

Livingstone Petroleum Limited
Condensed interim financial report
for six months ending
31 December 2005

ABN 42 112 256 649

Contents

<i>Reference</i>	<i>Page</i>
Directors' report	2
Lead auditors' independence declaration	4
Condensed consolidated interim income statement	5
Condensed consolidated interim statement of changes in equity	6
Condensed consolidated interim balance sheet	7
Condensed consolidated interim statement of cash flows	8
Notes to the condensed consolidated interim financial statements	9
Director' declaration	24
Review report	25

Livingstone Petroleum Ltd Directors' report

The directors present their report together with the consolidated financial report for the half-year ended 31 December 2005 and the review report thereon.

Directors

The directors of the company at any time during or since the end of the half-year are:

Name	Period of directorship
Jim Malone – Non Executive Chairman	Appointed 17 December 2004
Craig Burton – Executive Director	Appointed 17 December 2004
Michael Fry – Non Executive Director	Appointed 17 December 2004

Review of operations – Half year ending 30 December 2005

Highlights

- Successful gas discoveries at both the Lerner 2-12 and Edge 1-10 wells drilled in November and December 2005.
- These successful discoveries confirm the efficacy of new technical assessments and target identification at the Forbes project.
- Flow testing at Lerner 2-12 records initial production flow rate of 2.8 million cubic feet per day and a gas pay zone of 46 feet, exceeding pre-drill expectations.
- The Edge 1-10 well successfully tests for gas in the deeper secondary formation of the Guinda sands, providing a dual target for future wells and a significant increase in potential project revenues.
- Lerner 2-12 commences production on 7 March 2006.
- A 6 well Forbes program scheduled to commence in the June 2006 quarter.
- A further 100-200 prospective Forbes targets have been identified for evaluation.

Gas Discoveries at Lerner 2-12 and Edge 1-10

Livingstone is pleased with the success of the initial 2 well drilling program at the Forbes project following the acquisition of its 50% interest in June 2005. This has been the first exploration drilling program since Orchard Petroleum Ltd became operator of the Forbes project and the gas discoveries at both Lerner 2-12 and Edge 1-10 support new technical assessments of the prospects and the ability to identify quality gas targets.

Lerner 2-12 encountered a significant gas show when it reached the primary Forbes gas sands target at approximately 8,150 feet. The flow testing at Lerner 2-12 confirmed a flow rate of 2.8 million cubic feet per day with dry gas flowing over an extended period and a gas pay zone of 46 feet. These results exceeded the expectations of the Forbes project partners. Following the start up phase of production from Lerner 2-12 in early March, the production flow rate is expected to reach at least 2.5 million cubic feet per day which will provide an estimated monthly revenue stream to the Company of approximately A\$200,000.

Edge 1-10 was the second well in the drilling program and successfully encountered gas in the primary Forbes target zone at approximately 6,300 feet. Electric logging of the well indicated multiple gas intervals totalling 15 to 20 feet of net pay in the Forbes gas sands target zone. This discovery is considered typical for a successful Forbes well. Further evaluation of the well data and subsequent testwork confirmed gas shows in the secondary target formation, the Guinda sands. Over an extended test period the well flowed at a stable rate of 500,000 cubic feet per day from the Guinda sands zone. This is an extremely important development for the exploration strategy of the Forbes project as there are now 2 gas pay zones to be targeted with a substantial potential impact on future revenues.

Exploration Strategy at Forbes

The successful discoveries at Lerner 2-12 and Edge 1-10 in the Forbes sands gives the current exploration strategy at Forbes a large confidence boost in preparation for the upcoming drilling program. These successful discoveries go a long way in supporting the new technical assessments of the prospects and the ability to identify new potential gas targets. Priority targets have already been selected from the Forbes inventory for the upcoming drilling program, with site surveys conducted and leases completed.

The gas discovery at Edge 1-10 in the secondary Guinda sands target is an important result as it is the Forbes joint venture's first discovery in this particular formation. It has now opened up new exploration opportunities to evaluate in the Forbes project area. The target sizes in the Guinda Formation are generally larger in size but do have higher exploration risk than the Forbes sands. Having dual exploration targets significantly increases the potential value of this area

The Forbes project comprises a large acreage position which is covered by 3D seismic. This acreage has an extensive list of prospects and leads. The expected high drilling success rate at Forbes should ensure many more successful wells are drilled that will continue to add to the current production base in the area.

A six well drilling program is scheduled to commence in the June quarter of 2006, subject to rig availability.

Subsequent Events

There were no Subsequent Events to report following the end of the financial period, other than the announcements released to the Australian Stock Exchange in accordance with the continuous market disclosure requirements.

Comparative Information

Comparative information is presented for the 1 month period ended 31 December 2004, being the initial period of operation for the consolidated entity.

