

LIVINGSTONE PETROLEUM LTD

ABN 42 112 256 649

**Financial Report
For the 7 month period ended
30 June 2005**

**LIVINGSTONE PETROLEUM LTD
CORPORATE DIRECTORY
CONTENTS**

<p>Directors Mr Jim Malone – Non-Executive Chairman Mr Craig Burton – Executive Director Mr Michael Fry – Non-Executive Director</p> <p>Company Secretary Mr Brett Mitchell</p> <p>Share Registry Advanced Share Registry Services Pty Ltd 110 Stirling Highway Nedlands WA 6009 Tel: 08 9389 8033 Fax: 08 9389 7871</p> <p>Website www.livpet.com.au</p>	<p>Registered Office Ground Floor, 8 Colin Street West Perth WA 6005 Tel: 08 9324 1177 Fax: 08 9324 2171</p> <p>Solicitor Fairweather & Lemonis Level 9, 172 St Georges Terrace Perth WA 6000 Tel: 08 9420 5000 Fax: 08 9420 5001</p> <p>Auditor KPMG 152-158 St Georges Terrace Perth WA 6000 Tel: 08 9263 7171 Fax: 08 9263 7129</p>
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Corporate History

Livingstone Petroleum Ltd was incorporated on 17 December 2004. By prospectus dated 13 January 2005 the Company undertook a \$750,000 capital raising through the issue of partly paid shares. The purpose of this raising was to facilitate the evaluation and potential acquisition of oil and gas projects.

On 1 June 2005, the Company agreed to acquire a 50% interest in the Forbes Gas Project from Orchard Petroleum Inc, which owns the remaining 50% of the Project and is the Operator.

The Company subsequently made a call on the partly paid shares raising a further \$2.25 million. These funds paid for the acquisition of the 50% interest in the Forbes Gas Project, leaving the Company with a cash balance of approximately \$1.7 million at 30 June 2005.

The Company lodged an IPO prospectus on 11 August 2005 to raise \$3m, which was closed oversubscribed on 31 August. The Company was listed on the Australian Stock Exchange on 14 September 2005.

Forbes Gas Project

The Forbes Gas Project is located in the Sacramento basin, California (inland from San Francisco). The Project comprises 25 separate oil and gas leases covering an area of 14,817 acres. The Project is owned 50% by Livingstone and 50% by Orchard Petroleum Inc (which is the Operator) with an area of mutual interest of approximately 40,000 acres.

The Forbes sandstone area within which the Project is located is a proven gas province. By industry standards, drilling in the Forbes is relatively shallow, low cost and straightforward. The key attributes of the Forbes Gas Project are:

- High historical rate of exploration success in the province
- Large inventory of leads for drilling targets
- Extensive 3D seismic coverage
- Relatively shallow, low risk drilling
- Gas gathering and transportation infrastructure
- Potentially low development costs with quick lead times to production (upon any success)
- An active US domestic gas market
- Additional deeper "high impact" secondary targets

The Project Area and the Targets

California is amongst the strongest markets for natural gas in the world, with commensurately high gas prices. It imports a significant component of its gas requirements so any gas discoveries have a ready and active market.

The Forbes sandstones in the Sacramento basin have produced natural gas since 1934. The producing fields extend from Redbank Creek to the north of the Project Area to Dunnigan Hills to the south over a distance of nearly 100 miles. Approximately 1,300 Forbes gas wells have been drilled in the Sacramento basin with cumulative production to date of 600 bcf and more in reserves under production.

The target depths for the Project Area are 1,800-2,700 metres (6,000 to 9,000ft) which is shallow for the oil and gas industry, but in the Forbes sandstones this is considered deep as most past exploration targeted the sandstones at shallower locations. This appears to be the principal reason this area was not actively drilled prior to more recent improvements in seismic imaging and increases in gas prices.

The Project Area is covered by 3 separate 3D seismic surveys, from which the previous operator NEG mapped a large number of possible well locations in the Project Area. Orchard recently became the Operator of the Project and is in the process of reviewing the prospect inventory to identify high priority drilling targets. Orchard is using California based technical consultants to undertake advanced processing of the seismic and other technical data. Livingstone expects 100 to 200 viable Forbes sandstone drill targets to be identified within the Project Area.

Likely Success Rates

Forbes gas wells drilled in the Sacramento basin to date have a historical success rate of around 70%. The historical Forbes well data is likely to be applicable to the Project Area and a 3D based drilling program might achieve even better results due to better screening of prospects.

Based on historical Forbes wells and the 3D based targeting a reasonable expectation for an average successful well within the Project Area would be 1 to 1.5 bcf reserves at an initial flow rate of about 1.2 mmcf/d. At current gas prices this represents an attractive commercial proposition. The Project Area has excellent infrastructure, including extensive gas pipelines, enabling successful wells to be rapidly tied in for production.

Proposed Drilling

The Forbes partners intend to initially drill three wells upon immediate targets identified by Orchard using the 3D seismic data. This initial program will focus on the area near two recent discoveries of the joint venture within the Project Area (Larner and Wallace). The Company has a 50% interest in these two discoveries and the associated infrastructure. This includes the pipeline that is currently transporting Larner gas to market.

In a joint announcement from Orchard and the Company released to the market on 23 September 2005, it was confirmed that the new drilling program at the Forbes Gas Project will commence in mid October 2005. A drilling rig has been contracted for a 6 week period to drill between 2 and 3 wells, depending upon the actual drilling time and other logistical matters.

LIVINGSTONE PETROLEUM LTD DIRECTORS REPORT

The Directors of the Company present their report for the 7 month financial period ended 30 June 2005.

DIRECTORS

The Directors of the Company at any time during or since the end of the financial period are as follows. Directors were in office for the entire period.

Mr Jim Malone B.Com, ASA – Chairman, Non Executive Director, Age 40, Appointed 17/12/04

Mr Malone has worked as an accountant, stockbroker, business analyst and chief executive officer of medium sized businesses for the past 18 years, the last 6 years in the natural resources sector. Mr Malone has a Bachelor of Commerce degree from the University of Western Australia and is an Associate of the Australian Society of Certified Practising Accountants.

Mr Malone's expertise is in the area of business development, investor relations, capital raisings, ASX liaison and financial and administrative management.

Mr Malone is currently managing director of Westmag Limited.

Mr Craig Burton B.Juris, LLB, MAICD – Executive Director, Age 42, Appointed 17/12/04

Mr Burton has extensive business experience in the natural resources sector and in managing publicly listed companies. He has a track record of providing corporate and financial backing to successful resource projects and technical teams. Over the past 12 years, he has co-founded and assisted the public listing of numerous resource companies and he remains a substantial and active investor in the resources sector.

His experience in the resources sector covers projects in numerous locations including Australia, Africa, central Europe and Brazil with capital raisings for such projects undertaken in Australia, London and Canada.

Mr Burton is currently a director of Albidon Limited, Mirabela Nickel Ltd, Liberty Gold NL, Golden Gate Petroleum Ltd and Exco Resources NL

Over the past three years he has also been a director of Halcyon Group Limited, Oriel Communications Ltd, Sally Malay Mining Ltd and West Oil NL. He is a member of the Australian Institute of Company Directors.

Mr Michael Fry B.Com, ASIA – Non Executive Director, Age 48, Appointed 17/12/04

Mr Fry holds a Bachelor of Commerce degree from the University of Western Australia and is an Associate of the Securities Institute of Australia and is a past member of the Australian Stock Exchange.

Mr Fry has extensive experience in capital markets and corporate treasury management specialising in the identification of commodity, currency and interest rate risk and the implementation of risk management strategies.

