



ABN 50 078 652 632

AND
CONTROLLED ENTITIES

INTERIM FINANCIAL REPORT

31 DECEMBER 2005



ABN 50 078 652 632

AND CONTROLLED ENTITIES

Incorporated under the Corporations Act 2001 in the State of Victoria on 2 June 1997.

INTERIM FINANCIAL REPORT

31 DECEMBER 2005

CORPORATE DETAILS

Directors

M.D.J. Cozijn B.Com. ASA – Chairman
B.H. McCarthy B.Sc. (Hons) PhD (Geology) – Managing Director
R.G. Barnes B.Sc. (Hons) – Technical Director
G.I. Johnson B.Sc. (Hons) PhD (Geology) – Non-Executive Director

Company Secretary

M.D.J. Cozijn B.Com. ASA

Registered & Principal Offices

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West Perth WA 6872
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Share Registry - Australia

Security Transfer Registrars Pty Ltd
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Applecross WA 6153
Australia

Share Registry – United Kingdom

Computershare Investor Services PLC
2nd Floor Vintners' Place
68 Upper Thames Street
London EC4V 3BJ
United Kingdom

Solicitors

Deacons
Level 31
108 St George's Terrace
Perth WA 6000
Australia

Maltman & Associates
First Floor
220 St Georges Terrace
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Auditors

Grant Thornton Western Australian Partnership
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DIRECTORS' REPORT

Your directors submit the financial report of the economic entity for the half year ended 31 December 2005 made in accordance with a resolution of the Board.

DIRECTORS

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

Mr Max D.J. Cozijn – Chairman
Dr Bruce H. McCarthy – Managing Director
Mr Ray G. Barnes (appointed 19/09/2005) – Technical Director
Dr Geoffrey I. Johnson – Non-Executive Director
Mr Simon L. Robertson (resigned 19/09/2005)

REVIEW OF OPERATIONS

The economic entity incurred a loss from ordinary activities after income tax of \$3,031,765. The Company adopts the policy of not carrying forward investments or capitalising exploration expenditure until an economic commercial discovery has been delineated.

Oilex is an oil exploration company dedicated to creating shareholder value through the discovery of commercial oil fields and their development.

HIGHLIGHTS FOR THE SIX MONTHS

- Farmin agreement executed for a 30% earning interest in the Cambay Field, onshore Gujarat State, India which is awaiting approval of the Ministry of Petroleum & Natural Gas with an anticipated grant expected during the first quarter 2006. Drilling is planned to commence during April 2006.
- Oilex concluded alliance agreements with three large Indian public sector companies including Gujarat State Petroleum Corporation Ltd (GSPC), Gas Authority of India Ltd (GAIL) and Hindustan Petroleum Corporation Ltd (HPCL) and its affiliate Prize Petroleum Company Ltd to develop exploration and production opportunities in India, Australia and the Indian Ocean rim.
- Oilex signed a similar alliance agreement with Videocon International Ltd, a large Indian public listed company.
- Farmed in and drilled the Donga-3 discovery well in ATP 805P in the Surat Basin with completion and long term production test scheduled for completion during the first quarter 2006.
- 2,667 barrels of oil were produced during the half year from Rookwood South-1 well in ATP 608P Rookwood Block and sold to Inland Oil Refinery. The total cumulative oil production to 31 December 2005 is 7,286 barrels.
- Water dump flood operations at ATP 608P Rookwood Block to improve the oil production rate and ultimate recovery at Rookwood South-1 well are planned to commence in the first quarter 2006.



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DIRECTORS' REPORT**

CORPORATE

Acquisition of Independence Oil & Gas Ltd

Oilex acquired 98.04% of the issued capital of the unlisted company Independence Oil & Gas Limited (IOGL) in December 2005. The consideration for the acquisition was 980,534 Oilex shares plus one free Oilex option exercisable at \$0.50 per share and expiring on 7 December 2008. The vesting of the shares and exercise of the options is conditional upon the acquisition by IOGL of an onshore petroleum permit in Timor L'Este (formerly East Timor) within the option period. All of these securities are subject to a 12 month voluntary escrow.

Capital Structure

At 31 December 2005, Oilex has a total issued capital of 50,014,319 ordinary shares after 3,011,446 shares were released from voluntary escrow in October and December 2005. 980,534 shares are in voluntary escrow until 6 December 2006.

In addition there are a total of 16,430,534 unlisted options exercisable at prices of between \$0.20 and \$1.50 per share.

ADOPTION OF AUSTRALIAN EQUIVALENTS TO IFRS

This interim financial report has been prepared under Australian equivalents to IFRS. A reconciliation of differences between previous GAAP and Australian equivalents to IFRS has been included in Note 2 of this report.

