(91,416)
Property costs	(48,041)	(41,361)
Depreciation	(39,046)	(24,940)
Other expenses	(166,616)	(51,421)
<b>Loss before income tax expense</b>	<b>(1,261,140)</b>	<b>(6,794,231)</b>
Income tax benefit	-	784,856
<b>Net loss for the period</b>	<b>(1,261,140)</b>	<b>(6,009,375)</b>
<b>Net loss attributable to members of parent</b>	<b>(1,261,140)</b>	<b>(6,009,375)</b>
Basic earnings per share	(0.74)	(4.61)
Diluted earnings per share	(0.67)	(4.61)

The accompanying notes form part of these financial statements

**CONDENSED BALANCE SHEET**  
**AS AT 31 DECEMBER 2005**

	Consolidated	
	31 Dec 2005	30 June 2005
	\$	\$
<b>Assets</b>		
<b>Current Assets</b>		
Cash and cash equivalents	4,556,866	7,218,418
Receivables	1,061,110	853,422
Inventories	2,776	-
Other	245,958	44,881
<b>Total Current Assets</b>	<b>5,866,710</b>	<b>8,116,721</b>
<b>Non-Current Assets</b>		
Exploration & evaluation	8,043,654	3,376,705
Property, plant and equipment	141,733	160,361
Other financial assets	1,312,500	687,500
<b>Total Non-Current Assets</b>	<b>9,497,887</b>	<b>4,224,566</b>
<b>Total Assets</b>	<b>15,364,597</b>	<b>12,341,287</b>
<b>Current Liabilities</b>		
Trade and other payables	1,825,435	471,700
Provisions	53,859	62,492
<b>Total Current Liabilities</b>	<b>1,879,294</b>	<b>534,192</b>
<b>Non-Current Liabilities</b>		
Provisions	92,908	86,136
Deferred tax liability	18,750	-
<b>Total Non-Current Liabilities</b>	<b>111,658</b>	<b>86,136</b>
<b>Total Liabilities</b>	<b>1,990,952</b>	<b>620,328</b>
<b>Net Assets</b>	<b>13,373,645</b>	<b>11,720,959</b>
<b>Equity</b>		
Issued capital	21,177,226	18,969,405
Reserves	909,433	765,928
Retained earnings	(8,713,014)	(8,014,374)
<b>Total Equity</b>	<b>13,373,645</b>	<b>11,720,959</b>