Mr Fry is currently a Director of Precious Metals Australia Limited, Red Fork Energy Ltd and Liberty Gold NL. Over the past three years Mr Fry has held directorships with Kanowna Lights Limited and Preston Resources Limited.

**LIVINGSTONE PETROLEUM LTD
DIRECTORS REPORT**

Mr Brett Mitchell B.Ec – Company Secretary, Age 33, Appointed 17/12/04

The Company Secretary at the end of the financial year was Mr Brett Mitchell. Mr Mitchell holds a Bachelor of Economics degree and for the past 14 years has been providing management and finance services for private and public companies in Australia.

Interests in the shares and options of the Company

As at the date of this report, the interests of the Directors in the shares and options of Livingstone Petroleum Ltd (“the Company”) were:

Director	Shares	Options, exercisable at 30 cents	Incentive Options, exercisable at 20 cents
Jim Malone	-	-	500,000
Craig Burton	3,800,000	3,000,000	-
Michael Fry	-	-	500,000
Total	3,800,000	3,000,000	1,000,000

Directors’ Meetings

The number of Directors’ meetings and number of meetings attended by each of the Directors of the Company during the financial period were:

Director	Board of Directors	
	Present	Held
Jim Malone	3	3
Craig Burton	3	3
Michael Fry	3	3

Principal Activities

The principal activity of the Company during the course of the financial period consisted of evaluation of oil and gas investment and development opportunities.

Results and Dividends

The Company’s loss after tax attributable to members of the Consolidated Entity for the financial period ending 30 June 2005 was \$15,479.

No dividends have been paid or declared by the Company during the period ended 30 June 2005.

Corporate Structure

Livingstone Petroleum Ltd is a Company limited by shares that is incorporated and domiciled in Australia.

Review of Operations

A detailed review of the Company’s exploration activities is contained in the Review of Operations section of this Financial Report.

Employees

At the end of the financial period, the Company had no full time employees.

Likely Developments and Expected Results

The Company will pursue activities within its corporate objectives.

Further information about likely developments in the operations of the Company and the expected results of those operations in the future financial years has not been included in this report because disclosure would be likely to result in unreasonable prejudice to the Company.

Environmental Regulations & Performance

The Company's operations are subject to significant environmental regulations under both the State and Federal legislation applicable in the United States in relation to its exploration activities to be undertaken on the Forbes Project. Company management monitors compliance with the relevant environmental legislation. The Directors are not aware of any breaches of the legislation during the period covered by this report.

Indemnification and Insurance of Officers

An indemnity agreement has been entered into with each of the Directors and Company Secretary of the Company named earlier in this report. Under the agreement, the Company has agreed to indemnify those officers against any claim or for any expenses or costs which may arise as a result of work performed in their respective capacities to the extent permitted by law. There is no monetary limit to the extent of this indemnity.

Remuneration Report

This Remuneration Report outlines the remuneration arrangements which were in place during the period, and remain in place as at the date of this report, for the Directors of Livingstone Petroleum Ltd.

Remuneration Policy and Committee

The Company aims to ensure that the level and composition of remuneration of its Directors and executives is sufficient and reasonable for the competitive sector in which the Company operates. The Board is responsible for determining and reviewing compensation arrangements for the Directors and the executive team.

The Remuneration details of each Director during the year are set out in the table under Directors and Officers Emoluments. There are no executive officers of the economic entity other than those listed.

Executive Directors

The Remuneration of the Executive Director comprises a fixed salary inclusive of superannuation contributions. In relation to the payment of bonuses, share option and other incentive amounts, discretion is exercised by the Board having regard to the overall performance of the Company and of the relevant individual during the period.

LIVINGSTONE PETROLEUM LTD DIRECTORS REPORT

Remuneration Report (continued)

Non-Executive Directors

The remuneration of the Company's Non-Executive Directors comprises cash fees and superannuation contributions. There is no current scheme to provide performance-based bonuses or retirement benefits to Non-Executive Directors other than superannuation contributions. Non-Executive Directors typically do not participate in equity or option schemes of the Company, however given the Company's size, focussed nature of business and shareholding structure, issues of share options to Non-Executive Directors may in the future be, approved by shareholders to enhance overall shareholder wealth creation.

As detailed in the Company's Constitution, the maximum aggregate remuneration for Non-Executive Directors is set at \$180,000 per year.

Directors and Officers Emoluments

The Company's Remuneration Policy is outlined in Note16 which forms part of the Notes to the Financial Report.

In the current financial period following incorporation on 17 December 2004, none of the Directors were financially remunerated for their non-executive services provided. For any services provided to the Company by the Directors that was outside the scope of their non-executive roles, they were remunerated at commercial rates for the services provided. It should be noted that the company was effectively dormant until 1 June 2005

The following payment was made to a director related entity for executive services provided to the Company during the financial year ended 30 June 2005:

	Annual Emoluments Salary & Fees	Long Term Emoluments Superannuation Benefits	Total
	\$	\$	\$
Directors			
Jim Malone	-	-	-
Craig Burton	-	-	-
Michael Fry	-	-	-
Total	-	-	-

Share Options

Shares issued as a result of the exercise of options

During and since the end of the financial period no shares were issued as a result of the exercise of options.

Unissued Shares

As at the date of the report, there were 17,500,000 unlisted options and 1,250,000 unlisted incentive options on issue detailed as follows:

Number of Options	Exercise Price	Expiry Date
17,500,000	\$0.30	18/12/2009
1,250,000	\$0.20	18/12/2009

Share Options (continued)

Option holders do not have any right, by virtue of the option, to participate in any share issue of the Company.

Auditor Independence

Section 307C of the Corporations Act 2001 requires the Company's auditors to provide the Directors of Livingstone Petroleum Ltd with an Independence Declaration in relation to the audit for the full-year financial report. This Independence Declaration is attached to the Director's Report.

Corporate Governance

In recognising the need for the highest standards of corporate behaviour and accountability, the Directors of Livingstone Petroleum Ltd support and have adhered to the principles of sound corporate governance. The Board recognises the recommendations of the Australian Stock Exchange Corporate Governance Council, and considers that the Company is in compliance with those guidelines which are of importance to the commercial operation of a junior listed resource Company. During the financial year, shareholders continued to receive the benefit of an efficient and cost-effective corporate governance policy for the Company. A Corporate Governance Policy is included as part of this report.

State Of Affairs

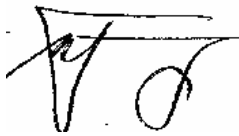
The Company was incorporated on 17 December 2004. During the financial period the Company acquired a 50% interest in the Forbes Gas Project on 1 June 2005. There were no significant changes in the state of affairs of the Company during the financial period.

Significant Events after Balance Date

The Company issued a prospectus on 11 August 2005 to raise \$3,000,000 through the issue of 15,000,000 ordinary shares at 20 cents each, in order to raise further working capital for the exploration drilling programs on the Forbes Project and to pursue a listing on the Australian Stock Exchange. The capital raising was closed oversubscribed on 31 August 2005 and the Company successfully listed on the ASX on 14 September 2005.

For reporting periods beginning on or after 1 July 2005, the consolidated entity must comply with the Australian equivalents to International Financial Reporting Standards (AIFRS) as issued by the Australian Accounting Standards Board. The implementation plan and potential impact of adopting AIFRS are detailed in Note 20 to the financial statements.

Other than the issues detailed above, no matters or circumstances have arisen since the end of the financial year which have significantly affected or may significantly affect the operations, results or state of affairs of the Company in subsequent financial years.