Lead Auditor's Independence Declaration under Section 307C of the Corporations Act 2001

The lead auditor's independence declaration is set out on page 4 and forms part of the directors' report for the half-year ended 31 December 2005.



Craig Burton
Director

Dated at Perth this 15th day of March 2006.



Lead Auditor's Independence Declaration under Section 307C of the Corporation Act 2001

To: the directors of Livingstone Petroleum Limited

I declare that, to the best of my knowledge and belief, in relation to the review for the half-year ended 31 December 2005 there have been:

- (i) no contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the review; and
- (ii) no contraventions of any applicable code of professional conduct in relation to the review.

KPMG

KPMG

T R HART

Partner

Perth

15 March 2006

Livingstone Petroleum Ltd

Condensed consolidated interim income statement

For the period ended 31 December 2005

	Note	\$ 31 Dec 2005	\$ 31 Dec 2004
Revenue	2(a)	189,751	12
Other expenses		-	20,655
Written off exploration expenditure		-	-
Administrative expenses	2(b)	262,366	5
Depreciation expenses		-	-
Loss before tax		(72,615)	(20,648)
Income tax expense attributable to members of the parent entity	3	-	-
Loss for the period		(72,615)	(20,648)
Basic loss per share attributable to ordinary equity holders (AUD)	6	(0.002)	(0.002)

The income statement is to be read in conjunction with the notes to the interim financial statements set out on pages 9 to 23.

Comparative information is for the 1 month period ended 31 December 2004.

Livingstone Petroleum Ltd

Condensed statement of changes in equity

	Issued Capital	Accumulated Earnings	Reserves	Total
Half-year ended 31 December 2005				
Opening balance at 1 July 2005	5,187,628	(36,139)	460,646	5,612,135
Partly Paid share calls received after 30 June 2005	150,374			150,374
15,000,000 shares issued at 20 cents each	3,000,000			3,000,000
Transaction costs of share issues	(277,801)			(277,801)
Net loss for the period (recognised income and expense)		(72,615)		(72,615)
Foreign exchange translation reserve			236,686	236,686
Equity settled share based payment transactions			3,210	3,210
Balance at 31 December 2005	8,060,201	(108,754)	700,542	8,651,989

	Issued Capital	Accumulated Earnings	Reserves	Total
Half-year ended 31 December 2004				
Opening balance at 17 December 2004	-	-	-	-
Shares issued for 0.1 cents each	10,000	-	-	10,000
Equity settled share based payment transactions	-	-	20,655	20,655
Transaction costs of share issues	(6,063)	-	-	(6,063)
Net loss for the period (recognised income and expense)		(20,648)		(20,648)
Balance at 31 December 2005	3,937	(20,648)	20,655	3,944

Livingstone Petroleum Ltd

Condensed consolidated interim balance sheet

As at 31 December 2005

	\$	\$
	31 Dec 2005	30 June 2005
	<i>Note</i>	
Current Assets		
Cash and cash equivalents	2,471,230	1,708,135
Trade and other receivables	41,852	8,123
Other assets	151	9,000
Total current assets	2,513,233	1,725,258
Non-current assets		
Property, plant and equipment	4 60,141	57,760
Exploration and evaluation expenditure	7,624,296	3,945,230
Total non-current assets	7,684,437	4,002,990
Total assets	10,197,670	5,728,248
Current Liabilities		
Payables	1,532,527	102,959
Total current liabilities	1,532,527	102,959
Non-current liabilities		
Provisions	13,154	13,154
Total non-current liabilities	13,154	13,154
Total liabilities	1,545,681	116,113
Net assets	8,651,989	5,612,135
Equity		
Issued capital	5 8,060,201	5,187,628
Foreign Exchange Translation Reserve	197,157	(39,529)
Reserves	503,385	500,175
Accumulated losses	(108,754)	(36,139)
Total equity	8,651,989	5,612,135

The balance sheet is to be read in conjunction with the notes to the interim financial statements set out on pages 9 to 23.

Livingstone Petroleum Ltd

Condensed consolidated interim statement of cash flows

For the six months ended 31 December 2005

	<i>Note</i>	31 Dec 2005	31 Dec 2004
Cash flows from operating activities			
Cash paid to suppliers and employees		(60,202)	(5)
Interest received		52,904	12
Revenue from sales		111,967	-
Net cash from operating activities		104,669	7
Cash flows from financing activities			
Proceeds from issue of shares		3,150,374	10,000
Share issue costs		(277,801)	-
Net cash from financing activities		2,872,573	10,000
Cash flows from investing activities			
Cash payments for exploration and evaluation expenditure		(2,214,147)	-
Net cash from investing activities		(2,214,147)	-
Net increase in cash held		763,095	10,007
Cash at 1 July 2005		1,708,135	-
Cash at 31 December 2005		2,471,230	10,007

This statement of cashflows is to be read in conjunction with the notes to the interim financial statements set out on pages 9 to 23.

Comparative information is for the 1 month period ended 31 December 2004.