The accompanying notes form part of these financial statements

**CONDENSED STATEMENT OF CHANGES IN EQUITY  
FOR THE HALF YEAR ENDED 31 DECEMBER 2005**

	Consolidated				
	Issued Capital	Retained Earnings	Share Option Reserve	Revaluation Reserve	Total Equity
	\$	\$	\$	\$	\$
<b>Balance at 1 July 2004</b>	<b>7,484,953</b>	<b>358,506</b>	<b>136,105</b>	<b>-</b>	<b>7,979,564</b>
Costs associated with share issue	(588,667)	-	-	-	(588,667)
<b>Net Income recognised directly in equity</b>	<b>(588,667)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(588,667)</b>
Profit attributable to members of the parent entity	-	(6,009,375)	-	-	(6,009,375)
Total recognised income and expense	-	(6,009,375)	-	-	(6,009,375)
Shares issued during the period (60,000,000 shares at 20 cents)	12,000,000	-	-	-	12,000,000
Exercise of options (928,108 options at an average price of 7.2 cents)	67,118	-	-	-	67,118
Dividends on preference shares	-	(2,532)	-	-	(2,532)
<b>Balance at 31 December 2004</b>	<b>18,963,404</b>	<b>(5,653,401)</b>	<b>136,105</b>	<b>-</b>	<b>13,446,108</b>
<b>Net Income recognised directly in equity</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Profit attributable to members of the parent entity	-	(2,360,973)	-	-	(2,360,973)
<b>Total recognised income and expense</b>	<b>-</b>	<b>(2,360,973)</b>	<b>-</b>	<b>-</b>	<b>(2,360,973)</b>
Cost of share-based payments	-	-	629,823	-	629,823
Exercise of options (200,000 options at an average price of 3 cents)	6,001	-	-	-	6,001
<b>Balance at 30 June 2005</b>	<b>18,969,405</b>	<b>(8,014,374)</b>	<b>765,928</b>	<b>-</b>	<b>11,720,959</b>
Recognition of reserve due to revaluation of available-for-sale assets on adoption of AASB 139 (Note 2(d))	-	562,500	-	(562,500)	-
Tax effect to above adjustment	-	-	-	168,750	168,750
<b>Restated balance at 1 July 2005 after adoption of AASB 139</b>	<b>18,969,405</b>	<b>(7,451,874)</b>	<b>765,928</b>	<b>(393,750)</b>	<b>11,889,709</b>
Movement in revaluation of available-for-sale assets	-	-	-	625,000	625,000
Tax effect to above adjustment	-	-	-	(187,500)	(187,500)
Costs associated with share issue	(22)	-	-	-	(22)
<b>Net Income recognised directly in equity</b>	<b>(22)</b>	<b>-</b>	<b>-</b>	<b>437,500</b>	<b>437,478</b>
Profit attributable to members of the parent entity	-	(1,261,140)	-	-	(1,261,140)
<b>Total recognised income and expense</b>	<b>(22)</b>	<b>(1,261,140)</b>	<b>-</b>	<b>437,500</b>	<b>(823,662)</b>
Cost of share-based payments	-	-	99,755	-	99,755
Shares issued during the period (20,071,296 shares at 11 cents)	2,207,843	-	-	-	2,207,843
<b>Balance at 31 December 2005</b>	<b>21,177,226</b>	<b>(8,713,014)</b>	<b>865,683</b>	<b>43,750</b>	<b>13,373,645</b>

The accompanying notes form part of these financial statements

**CONDENSED CASH FLOW STATEMENT  
FOR THE HALF YEAR ENDED 31 DECEMBER 2005**

	Consolidated	
	31 Dec 2005	31 Dec 2004
	\$	\$
<b>Cash flows from operating activities</b>		
Payments to suppliers and employees	(593,908)	(963,470)
Interest received	162,138	328,202
Net cash used in operating activities	(431,770)	(635,268)
<b>Cash flows from investing activities</b>		
Exploration & evaluation expenditure	(4,417,186)	(3,159,119)
Purchase of non-current assets	(20,417)	(100,509)
Net cash used in investing activities	(4,437,603)	(3,259,628)
<b>Cash flows from financing activities</b>		
Proceeds from issue of shares	2,207,821	11,300,036
Dividends paid	-	(3,000)
Net cash provided by financing activities	2,207,821	11,297,036
Net increase/(decrease) in cash held	(2,661,552)	7,402,140
Cash at beginning of period	7,218,418	5,395,128
<b>Cash at end of period</b>	<b>4,556,866</b>	<b>12,797,268</b>

The accompanying notes form part of these financial statements

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**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE HALF YEAR ENDED 31 DECEMBER 2005****NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES**

The half-year consolidated financial statements are a general purpose financial report prepared in accordance with the requirements of the Corporations Act 2001, applicable accounting standards including AASB 134: *Interim Financial Reporting*, Urgent Issues Group Interpretations and other authoritative pronouncements of the Australian Accounting Standards Board. The half-year report has been prepared on a historical cost basis.

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 Strike Oil Limited and its controlled entities during the half-year, in accordance with the continuous disclosure requirements of the Corporations Act 2001.

The half-year report does not include full disclosures of the type normally included in an annual financial report. Therefore, it cannot be expected to provide as full an understanding of the financial performance, financial position and cash flows of the consolidated entity as in the full financial report.

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

As this is the first interim financial report prepared under Australian equivalents to A-IFRS, the accounting policies applied are inconsistent with those applied in the 30 June 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 and is presented in Note 2.