Michael Fry

Director

Perth, 30 September 2005

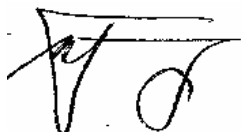
LIVINGSTONE PETROLEUM LTD
DIRECTORS DECLARATION

In accordance with a resolution of the Directors of Livingstone Petroleum Ltd, I state that:

In the opinion of the Directors:

- a) The financial statements and the notes of the Company are in accordance with the Corporations Act 2001, including:
 - i. Giving a true and fair view of the Company's financial position as at 30 June 2005 and of its performance for the period ended that date; and
 - ii. Complying with Accounting Standards and Corporations Regulations 2001; and
- b) There are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.
- c) This declaration has been made after receiving the declarations required to be made to the directors in accordance with section 295a of the Corporations Act 2001 for the financial period ending 30 June 2005.

Signed on behalf of the board.



Michael Fry

Director

Perth, 30 September 2005



Independent audit report to members of Livingstone Petroleum Limited

Scope

The financial report and directors' responsibility

The financial report comprises the statement of financial position, statement of financial performance, statement of cash flows, accompanying notes to the financial statements, and the directors' declaration for both Livingstone Petroleum Limited (the "Company") and the Consolidated Entity, for the seven month period ended 30 June 2005. The Consolidated Entity comprises both the Company and the entities it controlled during that 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.

Audit approach

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

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

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

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

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

Independence

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



Audit opinion

In our opinion, the financial report of Livingstone Petroleum Limited is in accordance with:

- a) the *Corporations Act 2001*, including:
 - i. giving a true and fair view of the Company's and Consolidated Entity's financial position as at 30 June 2005 and of their performance for the financial period ended on that date; and
 - ii. complying with Accounting Standards in Australia and the Corporations Regulations 2001; and
- b) other mandatory professional reporting requirements in Australia.

KPMG

KPMG

T R HART
Partner

Perth
30 September 2005



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 audit for the financial period ended 30 June 2005 there have been:

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

KPMG

KPMG

A handwritten signature in black ink, appearing to read 'T R HART', written over the printed name.

T R HART
Partner

Perth
30 September 2005

**LIVINGSTONE PETROLEUM LTD
STATEMENT OF FINANCIAL PERFORMANCE
FOR THE 7 MONTH PERIOD ENDED 30 JUNE 2005**

	Note	Consolidated 2005 \$	Company 2005 \$
Revenues from ordinary activities	2	17,915	17,915
Administration costs		4,600	4,173
Accounting fees		9,950	9,950
Professional fees		20,069	19,455
Foreign exchange (gain)/loss		(1,225)	38,304
Loss from ordinary activities before income tax expense		(15,479)	(53,967)
Income tax expense relating to ordinary activities	3	-	-
Net loss attributable to members		(15,479)	(53,967)
Total changes in equity other than those resulting from transactions with owners as owners attributable to members of Livingstone Petroleum Ltd		(15,479)	(53,967)

The statement of financial performance should be read in conjunction with the notes to the financial statements as set out on pages 17 to 35

**LIVINGSTONE PETROLEUM LTD
STATEMENT OF FINANCIAL POSTION
AS AT 30 JUNE 2005**

		Consolidated	Company
	Note	2005	2005
		\$	\$
Current assets			
Cash assets	4	1,708,135	1,708,135
Receivables	5	8,123	8,123
Other assets		9,000	9,000
Total current assets		1,725,258	1,725,258
Non-current assets			
Investment in controlled entity	8	-	193
Receivables	5	-	3,970,146
Plant and equipment	6	58,631	-
Exploration and evaluation expenditure	7	3,983,893	-
Total non-current assets		4,042,524	3,970,339
Total assets		5,767,782	5,695,597
Current liabilities			
Payables	9	102,959	82,416
Total current liabilities		102,959	82,416
Non-current liabilities			
Provisions		13,154	-
Total non-current liabilities		13,154	-
Total liabilities		116,113	82,416
Net assets		5,651,669	5,613,181
Equity			
Contributed equity	10	5,667,148	5,667,148
Accumulated losses	11	(15,479)	(53,967)
Total equity		5,651,669	5,613,181

The statement of financial position should be read in conjunction with the notes to the financial statements as set out on pages 17 to 35.

**LIVINGSTONE PETROLEUM LTD
STATEMENT OF CASH FLOWS
FOR THE 7 MONTH PERIOD ENDED 30 JUNE 2005**

	Note	Consolidated 2005 \$	Company 2005 \$
Cash flows from operating activities			
Interest received		17,915	17,915
Cash payments in the course of operations		(7,929)	(7,814)
Net cash from operating activities	12(a)	9,986	10,101
Cash flows from investing activities			
Payment for controlled entity		-	(193)
Payments for exploration and evaluation expenditure		(1,090,704)	-
Loan to controlled entity		-	(1,090,626)
Net cash used in investing activities		(1,090,704)	(1,090,819)
Cash flows from financing activities			
Transaction costs from issue of shares		(71,998)	(71,998)
Proceeds from issue of shares		2,859,626	2,859,626
Net cash from financing activities		2,787,628	2,787,628
Net increase/(decrease) in cash held		1,706,910	1,706,910
Cash at the beginning of the financial period		-	-
Effects of exchange rate fluctuations on the balances of cash held in foreign currencies		1,225	1,225
Cash at the end of the financial period	12(b)	1,708,135	1,708,135

The statement of cash flows should be read in conjunction with the notes to the financial statements as set out on pages 17 to 35.

1 Statement of significant accounting policies

(a) Basis of preparation

The financial report is a general purpose financial report which has been prepared in accordance with Accounting Standards, Urgent Issues Group Consensus Views, other authoritative pronouncements of the Australian Accounting Standards Board and the Corporations Act 2001.

It has been prepared on the basis of historical costs and except where stated, does not take into account changing money values or fair values of assets.

These accounting policies have been consistently applied by each entity in the consolidated entity.

(b) Principles of consolidation

Controlled Entities

The consolidated financial statements of the consolidated entity include the financial statements of the Company, being the parent entity, and its controlled entity ("the consolidated entity").

Where an entity either began or ceased to be controlled during the year, the results are included only from the date control commenced or up to the date control ceased. The balances and effects of transactions, between controlled entities included in the consolidated financial statements have been eliminated.

Joint Ventures

The consolidated entity's interests in unincorporated joint ventures are brought to account by including its proportionate share of joint venture operations' assets, liabilities and expenses and the consolidated entity's revenue from the sale of its share of output on a line-by-line basis, from the date joint control commences to the date joint control ceases.

(c) Revenue recognition

Interest revenue is recognised as it accrues, taking into effect the effective yield on the financial asset.

(d) Income tax

The consolidated entity adopts the income statement liability method of tax effect accounting.

Income tax expense is calculated on operating profit adjusted for permanent differences between taxable and accounting income. The tax effect of timing differences, which arise from items being brought to account in different periods for income tax and accounting purposes, is carried forward in the statement of financial position as a future income tax benefit or a provision for deferred income tax.

Future income tax benefits are not brought to account unless realisation of the asset is assured beyond reasonable doubt, or if relating to tax losses when realisation is virtually certain.

1 Statement of significant accounting policies (continued)

(e) Exploration and evaluation expenditure

Exploration and evaluation costs are accumulated in respect of each separate area of interest.

Exploration and evaluation costs are carried forward where right of 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 exploration and evaluation 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.

(f) Payables

Liabilities are recognised for amounts to be paid in the future for goods and services received. Accounts payable are normally settled within 30 days.

(g) Receivables

Receivables are carried at amounts due. The recoverability of debts is assessed throughout the year and specific provision is made for any doubtful accounts. Trade debtors are non-interest bearing and generally have repayment between 30 & 90 days terms.