Notes to the condensed consolidated interim financial statements

1. Significant accounting policies

Livingstone Petroleum Limited (the "Company") is a company domiciled in Australia. The condensed consolidated interim financial report of the Company for the six months ended 31 December 2005 comprise the Company and its subsidiaries (together referred to as the "consolidated entity") and the consolidated entity's interest in associates and jointly controlled entities.

The condensed consolidated interim financial report was authorised for issue by the directors on 15th March 2006.

(a) Statement of Compliance

The condensed consolidated interim financial report is a general purpose financial report which has been prepared in accordance with Australian Accounting Standards, Urgent Issues Group Interpretations adopted by the Australian Accounting Standards Board ("AASB") and the Corporations Act 2001.

International Financial Reporting Standards ("IFRS") form the basis of Australian Accounting Standards adopted by the AASB, and for the purpose of this report are called Australian equivalents to IFRS ("AIFRS"), to distinguish from previous Australian GAAP. The interim financial report of the consolidated entity also complies with IFRS and interpretations adopted by the International Accounting Standards Board.

This is the consolidated entity's first AIFRS condensed consolidated interim financial report for part of the period covered by the first AIFRS annual financial report and AASB 1 *First time adoption of Australian equivalents to International Financial Reporting Standards*. The condensed consolidated interim financial report does not include all of the information required for a full annual financial report.

The interim financial report is to be read in conjunction with the most recent annual financial report, however, the basis of their preparation is different to that of the most recent annual financial report due to the first time adoption of AIFRS. This report must also be read in conjunction with any public announcements made by Livingstone Petroleum Limited during the half year in accordance with continuous disclosure obligations arising under the Corporations Act 2001.

An explanation of how the transition to AIFRS has affected the reported financial position, financial performance and cash flows of the consolidated entity is provided in note 12. This note includes reconciliations of equity and profit or loss for comparative periods reported under Australian GAAP (previous GAAP) to those reported for those periods under AIFRS.

(b) Basis of Preparation

The financial report is presented in Australian dollars.

The financial report is prepared on the historical cost basis.

The preparation of an interim financial report in conformity with AASB 134 *Interim Financial Reporting* requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses.

These estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

This condensed consolidated interim financial report has been prepared on the basis of AIFRS in issue that are effective at the consolidated entity's first AIFRS annual reporting date, 30 June 2006. Based on these AIFRS, the Board of Directors have made assumptions about the accounting policies expected to be adopted when the first AIFRS annual financial report is prepared for the year-ended 30 June 2006.

Notes to the condensed consolidated interim financial statements

Significant accounting policies (continued)

(b) **Basis of Preparation (continued)**

The Australian Accounting Standards and UIG Interpretations that will be effective or available for voluntary early adoption in the annual financial statements for the period ended 30 June 2006 are still subject to change and therefore cannot be determined with certainty. Accordingly, the accounting policies for that annual period that are relevant to this interim financial information will be determined only when the first AIFRS financial statements are prepared at 30 June 2006.

The preparation of the condensed consolidated interim financial report in accordance with AASB 134 resulted in changes to the accounting policies as compared with the most recent annual financial statements prepared under previous GAAP. Except for the change in accounting policy relating to classification and measurement of financial instruments (refer note 13), the accounting policies set out below have been applied consistently to all periods presented in these condensed consolidated interim financial statements. They also have been applied in preparing an opening AIFRS balance sheet at 1 July 2004 for the purposes of the transition to Australian Accounting Standards – AIFRS, as required by AASB 1. The impact of the transition from previous GAAP to AIFRS is explained in note 12. Where relevant, the accounting policies applied to the comparative period have been disclosed if they differ from the current period policy

The accounting policies have been applied consistently throughout the consolidated entity for purposes of this condensed consolidated interim financial report.

(c) **Basis of consolidation**

(i) ***Subsidiaries***

Subsidiaries are entities controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable or convertible are taken into account. The financial statements of subsidiaries are included in the condensed consolidated interim financial report from the date that control commences until the date that control ceases.

(ii) ***Transactions eliminated on consolidation***

Intragroup balances, and any unrealised gains and losses or income and expenses arising from intragroup transactions, are eliminated in preparing the condensed consolidated interim financial statements.

Unrealised gains arising from transactions with associates and jointly controlled entities are eliminated to the extent of the consolidated entity's interest in the entity with adjustments made to the "Investment in associates" and "Share of associates net profit" accounts.

Gains and losses are recognised as the contributed assets are consumed or sold by the associates and jointly controlled entities or, if not consumed or sold by the associate or jointly controlled entity, when the consolidated entity's interest in such entities is disposed of.

(iii) ***Joint ventures***

Joint ventures are those entities over whose activities the consolidated entity has joint control, established by contractual agreement.