**(a) Principles of Consolidation**

The consolidated financial report comprises the financial statements of Strike Oil Limited (parent entity) and its controlled entities (subsidiaries), as defined in accounting standard AASB 127: *Consolidated and Separate Financial Statements*.

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

The financial statements of controlled entities are prepared for the same reporting period as the parent company, using consistent accounting policies. Accounting policies of controlled entities have been changed where necessary to ensure consistencies with those policies applied by the parent entity.

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

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

**(b) Income Tax**

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

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. Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the consolidated entity or company intends to settle its current tax assets and liabilities on a net basis.

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE HALF YEAR ENDED 31 DECEMBER 2005****NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (Cont)**

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. The carrying amount of deferred tax assets is reviewed at each balance date and only recognised to the extent that sufficient future assessable income is expected to be obtained.

**(c) Inventories**

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

Cost is defined as those costs incurred in bringing each component of inventory to its present location and condition. Net realisable value is the estimated selling price in the ordinary course of business less any estimated selling costs.

The cost of mining stocks includes direct materials, direct labour, transportation costs and variable and fixed overhead costs relating to mining activities.

**(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.

**Plant and Equipment**

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

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.

**Impairment**

Carrying values of assets are reviewed at each balance date to determine whether there are any objective indicators of impairment that may indicate the carrying values may not be recoverable in whole or in part.

Where an asset does not generate cash flows that are largely independent it is assigned to a cash generating unit and the recoverable amount test applied to the cash generating unit as a whole.

Recoverable amount is determined as the greater of fair value less costs to sell and value in use. The assessment of value in use considers the present value of future cash flows discounted using an appropriate pre-tax discount rate reflecting the current market assessments of the time value of money and risks specific to the asset.

If the carrying value of the asset is determined to be in excess of its recoverable amount, the asset or cash generating unit is written down to its recoverable amount.

Where an impairment loss subsequently reverses, the carrying amount of the asset or cash-generating unit is increased to the revised estimate of its 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 or cash generating unit in prior years.

**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 consolidated 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.

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

### NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (Cont)

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

<i>Class of Fixed Asset</i>	<i>Depreciation Rate</i>
Computer equipment	33 $\frac{1}{3}$ %
Fixtures and Fittings	12 $\frac{1}{2}$ %
Plant and equipment	33 $\frac{1}{3}$ %

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

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.

#### (e) Exploration and Development Expenditure

Exploration and evaluation expenditure incurred is accumulated in respect of each identifiable area of interest. These costs are only carried forward to the extent that the consolidated entity's rights of tenure to that area of interest are current and that the costs 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.

Development expenditure is recognised at cost less accumulated depletion and any impairment losses. Where commercial in an area of interest has commenced, the associated costs are amortised over the economic life of the field on a units of production basis.

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.

Changes in factors such as estimates of proved and probable reserves that affect units-of-production calculations are dealt with on a prospective basis.

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.

The company recognises the full provision for rehabilitation (as applicable), based on discounted future cash flows, and a corresponding asset recognised as part of the asset to which the provision relates.

#### (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.

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

Leases are classified as operating leases where substantially all the risks and benefits remain with the lessor. Payments in relation to operating leases 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) Interests in Joint Ventures

The consolidated entity's share of the assets, liabilities, revenue and expenses of jointly controlled assets and operations are included in the appropriate items of the consolidated balance sheet and income statement under the proportional consolidation method.

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**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE HALF YEAR ENDED 31 DECEMBER 2005****NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (Cont)**

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

**(h) Foreign currency transactions and balances**

The functional and presentation currency of Strike Oil Limited is Australian dollars.

Transactions in foreign currencies are initially recorded in the functional currency at the exchange rates ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date.

All differences in the consolidated financial report are taken to the income statement with the exception of differences on foreign currency borrowings that provide a hedge against a net investment in a foreign entity. These are taken directly to equity until the disposal of a net investment, at which time they are recognised in the income statement.