AUDITORS' INDEPENDENCE DECLARATION

The lead auditors' independence declaration under section 307C of the *Corporations Act 2001* is set out on page 3 for the half year ended 31 December 2005.

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

A blue ink signature of M.D.J. Cozijn, consisting of a large, stylized 'C' and 'J' followed by a horizontal line.

M.D.J. Cozijn
Chairman

A black ink signature of B.H. McCarthy, written in a cursive style.

B.H. McCarthy
Managing Director

Dated this 9th day of March 2006

Grant Thornton Western Australian Partnership
ABN 21 965 022 882
Chartered Accountants, Business Advisers and Consultants

AUDITOR'S INDEPENDENCE DECLARATION

In accordance with the requirements of section 307C of the Corporations Act 2001, as lead auditor for the review of Oilex NL for the half-year ended 31 December 2005, I declare that, to the best of my knowledge and belief, there have been:

- (a) no contraventions of the auditor independence requirements of the Corporations Act 2001 in relation to the review; and
- (b) no contraventions of any applicable code of professional conduct in relation to the review.

GRANT THORNTON WESTERN AUSTRALIAN PARTNERSHIP



SEAN MCGURK
Partner

Dated 9 March 2006

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

	ECONOMIC ENTITY	
	31 Dec 2005 \$	31 Dec 2004 \$
Revenues from ordinary activities	<u>340,256</u>	<u>156,093</u>
Employee benefits expense	(313,791)	(382,546)
Depreciation expense	(31,399)	(13,556)
Administration costs	(455,801)	(400,729)
Exploration expenditure	(2,515,306)	(2,913,259)
Other expenses from ordinary activities	<u>(55,724)</u>	<u>(109,316)</u>
Loss before income tax expense	(3,031,765)	(3,663,313)
Income tax expense	<u>-</u>	<u>-</u>
Loss from continuing operations after related income tax expense attributable to members of the parent entity	<u>(3,031,765)</u>	<u>(3,663,313)</u>
Overall Operations		
Basic loss per share (cents per share)	(7.1)	(9.89)
Diluted loss per share (cents per share)	(7.1)	(9.89)

The accompanying notes form part of these financial statements.



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CONSOLIDATED BALANCE SHEET
AS AT
31 DECEMBER 2005

	ECONOMIC ENTITY	
	31 Dec 2005 \$	30 June 2005 \$
CURRENT ASSETS		
Cash and cash equivalents	5,537,921	8,137,627
Trade and other receivables	363,301	29,327
Inventories	374,324	519,510
TOTAL CURRENT ASSETS	6,275,546	8,686,464
NON CURRENT ASSETS		
Property, plant & equipment	343,453	228,852
Other assets	81,335	64,535
TOTAL NON CURRENT ASSETS	424,788	293,387
TOTAL ASSETS	6,700,334	8,979,851
CURRENT LIABILITIES		
Trade and other payables	689,268	432,564
Short term provisions	144,063	130,480
TOTAL CURRENT LIABILITIES	833,331	563,044
TOTAL LIABILITIES	833,331	563,044
NET ASSETS	5,867,003	8,416,807
EQUITY		
Issued capital	17,341,537	17,039,127
Reserve	179,551	-
Accumulated losses	(11,654,085)	(8,622,320)
TOTAL EQUITY	5,867,003	8,416,807

The accompanying notes form part of these financial statements.



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

	ECONOMIC ENTITY			
	Share Capital Ordinary	Accumulated Losses	Option Reserve	Total
	\$	\$	\$	\$
Balance at 1 July 2004	5,295,262	(3,387,456)	-	1,907,806
Shares issued during the period	11,743,865	-	-	11,743,865
Losses attributable to members of the parent entity	-	(3,663,313)	-	(3,663,313)
Balance at 31 December 2004	17,039,127	(7,050,769)	-	9,988,358
Balance at 1 July 2005	17,039,127	(8,622,320)	-	8,416,807
Shares issued during the period	302,410	-	-	302,410
Options issued during the period	-	-	179,551	179,551
Losses attributable to members of the parent entity	-	(3,031,765)	-	(3,031,765)
Balance at 31 December 2005	17,341,537	(11,654,085)	179,551	5,867,003

The accompanying notes form part of these financial statements.