Jointly controlled entities

In the condensed consolidated interim financial report, investments in jointly controlled entities, including partnerships, are accounted for using equity accounting principles. Investments in joint venture entities are carried at the lower of the equity accounted amount and recoverable amount. The consolidated entity's share of the jointly controlled entity's net profit or loss recognised in the condensed consolidated interim income statement from the date joint control commenced until the date joint control ceases. Other movements in reserves are recognised directly in consolidated reserves.

Notes to the condensed consolidated interim financial statements

Significant accounting policies (continued)

(iii) Joint ventures (continued)

Jointly controlled operations and assets

The interest of the consolidated entity in unincorporated joint ventures and jointly controlled assets are brought to account by recognising in its financial statements the assets it controls and the liabilities that it incurs, and the expenses it incurs and its share of income that it earns from the sale of goods or services by the joint venture.

(d) Foreign currency

(i) Foreign currency transactions

Transactions in foreign currencies are translated at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to Australian dollars at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to Australian dollars at foreign exchange rates ruling at the dates the fair value was determined.

(ii) Financial statements of foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on consolidation, generally are translated to Australian dollars at foreign exchange rates ruling at the balance sheet date. The revenues and expenses of foreign operations, excluding foreign operations in hyperinflationary economies, are translated to Australian dollars at rates approximating the foreign exchange rates ruling at the dates of the transactions. The revenues, expenses, assets and liabilities of foreign operations in hyperinflationary economies are translated to Australian dollars at the foreign exchange rates ruling at the reporting date. Foreign exchange differences arising on retranslation are recognised directly in a separate component of equity.

Prior to translating the financial statements of foreign operations in hyperinflationary economies, the financial statements, including comparatives, are restated to account for changes in the general purchasing power of the local currency. The restatement is based on relevant price indices at the reporting date.

(iii) Net investment in foreign operations

Exchange differences arising from the translation of the net investment in foreign operations, and of related hedges are taken to translation reserve. They are released into the income statement upon disposal.

(e) Property, plant and equipment

(i) Owned assets

Items of property, plant and equipment are stated at cost or deemed cost less accumulated depreciation (see below) and impairment losses (see accounting policy g). The cost of self-constructed assets includes the cost of materials, direct labour, and an appropriate proportion of production overheads. The cost of self-constructed assets and acquired assets includes (i) the initial estimate at the time of installation and during the period of use, when relevant, of the costs of dismantling and removing the items and restoring the site on which they are located, and (ii) changes in the measurement of existing liabilities recognised for these costs resulting from changes in the timing or outflow of resources required to settle the obligation or from changes in the discount rate.

Notes to the condensed consolidated interim financial statements

Significant accounting policies (continued)

(i) Owned asset (continued)

Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

(ii) Subsequent costs

The consolidated entity recognises in the carrying amount of an item of property, plant and equipment the cost of replacing part of such an item when that cost is incurred if it is probable that the future economic benefits embodied within the item will flow to the consolidated entity and the cost of the item can be measured reliably. All other costs are recognised in the income statement as an expense as incurred.

(iii) Depreciation

Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Land is not depreciated.

(f) Cash and cash equivalents

Cash and cash equivalents comprises cash balances and call deposits with an original maturity of three months or less. Bank overdrafts that are repayable on demand and form an integral part of the consolidated entity's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

(g) Impairment

The carrying amounts of the consolidated entity's assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated.

An impairment loss is recognised whenever the carrying amount of an asset or its cash generating unit exceeds its recoverable amount. Impairment losses are recognised in the income statement unless the asset has previously been revalued, in which case the impairment loss is recognised as a reversal to the extent of that previous revaluation with any excess recognised through the income statement.

Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (group of units) and then, to reduce the carrying amount of the other assets in the unit (group of units) on a *pro rata* basis.

(i) Calculation of recoverable amount

Impairment of receivables is not recognised until objective evidence is available that a loss event has occurred. Significant receivables are individually assessed for impairment. Impairment testing of significant receivables that are not assessed as impaired individually is performed by placing them into portfolios of significant receivables with similar risk profiles and undertaking a collective assessment of impairment. Non-significant receivables are not individually assessed. Instead, impairment testing is performed by placing non-significant receivables in portfolios of similar risk profiles, based on objective evidence from historical experience adjusted for any effects of conditions existing at each balance date.

The recoverable amount of other assets is the greater of their fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

Notes to the condensed consolidated interim financial statements

Significant accounting policies (continued)

(ii) Reversals of impairment

An impairment loss in respect of an investment in an equity instrument classified as available for sale is not reversed through profit or loss. If the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss shall be reversed, with the amount of the reversal recognised in the income statement.

In respect of other assets, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount.

(h) Share capital

(i) Dividends

Dividends on preference shares classified as a liability are recognised as a liability and expensed on an effective interest yield basis. Other dividends are recognised as a liability in the period in which they are declared.

(ii) Transaction costs

Transaction costs of an equity transaction are accounted for as a deduction from equity, net of any related income tax benefit.