(h) Goods and services tax

Revenues, 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 Australian Tax Office (ATO). 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 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.

(i) Recoverable amount of non-current assets

The carrying amounts of all non-current assets other than exploration and evaluation expenditure (see Note 1(e)) are reviewed at least annually to determine whether they are in excess of their recoverable amount. If the carrying amount of a non-current asset exceeds the recoverable amount, the asset is written down to the lower value. The write down is expensed in the reporting period in which it occurs.

In assessing recoverable amounts the relevant cash flows have not been discounted to their present value.

1 Statement of significant accounting policies (continued)

(j) Acquisition of assets

All assets acquired, including property, plant and equipment are initially recorded at their cost of acquisition at the date of acquisition, being the fair value of the consideration provided plus incidental costs directly attributable to the acquisition. Acquired in-process research and development is only recognised as a separate asset when future benefits are expected beyond any reasonable doubt to be recoverable.

(j) Acquisition of assets (continued)

When equity instruments are issued as consideration, their market price at the date of acquisition is used as fair value, except where the notional price at which they could be placed in the market is a better indication of fair value. Transaction costs arising on the issue of equity instruments are recognised directly in equity subject to the extent of proceeds received, otherwise expensed.

(k) Foreign currency

Transactions

Foreign currency transactions are translated to Australian currency at the rates of exchange ruling at the dates of the transactions. Amounts receivable and payable in foreign currencies at reporting date are translated at the rates of exchange ruling on that date.

Exchange differences relating to amounts payable and receivable in foreign currencies are brought to account as exchange gains or losses in the statement of financial performance in the financial year in which the exchange rates change.

(l) Translation of controlled foreign operations

The assets and liabilities of foreign operations, including controlled entities, that are integrated are translated using the temporal method. Monetary assets and liabilities are translated into Australian currency at rates of exchange current at reporting date, while non-monetary items and revenue and expense items are translated at exchange rates current when the transaction occurred. Exchange differences arising on translation are brought to account in the statement of financial performance.

(m) Depreciation and amortisation

All assets, including intangibles, have limited useful lives and are depreciated/amortised using the straight line method over their estimated useful lives, taking into account estimated residual values, with the exception of exploration, evaluation and development expenditure which has entered the production phase which is amortised on a units of production basis over the life of the economically recoverable reserves.

Assets are depreciated or amortised from the date of acquisition or, in respect of internally constructed assets, from the time an asset is completed and held ready for use.

Amortisation is not charged on costs carried forward in respect of areas of interest in the development phase until commercial production commences.

Depreciation and amortisation rates and methods are reviewed annually for appropriateness. When changes are made, adjustments are reflected prospectively in current and future periods only. Depreciation and amortisation are expensed, except to the extent that they are included in the carrying amount of another asset as an allocation of production overheads.

LIVINGSTONE PETROLEUM LTD
NOTES TO THE FINANCIAL STATEMENTS

1 Statement of significant accounting policies (continued)

(n) **Provisions**

A provision is recognised when there is a legal, equitable or constructive obligation as a result of a past event and it is probable that a future sacrifice of economic benefits will be required to settle the obligation, the timing or amount of which is uncertain.

If the effect is material, a provision is determined by discounting the expected future cash flows (adjusted for expected future risks) required to settle the obligation at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability most closely matching the expected future payments, except where noted below. The unwinding of the discount is treated as part of the expense related to the particular provision.

(o) **Investments**

Controlled entities

Investments in controlled entities are carried in the Company's financial statements at the lower of cost and recoverable amount.

(p) **Restoration**

Provisions for restoration costs relating to non-current assets are made for estimated costs relating to the removal of facilities, abandoning of wells and restoring the affected area as soon as the need is identified. Provisions are made for field rehabilitation and restoration on an incremental basis during the course of the fields life (which includes the well closure phase). Provisions are determined on an undiscounted basis and have been determined based on current costs, current legal requirements and current technology.

Changes in estimates are dealt with on a prospective basis.

Significant uncertainties exist as to the amount of restoration obligations that will be incurred due to the following factors:

- uncertainty as to the remaining life of existing operating sites; and
- the impact of changes in environmental legislation.

Assumptions have been made as to the remaining life of existing sites based on studies conducted by independent technical advisors. Such studies are conducted at least once in each three-year period.

2 Revenue from ordinary activities

	Consolidated	Company
	2005	2005
	\$	\$
(a) Revenues from non operating activities		
Interest	17,915	17,915
Total revenues from non operating activities	<u>17,915</u>	<u>17,915</u>

LIVINGSTONE PETROLEUM LTD
NOTES TO THE FINANCIAL STATEMENTS

3 Income Tax

	Consolidated	Company
	2005	2005
	\$	\$
(a) The prima facie tax on operating loss differs from the income tax provided in the financial statements as follows:		
Prima facie tax benefit on loss from ordinary activities:	(16,504)	(16,190)
Tax effect of permanent differences:	-	-
Non-deductible expenses	-	-
Future income Tax benefit not brought to account	16,504	16,190
Income tax expense attributable to ordinary activities	-	-
(b) Future income tax benefit not taken to account		
The potential future income tax benefit arising from tax losses and timing differences has not been recognised as an asset because recovery of tax losses is not virtually certain and recovery of timing differences is not assured beyond any reasonable doubt:	16,153	16,153
Tax losses carried forward at 30%	351	37
	16,504	16,190

The potential future income tax benefit will only be obtained if:

- i. the relevant company derives future assessable income of a nature and an amount sufficient to enable the benefit to be realised;
- ii. the relevant company complies with the conditions for deductibility imposed by the law; and
- iii. no changes in tax legislation adversely affect the relevant company in realising the benefit.

4 Cash Assets

Cash at bank and on hand	1,708,135	1,708,135
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5 Receivables

Current

Trade debtors	8,123	8,123
	8,123	8,123

Non Current

Loan to controlled entity	-	3,970,146
	-	3,970,146

The ultimate recoupment of the loan to the controlled entity is dependent on the successful development and commercial exploitation or sale of the respective mineral interests in the controlled entity.

LIVINGSTONE PETROLEUM LTD
NOTES TO THE FINANCIAL STATEMENTS

6 Property plant and equipment

	Consolidated	Company
	2005	2005
	\$	\$
Property, plant and equipment		
At cost	58,631	-
Accumulated depreciation	-	-
Total property, plant and equipment	<u>58,631</u>	<u>-</u>

Reconciliations of carrying amount of property, plant and equipment

Property, plant and equipment		
Carrying amount at beginning of year	-	-
Additions	58,631	-
Carrying amount at end of year	<u>58,631</u>	<u>-</u>

7 Deferred Exploration and Evaluation Expenditure

Costs carried forward in respect of areas of interest in:

Exploration and/or evaluation phase – at cost	<u>3,983,893</u>	<u>-</u>
Total exploration and evaluation expenditure	<u>3,983,893</u>	<u>-</u>

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

8 Investments

Investments in controlled entity	<u>-</u>	<u>193</u>
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	Country of Incorporation	Percentage of Equity Interest held by the consolidated entity 2005	Carrying value of investment 2005
		%	\$
Investments in controlled entity			
Livingstone Energy Incorporated	USA	100	193

The carrying value of the investments is dependent on the successful development and commercial exploitation or sale of the respective mineral interests held by the controlled entity.