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

	ECONOMIC ENTITY	
	31 Dec 2005	31 Dec 2004
	\$	\$
CASH FLOWS FROM OPERATING ACTIVITIES		
Payments to suppliers and employees	(692,863)	(389,724)
Payments for exploration expenditure	(2,176,407)	(1,790,154)
Interest received	187,704	75,409
Proceeds from oil sales	124,986	-
Other income	139,857	5,249
Net cash (used in) operating activities	<u>(2,416,723)</u>	<u>(2,099,220)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Payments for property, plant and equipment	(134,498)	(145,171)
Proceeds from sale of property, plant & equipment	25,704	-
Purchase of interests in permits	(7,389)	(100,000)
Payments for environmental security bonds	(16,800)	(26,007)
Net cash flows (used in) investing activities	<u>(132,983)</u>	<u>(271,178)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from the issue of shares	-	12,000,000
Capital raising costs	-	(770,033)
Loans from other companies	-	10,843
Repayments from (loans to) other persons	-	33,772
AIM costs	(50,000)	-
Net cash flows provided by (used in) financing activities	<u>(50,000)</u>	<u>11,274,582</u>
Net increase (decrease) in cash held	(2,599,706)	8,904,184
Cash at 1 July 2005	<u>8,137,627</u>	<u>1,771,661</u>
Cash at 31 December 2005	<u>5,537,921</u>	<u>10,675,845</u>

The accompanying notes form part of these financial statements.



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

NOTE 1 - BASIS OF PREPARATION

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

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

As this is the first interim financial report prepared under Australian equivalents to IFRS, the accounting policies applied are inconsistent with those applied in the 30 June 2005 annual report as this report was presented under previous Australian GAAP. Accordingly, a summary of the significant accounting policies under Australian equivalents to IFRS has been included below. A reconciliation of equity, profit and loss between previous GAAP and Australian equivalents to IFRS has been included in Note 2.

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

ACCOUNTING POLICIES

(a) Principles of Consolidation

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

All controlled entities have a June financial year end.

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

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

Minority equity interests in the equity and results of the entities that are controlled are shown as a separate item in the consolidated financial report.

(b) Income Tax

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



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

NOTE 1 - BASIS OF PREPARATION (continued)

(b) Income Tax (continued)

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

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

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

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

(c) Property, Plant and Equipment

Each class of property, plant and equipment is carried at cost less, where applicable, any accumulated depreciation.

Plant and Equipment

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

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

Depreciation

The depreciable amount of all fixed assets including capitalised lease assets, but excluding computers, is depreciated on a reducing balance commencing from the time the asset is held ready for use. Computers are depreciated on a straight line basis over their useful lives to the economic entity commencing from the time the asset is held ready for use.



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

NOTE 1 - BASIS OF PREPARATION (continued)

(c) Property, Plant and Equipment (continued)

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

<i>Class of Fixed Asset</i>	<i>Depreciation Rate</i>
Motor Vehicles	22.5%
Plant & Equipment	15-50%
Office Equipment	10-40%

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

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

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

(d) Deferred Exploration and Evaluation Expenditure

Exploration, evaluation and development expenditure incurred is written off as the group has now elected to adopt the policy of not carrying forward investments or capitalising exploration expenditure until an economic commercial discovery has been delineated.

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

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

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

Restoration, rehabilitation and environmental costs necessitated by exploration and evaluation activities are expensed as incurred and treated as exploration and evaluation expenditure.

(e) Leases

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



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

NOTE 1 - BASIS OF PREPARATION (continued)

(f) Financial Instruments

Recognition

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

Loans and Receivables

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

Impairment

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

(g) Impairment of Assets

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

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

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

(h) Interest in Joint Ventures

The economic entity's share of the assets, liabilities, revenue and expenses of joint venture operations are included in the appropriate items of the consolidated income statement and balance sheet.

(i) Employee Benefits

Provision is made for the entity's liability for employee benefits arising from services rendered by employees to the balance date. Employee benefits expected to be settled within one year together with entitlements arising from wages and salaries and annual leave which will be settled after one year, have been measured at the amounts expected to be paid when the liability is settled, plus related on-costs.

Other employee benefits payable later than one year have been measured at the present value of the estimated future cash outflows to be made for those benefits.



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**NOTES TO THE FINANCIAL STATEMENTS
FOR THE HALF YEAR ENDED
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NOTE 1 - BASIS OF PREPARATION (continued)

(i) Employee Benefits (continued)

Contributions are made by the economic entity to employee superannuation funds and are charged as expenses when incurred.

Equity-settled Compensation

The group operates a share option arrangement. The total to be expensed over the vesting period is determined by reference to the fair value of the shares of the options granted.

(j) Provisions

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

(k) Cash and Cash Equivalents

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

(l) Revenue

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

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

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

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

(m) Goods and Services Tax (GST)

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

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



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

NOTE 1 - BASIS OF PREPARATION (continued)

(n) Comparative Figures

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

(o) Contributed Equity

Issued and paid up capital is recognised at the fair value of the consideration received by the company. Any transaction costs arising on the issue of ordinary shares are recognised directly in equity as a reduction of the share proceeds received.