(i) Benefits

(i) Share-based payment transactions

The fair value of options granted is recognised as an expense with a corresponding increase in equity, to the extent that such changes are not related to the exploration and evaluation of the consolidated entity's tenements. In such a cases the expenses are capitalised in accordance with accounting policy p. The fair value is measured at grant date and spread over the period during which the employees become unconditionally entitled to the options. The fair value of the options granted is measured using a binomial black scholes model taking into account the terms and conditions upon which the options were granted. The amount recognised as an expense is adjusted to reflect the actual number of share options that vested.

(ii) Wages, salaries, annual leave, sick leave and non-monetary benefits

Liabilities for employee benefits for wages, salaries, annual leave and sick leave represent present obligations resulting from employees' services provided to reporting date, calculated at undiscounted amounts based on remuneration wage and salary rates that the consolidated entity expects to pay as at reporting date including related on-costs, such as, workers compensation insurance and payroll tax.

(j) Provisions

A provision is recognised in the balance sheet when the consolidated entity has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, when appropriate, the risks specific to the liability.

(i) Site restoration

In accordance with the consolidated entity's published environmental policy and applicable legal requirements, a provision for site restoration in respect of contaminated land is recognised when the land is contaminated.

Notes to the condensed consolidated interim financial statements

Significant accounting policies (continued)

(i) Site restoration (continued)

The provision is the best estimate of the present value of the expenditure required to settle the restoration obligation at the reporting date, based on current legal requirements and technology. Future restoration costs are reviewed annually and any changes are reflected in the present value of the restoration provision at the end of the reporting period.

The amount of the provision for future restoration costs is capitalised and is depreciated in accordance with the policy set out in note (g). The unwinding of the effect of discounting on the provision is recognised as a finance cost.

(k) Trade and other payables

Trade and other payables are stated cost and settled within.

(l) Expenses

(i) Net financing costs

Net financing costs comprise interest payable on borrowings calculated using the effective interest method, dividends on preference shares classified as liabilities, interest receivable on funds invested, dividend income, foreign exchange gains and losses, and gains and losses on hedging instruments that are recognised in the income statement.

Interest income is recognised in the income statement as it accrues, using the effective interest method. Dividend income is recognised in the income statement on the date the entity's right to receive payments is established which in the case of quoted securities is the ex-dividend date. The interest expense component of finance lease payments is recognised in the income statement using the effective interest method.

(m) Income tax

Income tax on the income statement for the periods presented comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: goodwill, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Additional income taxes that arise from the distribution of dividends are recognised at the same time as the liability to pay the related dividend.

Notes to the condensed consolidated interim financial statements

Significant accounting policies (continued)

(n) Segment reporting

A segment is a distinguishable component of the consolidated entity that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

(o) Goods and Services Tax

Revenue, expenses and assets are recognised net of the amount of goods and services tax (GST), except where the amount of GST incurred is not recoverable from the taxation authority. In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated with the amount of GST included. The net amount of GST recoverable from, or payable to, the ATO is included as a current asset or liability in the statement of financial position.

Cash flows are included in the statement of cash flows on a gross basis. The GST components of cash flows arising from investing and financing activities which are recoverable from, or payable to, the ATO are classified as operating cash flows.

(p) Exploration and Evaluation Expenditure

Exploration costs are accumulated in respect of each separate areas of interest.

Exploration costs are carried forward where the right tenure of the area of interest is current and they are expected to be recouped through sale or successful development and exploitation of the area of interest, or, where the exploration activities in the area of interest have not yet reached a stage that permits reasonable assessment of the existence of economically recoverable reserves.

When an area of interest is abandoned or the Directors decide that it is not commercial, any accumulated costs in respect of that area are written off in the financial period the decision is made. Each area of interest is also reviewed annually at the end of each accounting period and accumulated costs written off to the extent they will not be recoverable in the future.

2 Revenue

(a) Revenue

	2005	2004
	\$	\$
Interest Revenue	52,903	12
Gas Sales	121,163	-
Other	15,685	-
Total Revenue	189,751	12

(b) Administrative Expenses

Office costs	6,730	-
Professional fees	186,926	-
Accounting and audit costs	21,402	-
Administration Costs	45,296	-
Other	2,084	-
Miscellaneous	(72)	5
Total Administrative Expenses	262,366	5

Notes to the condensed consolidated interim financial statements

3. Income taxes

Current tax

Current tax expense for the interim periods presented is the expected tax payable on the taxable income for the period, calculated as the estimated average annual effective income tax rate applied to the pre-tax income of the interim period.

Current tax for current and prior periods is classified as a current liability to the extent that it is unpaid. Amounts paid in excess of amounts owed are classified as a current asset.

Deferred tax

The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using the estimated average annual effective income tax rate for the interim periods presented.