LIVINGSTONE PETROLEUM LTD
NOTES TO THE FINANCIAL STATEMENTS

9 Payables

	Consolidated	Company
	2005	2005
	\$	\$
Trade creditors	102,959	82,416
	<u>102,959</u>	<u>82,416</u>

10 Contributed Equity

	Number of securities	Issued capital \$
Share capital		
<i>Fully paid</i>		
- 37,000,001 Shares	37,000,001	5,269,626
<i>Options</i>		
- 18,750,000 Options	18,750,000	479,520
Less: Cost of capital raising		(71,998)
	<u>55,750,001</u>	<u>5,677,148</u>

Options on Issue

- 17,500,000 Options exercisable at 30 cents each on or before 18 December 2009
- 1,250,000 Incentive Options exercisable at 20 cents each on or before 18 December 2009

Reconciliation of contributed equity

	Number of Securities	Issued securities \$
Issued Share Capital:		
Balance at incorporation	-	-
Issue of 2,500,000 Shares at 0.1 cents each (17 December 2004)	2,500,000	2,500
Issue of 7,500,001 Shares at 0.1 cent each (21 December 2004)	7,500,001	7,500
Issue of 15,000,000 Shares fully paid to 20 cents each under a prospectus dated 13 January 2005 (10 February 2005)	15,000,000	3,000,000
Less funds called on fully paid shares but not received until post 30 June 2005		(150,374)
Issue of 5,000,000 Shares at 20 cents each pursuant to the Nahahbedian Exploration Agreement (1 June 2005)	5,000,000	1,000,000
Issue of 7,000,000 Shares at 20 cents each pursuant to the Equity Participation Agreement (1 June 2005)	7,000,000	1,400,000
Total Issued Ordinary Share Capital	<u>37,000,001</u>	<u>5,259,626</u>

LIVINGSTONE PETROLEUM LTD
NOTES TO THE FINANCIAL STATEMENTS

10 Contributed Equity (continued)

Reconciliation of options

	Number of Securities	Issued securities \$
Balance at beginning of period	-	-
Issue of 2,000,000 Options exercisable at 30 cents each exercisable on or before 18 December 2009. (17 December 2004)	2,000,000	-
Issue of 1,250,000 Incentive Options exercisable at 20 cents exercisable on or before 18 December 2009, with 60,000 vesting each month effective from 1 June 2005 (17 December 2004)	1,250,000	-
Issue of 6,500,000 Options exercisable at 30 cents each exercisable on or before 18 December 2009. (21 December 2004)	6,500,000	-
Issue of 5,000,000 Options exercisable at 30 cents each pursuant to the Nahahbedian Exploration Agreement exercisable on or before 18 December 2009. (1 June 2005)	5,000,000	266,400
Issue of 4,000,000 Options exercisable at 30 cents each under the Equity Participation Agreement exercisable on or before 18 December 2009. (1 June 2005)	4,000,000	213,120
	<u>18,750,000</u>	<u>479,520</u>
Less Costs of capital raisings		<u>(71,998)</u>
Total contributed equity		<u>5,667,148</u>

11 Retained profits

	Consolidated 2005 \$	Company 2005 \$
Retained profits at beginning of the period	-	-
Net profit/(loss) attributable to members of the parent entity	(15,479)	(53,967)
Retained profits at end of the period	<u>(15,479)</u>	<u>(53,967)</u>

12 Statement of cash flows

(a) Reconciliation of the net loss after tax to the net cash flows from operations

Loss from ordinary activities after income tax	(15,479)	(53,967)
Add/(less) non cash items:		
Unrealised foreign exchange (gain)/loss	(40,755)	(1,225)
Net cash used in operating activities before change in assets and liabilities	<u>(56,234)</u>	<u>(55,192)</u>
Decrease/(Increase) in receivables	(8,123)	(8,123)

LIVINGSTONE PETROLEUM LTD
NOTES TO THE FINANCIAL STATEMENTS

12 Statement of cash flows (continued)

	Consolidated	Company
	2005	2005
	\$	\$
Decrease/(Increase) in other assets	(9,000)	(9,000)
(Decrease)/Increase in trade creditors	58,805	57,878
(Decrease)/Increase in payables	24,538	24,538
Net cash flow from operating activities	<u>9,986</u>	<u>10,101</u>

(b) Reconciliation of cash

Cash balance comprises:

- cash at bank	<u>1,708,135</u>	<u>1,708,135</u>
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(c) Non cash consideration for acquisition of Joint Venture Operations

The consolidated entity issued ordinary shares and options for nil cash consideration as part of the purchase consideration in a 50% interest in the Forbes Project joint venture. The fair value of the capital consideration was \$2,879,520.

13 Contingent liabilities and assets

The Company has no contingent liabilities or assets.

14 Commitments

The Company has the following expenditure commitments to be met over the next year.

Joint Venture Commitments

Share of development commitments of the joint venture, not provided for, and payable:

- within one year	<u>197,316</u>	<u>-</u>
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Exploration Expenditure Commitments

In order to maintain current rights of tenure to exploration tenements, the consolidated entity is required to perform minimum exploration work to meet the minimum expenditure requirements specified in the Exploration Agreement executed on 1 June 2005. These obligations are not provided for in the financial report and are payable:

- within one year	<u>2,367,798</u>	<u>-</u>
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Employee Remuneration Commitments- Directors

Commitments under non-cancellable employment contracts not provided for in the financial statements and payable:

- within one year	<u>130,000</u>	<u>130,000</u>
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LIVINGSTONE PETROLEUM LTD
NOTES TO THE FINANCIAL STATEMENTS

15 Auditors remuneration

	Consolidated	Company
	2005	2005
	\$	\$
Amounts received or due and receivable by KPMG for:		
- an audit or review of the financial report of the company	9,950	9,950
- other services in relation to the company	-	-
Total remuneration	<u>9,950</u>	<u>9,950</u>

16 Interest in joint venture operation

The Company holds an interest of 50% in the output of a joint venture operation named Forbes Project Joint Venture whose principal activity is gas production and exploration. During the year ended 30 June 2005, the Company together with the other venturers were tenants-in-common in various areas of production interest. For the year ended 30 June 2005, the contribution of the joint venture to the operating loss of the Company and the consolidated entity was a profit of \$38,487 for the period.

Included in the assets and liabilities of the Company and the consolidated entity are the following items which represent the Company's and the consolidated entity's interest in the assets and liabilities employed in the joint venture, recorded in accordance with the accounting policies described in Note 1(b).

	Consolidated	Company
	2005	2005
	\$	\$
Non current assets		
Exploration and evaluation expenditure	3,983,893	-
Plant and Equipment	58,631	-
Total Current Assets	<u>4,042,524</u>	<u>-</u>
Total Assets	<u>4,042,524</u>	<u>-</u>
Current Liabilities		
Provision for Rehabilitation and Restoration	13,154	-
Trade Creditors	20,541	-
Total Current Liabilities	<u>33,695</u>	<u>-</u>
Total Liabilities	<u>33,695</u>	<u>-</u>

17 Directors and executives disclosures

a. Details of specified directors and specified executives

(i) Specified directors

Mr Jim Malone B.Com, ASA – Chairman, Non Executive Director, Age 40, Appointed 17/12/04

Mr Craig Burton BJuris, LLB, MAICD – Executive Director, Age 42, Appointed 17/12/04

Mr Michael Fry B.Com, ASIA – Non Executive Director, Age 48, Appointed 17/12/04

b. Remuneration of specified directors and specified executives

(i) Remuneration Policy

The board of directors of Livingstone Petroleum Limited is responsible for determining and reviewing compensation arrangements for the directors and the executive team. The directors assess the appropriateness of the nature and amount of emoluments of such officers on a periodic basis by reference to relevant employment market conditions with the overall objective of ensuring maximum stakeholder benefit from the retention of a high quality board and executive team. Such officers are given the opportunity to receive their base emolument in a variety of forms including cash and fringe benefits such as motor vehicles and expense payment plans. It is intended that the manner of payment chosen will be optimal for the recipient without creating undue cost for the Company.