Tax charges and credits attributable to exchange differences on those borrowings are also recognised in equity.

**(i) Employee Benefits**

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

**(j) Provisions**

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

The amount recognised as the provision is the best estimate of the consideration required to settle the present obligation at reporting date, taking into account the risks and uncertainties surrounding the obligation.

**(k) Cash and Cash Equivalents**

Cash and cash equivalents include 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-term borrowings in current liabilities on the balance sheet.

**(l) Revenue**

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the consolidated entity and the revenue is capable of being reliably measured.

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

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).

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**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE HALF YEAR ENDED 31 DECEMBER 2005****NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (Cont)****(m) 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.

**(n) Share-based Payments**

Employee share options that vested before 1 January 2005 have not been expensed. The shares are recognised when the options are exercised and the proceeds are allocated to share capital.

Equity-settled share-based payments granted after 7 November 2002 that were unvested as of 1 January 2005, are measured at fair value at the date of grant. Fair value is measured under the Cox Ross & Rubinstein Binomial Tree model. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the consolidated entity's estimate of shares that will eventually vest (where non-market linked conditions exist). The impact of market linked vesting conditions is included in the determination of the fair value of options on grant date. The expense recognised for the period is not adjusted for the actual number of vested options.

**(o) AASB 1 Transitional Exemptions**

The consolidated entity has made its election in relation to the transitional exemptions allowed by AASB 1: *First-time Adoption of Australian Equivalents to International Financial Reporting Standards* as follows:

*Designation of previously recognised financial instruments*

Financial instruments were designated as financial assets or liabilities at fair value through profit or loss or as available-for-sale at the date of transition to A-IFRS.

*Share-based payment transactions*

AASB 2: *Share-based Payment* is applied only to equity instruments granted after 7 November 2002 that had not vested on or before 1 January 2005.

**(p) Comparative Figures**

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

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

**NOTE 2: FIRST TIME ADOPTION OF AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS ("A-IFRS")**

The impacts of adopting A-IFRS on the total equity and profit after tax as reported under Australian Accounting Standards applicable before 1 January 2005 (previous Australian GAAP) are illustrated below.

(i) Effect of A-IFRS on the Consolidated Balance Sheet as at 1 July 2004.

	Note	Consolidated		
		Australian GAAP \$	Effect of transition to A-IFRS \$	A-IFRS \$
<b>Current assets</b>				
Cash assets		5,395,128	-	5,395,128
Receivables		209,366	-	209,366
Other		28,675	-	28,675
<b>Total current assets</b>		<b>5,633,169</b>	<b>-</b>	<b>5,633,169</b>
<b>Non-current assets</b>				
Receivables		69,541	-	69,541
Plant & equipment		48,780	-	48,780
Exploration expenditure		2,722,572	-	2,722,572
Other financial assets		687,500	-	687,500
Deferred tax asset		31,917	-	31,917
<b>Total non-current assets</b>		<b>3,560,310</b>	<b>-</b>	<b>3,560,310</b>
<b>Total assets</b>		<b>9,193,479</b>	<b>-</b>	<b>9,193,479</b>
<b>Current liabilities</b>				
Accounts payables		341,835	-	341,835
Provisions		55,308	-	55,308
<b>Total current liabilities</b>		<b>397,143</b>	<b>-</b>	<b>397,143</b>
<b>Non-current liabilities</b>				
Deferred tax liability		816,772	-	816,772
<b>Total non-current liabilities</b>		<b>816,772</b>	<b>-</b>	<b>816,772</b>
<b>Total liabilities</b>		<b>1,213,915</b>	<b>-</b>	<b>1,213,915</b>
<b>Net assets</b>		<b>7,979,564</b>	<b>-</b>	<b>7,979,564</b>
<b>Equity</b>				
Contributed equity		7,484,953	-	7,484,953
Share option reserve	(a)	-	136,105	136,105
Retained profits		494,611	(136,105)	358,506
<b>Total equity</b>		<b>7,979,564</b>	<b>-</b>	<b>7,979,564</b>