The primary components of the entity's deferred tax liabilities include temporary differences related to property, plant and equipment, intangible assets, biological assets, investment property, other investments and inventories.

4. Property, plant and equipment

Acquisitions and disposals

During the six months ended 31 December 2005, the consolidated entity acquired assets with a cost of \$1,510 (six months ended 31 December 2004:nil).

5. Capital and reserves

Share capital

The consolidated entity recorded the following amounts within shareholder's equity as a result of the issuance of ordinary shares.

For the six months ended 31 December 2005

Total issued paid up capital

	Share Capital		
	\$	\$	\$
	31 Dec 2005	30 June 2005	31 Dec 2004
Ordinary Shares	8,060,201	5,187,628	3,937
Total Issued and paid up capital	8,060,201	5,187,628	3,937

Ordinary Shares

	Shares		\$	
	2005	2004	2005	2004
On issue at beginning of the period	37,000,001	-	5,187,628	-
Issued on 17 December 2004 @ 0.1 cents each	-	10,000,000	-	10,000
Call funds received after June 30 2005			150,374	
Issued on 14 September 2005 fully paid to 20c per share	15,000,000		3,000,000	
Share issue costs			(277,801)	(6,063)
On issue at 31 December – fully paid	52,000,001	10,000,000	8,060,201	3,937

Dividends

No dividends were paid by the consolidated entity.

Notes to the condensed consolidated interim financial statements

6. Earnings per share

Basic earnings per share

The calculation of basic earnings per share for the six months ended 31 December 2005 was based on the loss attributable to ordinary shareholders of \$72,615 (one month ended 31 December 2004: \$20,648 profit) and a weighted average number of ordinary shares outstanding during the six months ended 31 December 2005 of 45,307,693 (one month ended 31 December 2004: 10,000,000), calculated as follows:

Profit attributable to ordinary shareholders	31 Dec 2005	31 Dec 2004
Profit attributable to ordinary shareholders	(72,615)	(20,648)
Weighted average number of ordinary shares	31 Dec 2005	31 Dec 2004
Issued ordinary shares at beginning of period	37,000,001	-
Effect of share issue	8,307,692	10,000,000
Weighted average number of ordinary shares at 31 December	45,307,693	10,000,000

Diluted earnings per share

The calculation of diluted earnings per share for the six months ended 31 December 2005 was based on the loss attributable to ordinary shareholders of \$72,615 (one month ended 31 December 2004: \$20,648 profit) and a weighted average number of ordinary shares outstanding during the six months ended 31 December 2005 of 62,877,310 (one month ended 31 December 2004: 18,500,000), calculated as follows:

Profit attributable to ordinary shareholders	31 Dec 2005	31 Dec 2004
Profit attributable to ordinary shareholders	(72,615)	(20,648)
Weighted average number of ordinary shares		
Issued ordinary shares at beginning of period	37,000,001	-
Effect of share issue	8,307,692	10,000,000
Effect of options on issue	17,569,617	8,500,000
Weighted average number of ordinary shares (diluted) at 31 December	62,877,310	18,500,000

Notes to the condensed consolidated interim financial statements

7. Share Based Payments

Expense recognised in the consolidated interim income statement

The expense recognised in the consolidated interim income statement consists of the current service costs, interest on the obligation for employee benefits, the expected return on plan assets and past service cost. For the six months ended 31 December 2005, the consolidated entity recognised expense of \$3,210 (six months ended 31 December 2004: \$20,655).

Fair value of share options and assumptions For the six months ended 31 December 2005

	2005	2004
Fair value at measurement date (cents)	0.894	0.762
Share price	20	20
Exercise price	20	30
Expected volatility (expressed as weighted average volatility used in the modelling under the Black Scholes formula)	50	50
Option life (expressed as weighted average life used in the modelling under the Black Scholes formula)	5 years	5 years
Expected dividends	-	-
Risk-free interest rate (based on national government bonds)	5.17	5.17

The expected volatility is based on the historic volatility (calculated based on the weighted average remaining life of the share options), adjusted for any expected changes to future volatility due to publicly available information.

Share options are granted under a service condition and granted to key management personnel. There are no market conditions associated with the share option at grants.

The fair value of the SARs at grant date is determined based on the Black-Scholes formula.

8. Related parties

Directors received compensation in the form of short-term employee benefits, post-employment benefits and equity compensation benefits. Directors received total compensation of \$29,478 for the six months ended 31 December 2005 (one month ended 31 December 2004: \$nil). Total remuneration is included in "personnel expenses."

9. Financial Instruments

Fair values

The carrying amount and fair value of financial assets at 31 December 2005 is \$2,513,233 (30 June 2005: carrying amount and fair value of \$1,725,258).

The carrying amount and fair value of financial liabilities at 31 December 2005 is \$1,532,527 (30 June 2005: carrying amount and fair value of \$102,959).

Estimation of fair values

The following summarises the major methods and assumptions used in estimating the fair values of financial instruments.