It is the remuneration committee's policy that employment agreements shall only be entered into with the executive director and with no other executives at this point in time. The current employment agreement with the executive director has a one month notice period.

The company was effectively dormant until 1 June 2005.

(ii) Remuneration of specified directors and specified executives

	Primary	Post Employment	
	Salary & Fees	Superannuation	Total
	\$	\$	\$
Specified Directors			
<i>Non-Executive</i>			
Jim Malone	-	-	-
Michael Fry	-	-	-
<i>Executive</i>			
Craig Burton	-	-	-
Total Specified Directors	-	-	-

(c) Remuneration options: granted and vested during the financial period

During the financial period no options were granted as equity compensation benefits to specified directors and specified executives.

(d) Shares issued on exercise of remuneration options

Nil

LIVINGSTONE PETROLEUM LTD
NOTES TO THE FINANCIAL STATEMENTS

17 Directors and executives disclosures (continued)

(e) Option holdings of specified directors and specified executives

The movement during the reporting period in the number of options over ordinary shares in Livingstone Petroleum Limited held, directly, indirectly or beneficially, by each specified director and specified executive, including their personally-related entities.

	Options			Incentive Options		
	Exercisable at 20 cents			Exercisable at 20 cents		
	Opening Balance	Acquired (i)	Held at 30 June 2005	Opening Balance	Acquired (i)	Held at 30 June 2005
Specified Directors						
Craig Burton	-	3,000,000	3,000,000			
Jim Malone				-	500,000	500,000
Michael Fry				-	500,000	500,000
	-	3,000,000	3,000,000	-	1,000,000	1,000,000

(i) The 3,000,000 options held by Mr Craig Burton are subject to 24 months escrow from the listing date of the Company. The incentive options vest at a rate of 20,000 per month from 1 June 2005.

(f) Shareholdings of specified directors and specified executives

The movement during the reporting period in the number of ordinary shares of Livingstone Petroleum Limited held, directly, indirectly or beneficially, by each specified director and specified executive, including their personally-related entities is as follows:

	Opening Balance	Purchases	Disposals	Held at 30 June 2005
Specified directors				
Craig Burton	-	3,800,000	-	3,800,000
	-	3,800,000	-	3,800,000

(h) Other transactions with specified directors and specified executives

No loans have been made during the financial period or the date of this report to any specified directors or specified executives. A number of specified directors and specified executives, or their personally-related entities, hold positions in other entities that result in them having control or significant influence over the financial or operating policies of those entities. A number of these entities transacted with the Company in the reporting period. The terms and conditions of those transactions were no more favourable than those available, or which might reasonably be expected to be available, on similar transactions to unrelated entities on an arm's length basis.

Transaction	Note	Consolidated 2005 \$	Company 2005 \$
Specified directors			
Craig Burton	(i)	50,000	50,000

(i) During the period, Verona Capital Pty Ltd, a Company associated with Mr Burton provided executive services to the Company for which the Company was invoiced \$50,000.

LIVINGSTONE PETROLEUM LTD
NOTES TO THE FINANCIAL STATEMENTS

18 Financial instruments

(a) Interest rate risk

The Company's exposure to interest rate risk and the effective weighted average interest rate for classes of financial assets and liabilities is set out below:

	Weighted Average Interest Rate	Floating Interest Rate \$	Non – Interest Bearing \$	Total \$
2005				
Financial assets				
<i>Current</i>				
Cash assets	3.26%	1,708,135	-	1,708,135
Receivables	-	-	8,123	8,123
<i>Non current</i>				
Receivables	-		3,970,146	3,970,146
		1,708,135	3,978,269	5,686,404
Financial liabilities				
<i>Current</i>				
Payables	-	-	102,957	102,957
<i>Non current</i>				
Payables	-	-	-	-
		-	102,957	102,957

b. Credit risk

The maximum exposure to credit risk, excluding the value of any collateral or other security, at balance date in portion to each class of recognised financial asset, is the carrying amount, net of any provisions for doubtful debts, as disclosed in the balance sheet and notes to the financial statements.

The Company does not have any material risk exposure to any single debtor or group of debtors.

c. Net fair values

Methods and assumptions used in determining net fair value.

For assets and other liabilities, the net fair value approximates their carrying value. No financial assets and financial liabilities are readily traded on organised markets in standardised form. The Company has no financial assets where carrying amount exceeds net fair values at balance date.

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

19 Subsequent events

The Company issued a prospectus on 11 August 2005 to raise \$3,000,000 through the issue of 15,000,000 ordinary shares at 20 cents, in order to raise further working capital for exploration programs on the Forbes Project and to pursue a listing on the Australian Stock Exchange (ASX). The capital raising was closed oversubscribed on 31 August 2005 and the Company successfully listed on the ASX on 14 September 2005.

Other than the issues detailed above, no further matters or circumstances have arisen since the end of the financial year which have significantly affected or may significantly affect the operations, results or state of affairs of the Company in subsequent financial years.

20 Segment information

During the year Livingstone Petroleum Limited operated in one business segment – mineral exploration, and in one geographical area – USA.

21 Impact of the adoption of international financial reporting standards

For reporting periods beginning on or after 1 January 2005, the consolidated entity must comply with Australian equivalents to International Financial Reporting Standards (AIFRS) as issued by the Australian Accounting Standards Board.

This financial report has been prepared in accordance with Australian Accounting Standards and other financial reporting requirements (Australian GAAP) applicable for reporting periods ended 30 June 2005.

Transition management

The board has established a formal implementation project, to assess the impact of transition to AIFRS and to achieve compliance with AIFRS reporting for the financial year commencing 1 July 2005.

The project is achieving its scheduled milestones and the consolidated entity is expected to be in a position to fully comply with the requirements of AIFRS for the 30 June 2006 financial year.

Assessment and planning phase

The assessment and planning phase generated a high level overview of the impacts of conversion to AIFRS on existing accounting and reporting policies and procedures, systems and processes, business structures and staff. This phase included:

- high level identification of the key differences in accounting policies and disclosures that are expected to arise from adopting AIFRS;
- assessment of new information requirements affecting management information systems, as well as the impact on the business and its key processes;
- evaluation of the implications for staff, for example training requirements; and
- preparation of a conversion plan for expected changes to accounting policies, reporting structures, systems, accounting and business processes and staff training.

The assessment and planning phase is completed as at 30 June 2005.

Design phase

The design phase formulated the changes required to existing accounting policies and procedures and systems and processes in order to transition to AIFRS. The design phase included a project team working on areas such as treasury operations, application of impairment requirements and transitional elections. The design phase incorporated:

- formulation of revised accounting policies and procedures for compliance with AIFRS requirements;
- identification of potential financial impacts as at the transition date and for subsequent reporting periods prior to adoption of AIFRS;

21 Impact of the adoption of international financial reporting standards (continued)

Design phase (continued)

- development of revised AIFRS disclosures;
- formulation of accounting and business processes to support AIFRS reporting obligations;
- identification of required changes to financial reporting and business source systems; and
- development of training programs for staff.

The design phase is completed as at 30 June 2005.

Implementation phase

The implementation phase includes implementation of identified changes to accounting and business procedures, processes and systems and operational training for staff and enables the consolidated entity to generate the required reconciliations and disclosures.

This phase is substantially completed as at 30 June 2005.