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

**NOTE 2: FIRST TIME ADOPTION OF AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS ("A-IFRS") (Cont)**

- (ii) Effect of A-IFRS on the Consolidated Income Statement for the half-year ended 31 December 2004 and the financial year ended 30 June 2005

Note	Half year ended 31 Dec 04			Financial year ended 30 Jun 05		
	Aust GAAP \$	Effect of transition to A-IFRS \$	A-IFRS \$	Aust GAAP \$	Effect of transition to A-IFRS \$	A-IFRS \$
Revenue	654,331	-	654,331	679,100	-	679,100
Exploration written-off	(6,321,038)	-	(6,321,038)	(7,598,657)	-	(7,598,657)
Employee benefits expense	(707,109)	-	(707,109)	(1,088,424)	(629,823)	(1,718,247)
Corporate costs	(189,878)	-	(189,878)	(203,031)	-	(203,031)
Insurance costs	(21,399)	-	(21,399)	(46,685)	-	(46,685)
Technology costs	(91,416)	-	(91,416)	(106,692)	-	(106,692)
Property costs	(41,361)	-	(41,361)	(80,904)	-	(80,904)
Depreciation	(24,940)	-	(24,940)	(63,940)	-	(63,940)
Other expenses	(51,421)	-	(51,421)	(16,147)	-	(16,147)
<b>Profit before income tax expense</b>	<b>(6,794,231)</b>	-	<b>(6,794,231)</b>	<b>(8,525,380)</b>	<b>(629,823)</b>	<b>(9,155,203)</b>
Income tax expense	784,856	-	784,856	784,856	-	784,856
<b>Profit attributable to members of the parent entity</b>	<b>(6,009,375)</b>	-	<b>(6,009,375)</b>	<b>(7,740,524)</b>	<b>(629,823)</b>	<b>(8,370,347)</b>

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

**NOTE 2: FIRST TIME ADOPTION OF AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS ("A-IFRS") (Cont)**

(iii) Effect of A-IFRS on the Consolidated Balance Sheet as at 31 December 2004 and 30 June 2005

	Note	Half year ended 31 Dec 04			Financial year ended 30 Jun 05		
		Australian GAAP \$	Effect of transition to A-IFRS \$	A-IFRS \$	Australian GAAP \$	Effect of transition to A-IFRS \$	A-IFRS \$
<b>Current assets</b>							
Cash assets		12,797,268	-	12,797,268	7,218,418	-	7,218,418
Receivables		1,242,960	-	1,242,960	853,422	-	853,422
Other		56,497	-	56,497	44,881	-	44,881
<b>Total current assets</b>		<b>14,096,725</b>	<b>-</b>	<b>14,096,725</b>	<b>8,116,721</b>	<b>-</b>	<b>8,116,721</b>
<b>Non-current assets</b>							
Plant & equipment		124,350	-	124,350	160,361	-	160,361
Exploration expenditure		2,074,346	-	2,074,346	3,376,705	-	3,376,705
Other financial assets		750,000	-	750,000	687,500	-	687,500
<b>Total non-current assets</b>		<b>2,948,696</b>	<b>-</b>	<b>2,948,696</b>	<b>4,224,566</b>	<b>-</b>	<b>4,224,566</b>
<b>Total assets</b>		<b>17,045,421</b>	<b>-</b>	<b>17,045,421</b>	<b>12,341,287</b>	<b>-</b>	<b>12,341,287</b>
<b>Current liabilities</b>							
Accounts payable		3,466,441	-	3,466,441	471,700	-	471,700
Provisions		132,872	-	132,872	62,492	-	62,492
<b>Total current liabilities</b>		<b>3,599,313</b>	<b>-</b>	<b>3,599,313</b>	<b>534,192</b>	<b>-</b>	<b>534,192</b>
<b>Non-current liabilities</b>							
Provisions		-	-	-	86,136	-	86,136
<b>Total non-current liabilities</b>		<b>-</b>	<b>-</b>	<b>-</b>	<b>86,136</b>	<b>-</b>	<b>86,136</b>
<b>Total liabilities</b>		<b>3,599,313</b>	<b>-</b>	<b>3,599,313</b>	<b>620,328</b>	<b>-</b>	<b>620,328</b>
<b>Net assets</b>		<b>13,446,108</b>	<b>-</b>	<b>13,446,108</b>	<b>11,720,959</b>	<b>-</b>	<b>11,720,959</b>
<b>Equity</b>							
Contributed equity		18,963,404	-	21,177,226	18,969,405	-	18,969,405
Share option reserve	(a)	-	-	-	-	765,928	765,928
Accumulated losses	(e)	(5,517,296)	-	(5,517,296)	(7,248,446)	(765,928)	(8,014,374)
<b>Total equity</b>		<b>13,446,108</b>	<b>-</b>	<b>13,446,108</b>	<b>11,720,959</b>	<b>-</b>	<b>11,720,959</b>