Notes to the condensed consolidated interim financial statements

9. Financial Instruments (continued)

Cash at bank

Fair value is determined by the cash balance held at the balance sheet date.

Trade and other receivables / payables

For receivables / payables with a remaining life of less than one year, the notional amount is deemed to reflect the fair value. All other receivables / payables are discounted to determine the fair value.

Liabilities

For liabilities with a remaining life of less than one year, the notional amount is deemed to reflect the fair value. All liabilities are discounted to determine the fair value.

10. Segment reporting

The consolidated entity operates in one business and geographical segment, namely gas exploration in the United States of America.

11. Subsequent event

Following the end of the reporting period, there were no material subsequent events that occurred, other than further reporting of test and completion results following the recent drilling programs at Lerner 2-12 and Edge 1-10. Such announcements have been made in accordance with the ASX continuous market disclosure requirements.

12. Explanation of transition to AIFRS

As stated in note 1(a), these are the consolidated entity's first condensed consolidated interim financial statements for part of the period covered by the first AIFRS annual consolidated financial statements prepared in accordance with Australian Accounting Standards - AIFRS.

The accounting policies in note 1 have been applied in preparing the condensed consolidated interim financial statements for the six months ended 31 December 2005, the comparative information for the six months ended 31 December 2004 and the financial statements for the period ended 30 June 2005. The consolidated entity has not prepared an opening AIFRS balance sheet at 1 July 2004 as its first reporting period was for the 7-month period ended 30 June 2005.

In preparing the comparative information for the one month ended 31 December 2004 and the financial statements for the period ended 30 June 2005, the consolidated entity has adjusted amounts reported previously in financial statements prepared in accordance with its old basis of accounting (previous GAAP).

An explanation of how the transition from previous GAAP to AIFRS has affected the consolidated entity's financial position, financial performance and cash flows is set out in the following tables and the notes that accompany the tables.

Notes to the condensed consolidated interim financial statements

12. Explanation of transition to AIFRS (continued)

Reconciliation of equity

	Previous GAAP	Effect of transition to AIFRS	AIFRS	Previous GAAP	Effect of transition to AIFRS	AIFRS
Note	31 December 2004			30 June 2005		
Assets						
Cash and cash equivalents	10,007	-	10,007	1,708,135	-	1,708,135
Trade and other receivables	606	-	606	8,123	-	8,123
Other Assets	-	-	-	9,000	-	9,000
Total current assets	10,613	-	10,613	1,725,258	-	1,725,258
Property, plant and equipment	(a)	-	-	58,631	(871)	57,760
Exploration and evaluation expenditure	(a)	-	-	3,983,893	(38,663)	3,945,230
Total non-current assets	-	-	-	4,042,524	(39,534)	4,002,990
Total assets	10,613	-	10,613	5,767,782	(39,534)	5,728,248
Liabilities						
Trade and other payables	6,669	-	6,669	102,959	-	102,959
Total current liabilities	6,669	-	6,669	102,959	-	102,959
Provisions	-	-	-	13,154	-	13,154
Total non-current liabilities	-	-	-	13,154	-	13,154
Total liabilities	6,669	-	6,669	116,113	-	116,113
Net assets	3,944	-	3,944	5,651,669	(39,534)	5,612,135
Equity						
Issued capital	3,937	-	3,937	5,187,628	-	5,187,628
Reserves	(b)	-	20,655	479,520	20,655	500,175
Foreign currency translation reserve	(a)	-	-	-	(39,529)	(39,529)
Retained earnings	(a)(b)	7	(20,655)	(15,479)	(20,660)	(36,139)
Total equity	3,944	-	3,944	5,651,669	(39,534)	5,612,135

Notes to the condensed consolidated interim financial statements

12. Explanation of transition to AIFRS (continued)

Notes to the reconciliation of equity

- (a) The consolidated entity has applied AASB 121 "The Effects of Changes in Foreign Exchange Rates" in respect of the translation for reporting purposes of its foreign operation and to account for its net investment in such controlled entity's. Under the requirements of AASB 121 the Assets and Liabilities of the group's foreign operations are translated for reporting purposes at the rate of exchange at the balance date, with items of income and expense being translated at the rates of exchange at the date of the respective transactions. Previously the groups controlled entities were considered to be integrated operations, with certain non-monetary assets being translated at historical rates of exchange and all exchange differences being recognised through the Profit and Loss. Under AASB 121, the gain or losses arising from the translation of these operations will be recognised through the Foreign Currency Translation Reserve as a component of equity.

This has resulted in an adjustment as at 30 June 2006 as follows

Property Plant and Equipment	(871)
Exploration Expenditure	(38,663)
Foreign Exchange Gain/(Loss) (P&L)	(39,534)
Foreign Exchange Gain/(Loss) (P&L)	39,529
Foreign Currency Translation Reserve	(39,529)

- (b) The consolidated entity applied AASB 2 to its share-based payment arrangements which it has granted during 2005 and 2004.