Impact of transition to AIFRS

The impact of transition to AIFRS, including the transitional adjustments disclosed are based on AIFRS standards that management expect to be in place, or where applicable, early adopted, when preparing the first complete AIFRS financial report (being the half-year ending 31 December 2005). Only a complete set of financial statements and notes together with comparative balances can provide a true and fair presentation of the Company's and consolidated entity's financial position, results of operations and cash flows in accordance with AIFRS. This note provides only a summary, therefore, further disclosure and explanations will be required in the first complete AIFRS financial report for a true and fair view to be presented under AIFRS.

Revisions to the selection and application of the AIFRS accounting policies may be required as a result of:

- changes in financial reporting requirements that are relevant to the Company's and consolidated entity's first complete AIFRS financial report arising from new or revised accounting standards or interpretations issued by the Australian Accounting Standards Board subsequent to the preparation of the 30 June 2005 financial report;
- additional guidance on the application of AIFRS in a particular industry or to a particular transaction; and
- changes to the Company's and consolidated entity's operations.

Where the application or interpretation of an accounting standard is currently being debated, the accounting policy adopted reflects management's current assessment of the likely outcome of those deliberations. The uncertainty relating to the accounting guidance is disclosed in the relevant accounting policy note and where practicable, the expected impact of the alternative interpretation is also disclosed.

21 Impact of the adoption of international financial reporting standards (continued)

Impact of transition to AIFRS (continued)

The rules for first time adoption of AIFRS are set out in AASB 1 First Time Adoption of Australian Equivalents to International Financial Reporting Standards. In general, AIFRS accounting policies must be applied retrospectively to determine the opening AIFRS balance sheet as at transition date, being 1 July 2004. As the company was not incorporated until 17 December 2004, an opening balance sheet as at 1 July 2004 and the associated retrospective adjustments has not been prepared.

The company and consolidated entity has identified the significant changes in accounting policies expected to be adopted in preparing the AIFRS reconciliation at 30 June 2005 and where possible the impact that such adjustments will have on the financial statements. These impacts are set out below:

(a) Reclassifications

AASB 101 prohibits the presentation of items of income or expense as extraordinary, either on the face of the income statement or in the notes. The nature and amount of material items will be disclosed separately in the notes to the financial statements.

Non-current assets classified as held for sale and the assets and liabilities of a disposal group classified as held for sale will be presented separately from other assets and liabilities on the balance sheet. A non-current asset (or disposal group) is classified as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use, the asset (or disposal group) is available for immediate sale in its current condition, and its sale is highly probable.

(b) Impairment

Under current Australian GAAP the carrying amounts of non-current assets valued on a cost basis, other than exploration and evaluation expenditure carried forward, are reviewed at reporting date to determine whether they are in excess of their recoverable amount. If the carrying amount of a non-current asset exceeds its recoverable amount the asset is written down to the lower amount, with the write-down recognised in the income statement in the period in which it occurs. Where a group of assets working together supports the generation of cash inflows, recoverable amount is assessed in relation to that group of assets. In assessing recoverable amounts, the relevant cash flows have not been discounted to their present value.

If there is any indication that an asset is impaired (or for those tested annually), the recoverable amount will be estimated for the individual asset. If it is not possible to estimate the recoverable amount for the individual asset, the recoverable amount of the cash generating unit to which the asset belongs will be determined.

A cash generating unit will be the smallest identifiable group of assets that generate cash inflows largely independent of the cash inflows of other assets or group of assets, each cash-generating unit must be no larger than a segment.

An impairment loss will be recognised whenever the carrying amount of an asset, or its cash generating unit, exceeds its recoverable amount. Impairment losses will be recognised in the income statement unless they relate to a revalued asset, where the impairment loss will be treated in the same way as a revaluation decrease.

21 Impact of the adoption of international financial reporting standards (continued)

Impact of transition to AIFRS (continued)

(b) Impairment (continued)

Impairment losses recognised in respect of a cash generating unit will be allocated first to reduce the carrying amount of any goodwill allocated to the cash generating unit and then to reduce the carrying amount of the other assets in the unit pro rata based on their carrying amounts.

At this time no adjustment is expected for the Company or Consolidated entity.

Calculation of recoverable amount

Under current Australian GAAP, the recoverable amount of non-current assets was assessed at an entity level using undiscounted cash flows.

Under AIFRS receivables carried at amortised cost will be calculated as the present value of estimated future cash flows, discounted at the original effective interest rate (i.e. the effective interest rate computed at initial recognition of these financial assets). Receivables with a short duration are not discounted.

The recoverable amount of other will be the greater of the fair value less costs to sell and the value in use. In assessing value in use, the estimated future cash flows will be discounted to their present value using a pre-tax discount rate that reflects the current market assessments of the risks specific to the asset or cash generating unit. Cash flows will be estimated for the asset or cash generating unit in its current condition and therefore will not include cash inflows and outflows improving or enhancing the asset's performance or expected to arise from future restructuring not yet committed to at testing date.

At this time no adjustment is expected for the Company or Consolidated entity.

(c) Taxation

On transition to AIFRS the balance sheet method of tax effect accounting will be adopted, rather than the liability method applied currently under Australian GAAP.

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

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 amount of deferred tax provided will be based on the expected manner of realisation of the asset or settlement of the liability, using tax rates enacted or substantively enacted at reporting date.

A deferred tax asset will be 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 will be reduced to the extent it is no longer probable that the related tax benefit will be realised. Management are still examining the impact of the standard on the Company and Consolidated entity and are unable to quantify the impact (if any) at this time.

21 Impact of the adoption of international financial reporting standards (continued)

Impact of transition to AIFRS (continued)

(d) Restoration and rehabilitation provisions

Under current Australian GAAP, provisions are made for rehabilitation and restoration on an incremental basis during the course of a fields life. The provision is determined on an undiscounted basis based on current costs, current legal requirements and current technology.

Under AIFRS, the present value of restoration obligations is recognised at commencement of the project where a legal or constructive obligation exists at that time. The provision is recognised as a non-current liability with a corresponding asset recognised in relation to the field interest. At each reporting date the rehabilitation liability is remeasured in line with changes in discount rates, and timing or amount of the costs to be incurred. As the assets are not revalued any changes in the liability are added or deducted from the related asset, other than the unwinding of the discount which is recognised as interest in the income statement as it occurs.

If the change in the liability results in a decrease in the liability that exceeds the carrying amount of the asset, the asset is written down to nil and the excess is recognised immediately in profit or loss. If the change in the liability results in an addition to the cost of the asset, the recoverability of the new carrying amount is considered. Where there is an indication that the new carrying amount is not fully recoverable an impairment test is performed (refer b).

Presently the consolidated entity has a single project interest, being the Forbes joint venture which was acquired with effect from 1 June 2005. As a component of the acquisition of the joint venture interest, the consolidated entity has recognised the expected liability in existence at the date of acquisition in regard to the restoration and rehabilitation of current areas of interest that the joint venture exploring and developing. The liability as recognised at acquisition fairly represents the value of the required restoration provision under AIFRS.

(e) Foreign currency

Financial statements of foreign operations

Under current Australian GAAP the assets and liabilities of operations that are integrated are translated using the temporal method. Monetary assets and liabilities are translated at rates of exchange at reporting date, while non-monetary items and revenue and expense items are translated at exchange rates current when the transactions occurred. Exchange differences arising on translation are brought to account in the statement of financial performance.

Under AIFRS each entity in the consolidated entity determines its functional currency, the currency of the primary economic environment in which the entity operates reflecting the underlying transactions, events and conditions that are relevant to the entity. The entity maintains its books and records in its functional currency.