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

### NOTE 2: FIRST TIME ADOPTION OF AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS ("A-IFRS") (Cont)

#### (a) Share-based payments

Under AASB 2: *Share Based Payments*, the company has determined the fair value of options issued to employees as remuneration, and recognised an expense in the Consolidated Income Statement, within the 'employee benefits' expense category.

At the date of transition an adjustment of \$136,105 was made to retained earnings. For the half year ended 31 December 2005 and the financial year ended 30 June 2005, share-based payments of \$99,755 and \$629,823 respectively were recognised under A-IFRS. These expenses were not recognised under the superseded policies.

#### (b) Property, plant and equipment

On transition to A-IFRS, the entity had several options in the determination of the cost of each tangible asset and could also elect to use the cost or fair value basis for the measurement of each class of property, plant and equipment after transition. The Consolidated Entity has elected to continue to measure property, plant and equipment on the historical cost option. There has not been any adjustment under A-IFRS in the consolidated entity either at transition or comparative period balance date.

#### (c) Impairment of assets

Under A-IFRS, both current and non-current assets are tested for impairment, including property plant and equipment.

The entity has determined that no asset impairment provisions are required on transition to A-IFRS at 1 July 2004, 30 June 2005 or 31 December 2004.

#### (d) Revaluation Reserve

Strike Oil Ltd acquired a long term investment in Comet Ridge Ltd ("Comet"), a natural and coal seam gas exploration company listed on the Australian Stock Exchange, on 19 April 2004.

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. The company has elected to adopt AASB 139 from 1 July 2005.

As such, the 6,250,000 shares in Comet have been revalued at 1 July 2005, and at the end of the current period. The movements in the fair value have been posted to a reserve account within equity.

#### (e) Retained earnings

The effect of the above adjustments on retained earnings is as follows:

	Note	Consolidated		
		1 Jul 04 \$	31 Dec 04 \$	30 Jun 05 \$
Expensing share-based payments		136,105	99,755	629,823
Total adjustment to retained earnings		136,105	99,755	765,928

#### (f) Cash flows

The transition to A-IFRS has had no effect on the consolidated entity's cash flows.

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

**NOTE 3: SEGMENT REPORTING**

***Geographical Segments***

The following table presents the revenue and profit information regarding geographical segments for the half-year periods 31 December 2005 and 31 December 2004.

	Australia \$	USA \$	Unallocated \$	Total \$
<b>31 December 2005</b>				
Segment revenue	614,172	-	162,138	776,310
Segment results	(897,985)	(363,155)	-	(1,261,140)
<b>31 December 2004</b>				
Segment revenue	326,129	-	328,202	654,331
Segment results	(6,009,375)	-	-	(6,009,375)

**NOTE 4: CONTINGENT LIABILITIES**

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

**NOTE 5: EVENTS SUBSEQUENT TO REPORTING DATE**

Other than those outlined in these financial statements, there are no subsequent events requiring disclosure.