Under previous GAAP, the consolidate entity did not account for equity settled share based payments, unless they formed a component of the purchase consideration for an asset.

The effect in the consolidated entity of accounting for equity-settled share-based payment transactions at fair value is to increase other costs by \$20,065 for the one months ended 31 December 2004 and for the year ended 30 June 2005.

- (c) Under AIFRS the balance sheet method of tax effect accounting is adopted rather than the liability method previously applied under GAAP.

Under the balance sheet approach, income tax on the profit and loss for the year comprises current and deferred taxes. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at reporting date, and any adjustments to tax payable in respect of previous years.

Notes to the condensed consolidated interim financial statements

12. Explanation of transition to AIFRS (continued)

Notes to the reconciliation of equity

- (c) Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The Group presently offsets deferred tax assets and deferred tax liabilities relating to the same taxation authority.

The residual of any deferred tax assets are not presently recognised as they do not meet the 'highly probable' requirements of AASB 112.

Deferred tax assets will be reduced to the extent it is no longer probable that the related tax benefit will be realised.

Notes to the condensed consolidated interim financial statements

12. Explanation of transition to AIFRS (continued)

Reconciliation of profit for 2005

In thousands of AUD	Note	Effect of transition			Effect of transition		
		Previous GAAP	to AIFRS	AIFRS	Previous GAAP	to AIFRS	AIFRS
		For the one month ended 31 Dec 2004			For the year ended 30 Jun 2005		
Revenue		-	-	-	-	-	-
Other Income		12	-	12	17,915	-	17,915
Total Income		12	-	12	17,915	-	17,915
Depreciation Expense		-	-	-	-	-	-
Administrative expenses		5	-	5	4,600	-	4,600
Other operating expenses	(b)	-	20,655	20,655	30,019	20,665	50,684
Foreign exchange (gain)/loss	(a)	-	-	-	(1,225)	(5)	(1,230)
Profit before financing costs		5	20,655	20,660	33,394	20,660	54,054
Financial income		-	-	-	-	-	-
Financial expenses		-	-	-	-	-	-
Net financing costs		-	-	-	-	-	-
Profit before tax		7	(20,655)	(20,648)	(15,479)	(20,660)	(36,139)
Income tax expense		-	-	-	-	-	-
Profit after tax		7	(20,655)	(20,648)	(15,479)	(20,660)	(36,139)

13. Change in accounting policy

Reconciliation of financial instruments as if AASB 139 was applied at 1 July 2005

In the current financial year the consolidated entity adopted AASB 132: *Financial Instruments: Disclosure and Presentation* and AASB 139: *Financial Instruments: Recognition and Measurement*.

This change in accounting policy has been adopted in accordance with the transition rules contained in

AASB 1, which does not require the restatement of comparative information for financial instruments within the scope of AASB 132 and AASB 139.

The adoption of AASB 139 has not resulted in any material impacts to the balance sheet or income statement.

Directors' declaration

In the opinion of the directors of Livingstone Petroleum Limited ("the company"):

1. the financial statements and notes set out on pages 5 to 23, are in accordance with the Corporations Act 2001 including:
 - (a) 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; and
 - (b) complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the Corporations Regulations 2001; and
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 Perth this 15th day of March 2006.

Signed in accordance with a resolution of the directors:



Craig Burton
Director



Independent review report to the members of Livingstone Petroleum Limited

Scope

The financial report and directors' responsibility

The financial report comprises the condensed consolidated interim income statement, balance sheet, statement of changes in equity, statement of cash flows, accompanying notes to the financial statements, and the directors' declaration for the Livingstone Petroleum Limited Consolidated Entity ("the Consolidated Entity"), for the half-year ended 31 December 2005. The Consolidated Entity comprises Livingstone Petroleum Limited ("the Company") 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 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. The directors are also responsible for preparing the relevant reconciling information regarding adjustments required under the Australian Accounting Standard AASB 1 *First-Time Adoption of Australian equivalents to International Financial Reporting Standards*.

Review approach

We conducted an independent review 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.

We performed procedures in order to state whether on the basis of the procedures described anything has come to our attention that would indicate the financial report does not present fairly, in accordance with the Corporations Act 2001, Australian Accounting Standard AASB 134 *Interim Financial Reporting* and other mandatory financial reporting requirements in Australia, 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.

We formed our statement on the basis of the review procedures performed, which were limited primarily to:

- enquiries of company personnel; and
- analytical procedures applied to the financial data.

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

The 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.

A review cannot guarantee that all material misstatements have been detected.



Statement

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe the half-year financial report of Livingstone Petroleum 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 134 *Interim Financial Reporting* and the Corporations Regulations 2001; and
- b) other mandatory financial reporting requirements in Australia.

KPMG

KPMG

T R HART
Partner

Perth

15 March 2006