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on consolidation, are translated from the entity's functional currency to the consolidated entity's presentation currency of Australian dollars at foreign exchange rates ruling at reporting date. The revenues and expenses of foreign operations are translated to Australian dollars at the exchange rates approximating the exchange rates ruling at the date of the transactions. Foreign exchange differences arising on translation are recognised directly in a separate component of equity.

21 Impact of the adoption of international financial reporting standards (continued)

Impact of transition to AIFRS (continued)

(e) Foreign currency

Financial statements of foreign operations (continued)

The consolidated group has made the following elections in respect of the Functional Currency:

Entity	Place of incorporation	Functional Currency
Livingstone Petroleum Limited	Australia	\$AUD
Livingstone Energy Inc	United States of America	\$USD

All foreign operations will be translated into Australian dollars using the method described above, the concepts of “self-sustaining” and “integrated” operations do not exist in the AIFRS framework.

(f) Financial instruments

The consolidated entity expects to take advantage of the election in AASB 1 to not restate comparatives for AASB 132 *Financial Instruments: Disclosure and Presentation* and AASB 139 *Financial Instruments: Recognition and Measurement*.

Responsibilities of the Board

The primary responsibility of the Board is to represent and advance shareholders' interests and to protect the interests of all stakeholders. To fulfil this role the Board is responsible for the overall corporate governance of the Company including its strategic direction, establishing goals for management and monitoring the achievement of these goals. The Board is required to do all things that may be necessary to be done in order to carry out the objectives of the Company.

The responsibilities of the Board include:

- Protection and enhancement of shareholder value.
- Formulation, review and approval of the objectives and strategic direction of the Company.
- Monitoring the financial performance of the Company by reviewing and approving budgets and monitoring results.
- Approving all significant business transactions including acquisitions, divestments and capital expenditure.
- Ensuring that adequate internal control systems and procedures exist and that compliance with these systems and procedures is maintained.
- The identification of significant business risks and ensuring that such risks are adequately managed.
- The review of performance and remuneration of executive directors and key staff.
- The establishment and maintenance of appropriate ethical standards.
- Evaluating and, where appropriate, adopting with or without modification the ASX Corporate Governance Council's Principles of Good Corporate and Best Practice Recommendations.

The Board recognises the need for the Company to operate with the highest standards of behaviour and accountability.

Composition of the Board and New Appointments

The Company currently has the following Board members:

Mr Craig Burton	Executive Director
Mr Jim Malone	Independent Non- Executive Chairman
Mr Michael Fry	Independent Non- Executive Director

The majority of the Board are independent in compliance with ASX Corporate Governance Council Recommendation 2.1.

The Board considers that the Company is not currently of a size nor are its affairs of such complexity to justify the appointment and further expense of additional independent non-executive directors. The Board believes that the individuals on the Board can make, and do make, quality and independent judgments in the best interests of the Company on all relevant issues.

If the Company's activities increase in size, nature and scope, the size of the Board will be reviewed periodically to determine the optimum number of directors required for the Board to properly perform its responsibilities and functions. In particular as the Company's activities increase, the Board may appoint a full-time managing director.

The membership of the Board, its activities and composition is subject to periodic review. The criteria for determining the identification and appointment of a suitable candidate for the Board will include the quality of the individual, background of experience and achievement, compatibility with other Board members, credibility with the Company's scope of activities, intellectual ability to contribute to the Board duties and physical ability to undertake the Board duties and responsibilities.

Directors are initially appointed by the full Board subject to election by Shareholders at the next annual general meeting. A managing director may be appointed for any period and on any terms the directors think fit and, subject to the terms of any agreement entered into, the Board may revoke any appointment.

Committees of the Board

The Board considers that the Company is not currently of a size, nor are its affairs of such complexity to justify the formation of separate or special committees at this time, with specific respect to recommendation 2.4, 4.2 and 9.2. The Board as a whole is able to address the governance aspects of the full scope of the Company's activities and to ensure that it adheres to appropriate ethical standards.

The full Board currently holds meetings at such times as may be necessary to address any general or specific matters as required.

If the Company's activities increase in size, nature and scope the size of the Board and the appointment of separate or special committees will be reviewed by the Board and implemented if appropriate.

Conflicts of Interests

Directors must:

- disclose to the Board actual or potential conflicts of interests that may or might reasonably be thought to exist between the interests of the Director and the interests of any other parties in carrying out the activities of the Company; and
- if requested by the Board, within seven days or such period as may be permitted, take such necessary and reasonable steps to remove any conflict of interest.

If a Director cannot, or is unwilling to, remove a conflict of interest then the Director must, as per the Corporations Act, absent himself or herself from the room when discussion and/or voting occurs on matters about which the conflict relates.

Independent Professional Advice

The Board has determined that each Director has the right to seek independent professional advice at the Company's expense, up to specified limits, to assist them to carry out their responsibilities.

Ethical Standards

The Board acknowledges the need for continued maintenance of the highest standard of corporate governance practice and ethical conduct by all Directors and employees of the Company.

Code of Conduct for Directors and Key Executives

The Board will be adopting a Code of Conduct for Directors and key executives so as to promote ethical and responsible decision making. The code will be based on the code of conduct for Directors prepared by the Australian Institute of Company Directors. The Company intends to comply with recommendations 4.1 and 7.2.

Continuous Disclosure to the ASX

The continuous disclosure policy will require all executives and Directors to inform the Chairman, or in his or her absence, the Company Secretary, of any potentially material information as soon as practicable after they become aware of that information.

Information is material if it is likely that the information would influence investors who commonly acquire securities on the ASX in deciding whether to buy, sell or hold the Company's securities.

The Chairman will be responsible for interpreting and monitoring the Company's disclosure policy and where necessary informing the Board. The Company Secretary is responsible for all communications with the ASX.

Dealings in Company Securities

The Company's trading policy prohibits any Company officer or employee from dealing with securities at any time whether he or she is in possession of unpublished information, which if generally available, might materially effect the price or value of those securities. Otherwise, an officer or employee is only allowed to trade the securities of the Company with prior notification to the Chairman (if the Chairman wishes to trade he must notify the Board). Trading is only permitted for two weeks following this notification and confirmation of any trading must be provided to the Chairman.

Identification of Risk

The Board is responsible for the oversight of the Company's risk management and control framework. The responsibility for control and risk management is delegated to the appropriate level of management within the Company with the Chairman and Company Secretary having ultimate responsibility to the Board for the risk management and control framework. Arrangements put in place by the Board to monitor risk management will include regular reporting to the Board in respect of operations and the financial position of the Company.

Role of Auditor

The Company's practice will be to invite the auditor to attend the annual general meeting and be available to answer Shareholder questions about the conduct of the audit and the preparation and content of the auditor's report.

Performance Review

The Board will be adopting a self-evaluation process to measure its own performance during each financial year. This process includes a review in relation to the composition and skills mix of the Directors of the Company.

ASX Corporate Governance Council Principles of Good Corporate Governance and Best Practice Recommendations

The Company is committed to implementing the highest standards of corporate governance. In determining what those high standards should involve, the Company has turned to the ASX Corporate Governance Council's Principles of Good Corporate Governance and Best Practice Recommendations.

The Company is presently considering the ASX Corporate Governance Council's Principles of Good Corporate Governance and Best Practice Recommendations to determine an appropriate system of control and accountability to best fit its business and operations commensurate with these guidelines. Once these policies are formalised and adopted by the Company, they will be made available on the Company's website.

The Company seeks to follow the best practice recommendations for listed companies where appropriate for its size and operations. In cases where the Company determines it would be inappropriate to follow the principles because of its circumstances, the Company will provide reasons for not doing so in its Annual Report.