(p) Inventories

Oil stocks and field consumables are valued at the lower of cost and net realisable value. Cost includes expenditure incurred in acquiring and bringing the inventories to their existing condition and location.

(q) Foreign Currency Transactions and Balances

Functional and Presentation Currency

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

Transactions and Balances

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

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

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



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

**NOTE 2 – FIRST TIME ADOPTION OF AUSTRALIAN EQUIVALENTS TO
INTERNATIONAL FINANCIAL REPORTING STANDARDS**

	ECONOMIC ENTITY		
	Previous GAAP At 1 July 2004 \$	Adjustments on Introduction of Australian Equivalent to IFRS \$	Australian Equivalents to IFRS at 1 July 2004 \$
Reconciliation of equity at 1 July 2004			
CURRENT ASSETS			
Cash and cash equivalents	1,771,661	-	1,771,661
Trade and other receivables	37,954	-	37,954
Other	89,778	-	89,778
TOTAL CURRENT ASSETS	1,899,393	-	1,899,393
NON CURRENT ASSETS			
Receivables	33,772	-	33,772
Property, plant & equipment	112,952	-	112,952
TOTAL NON CURRENT ASSETS	146,724	-	146,724
TOTAL ASSETS	2,046,117	-	2,046,117
CURRENT LIABILITIES			
Trade and other payables	132,944	-	132,944
Short term provisions	4,942	-	4,942
Other	425	-	425
TOTAL CURRENT LIABILITIES	138,311	-	138,311
TOTAL LIABILITIES	138,311	-	138,311
NET ASSETS	1,907,806	-	1,907,806
EQUITY			
Contributed equity	5,295,262	-	5,295,262
Accumulated losses	(3,387,456)	-	(3,387,456)
TOTAL EQUITY	1,907,806	-	1,907,806



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

**NOTE 2 – FIRST TIME ADOPTION OF AUSTRALIAN EQUIVALENTS TO
INTERNATIONAL FINANCIAL REPORTING STANDARDS (continued)**

**RECONCILIATION OF EQUITY
AT 31 DECEMBER 2004**

ECONOMIC ENTITY

	Previous GAAP At 31 Dec 2004 \$	Adjustments on introduction of Australian equivalent to IFRS \$	Australian equivalents to IFRS at 31 Dec 2004 \$
CURRENT ASSETS			
Cash and cash equivalents assets	10,675,845	-	10,675,845
Trade and other receivables	368,166	-	368,166
Inventories	190,121	-	190,121
TOTAL CURRENT ASSETS	11,234,132	-	11,234,132
NON CURRENT ASSETS			
Receivables	65,785	-	65,785
Property, plant & equipment	368,437	-	368,437
TOTAL NON CURRENT ASSETS	434,222	-	434,222
TOTAL ASSETS	11,668,354	-	11,668,354
CURRENT LIABILITIES			
Trade and other payables	1,645,698	-	1,645,698
Short term provisions	34,298	-	34,298
TOTAL CURRENT LIABILITIES	1,679,996	-	1,679,996
TOTAL LIABILITIES	1,679,996	-	1,679,996
NET ASSETS	9,988,358	-	9,988,358
EQUITY			
Issued capital	17,039,127	-	17,039,127
Accumulated losses	(7,050,769)	-	(7,050,769)
TOTAL EQUITY	9,988,358	-	9,988,358



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

**NOTE 2 – FIRST TIME ADOPTION OF AUSTRALIAN EQUIVALENTS TO
INTERNATIONAL FINANCIAL REPORTING STANDARDS (continued)**

**RECONCILIATION OF EQUITY
AT 30 JUNE 2005**

	ECONOMIC ENTITY		
	Previous GAAP At 30 June 2005 \$	Adjustments on introduction of Australian equivalent to IFRS \$	Australian equivalents to IFRS at 30 June 2005 \$
CURRENT ASSETS			
Cash and cash equivalents	8,137,627	-	8,137,627
Trade and other receivables	29,327	-	29,327
Inventories	519,510	-	519,510
TOTAL CURRENT ASSETS	8,686,464	-	8,686,464
NON CURRENT ASSETS			
Other assets	64,535	-	64,535
Property, plant & equipment	228,852	-	228,852
TOTAL NON CURRENT ASSETS	293,387	-	293,387
TOTAL ASSETS	8,979,851	-	8,979,851
CURRENT LIABILITIES			
Trade and other payables	432,564	-	432,564
Short term provisions	130,480	-	130,480
TOTAL CURRENT LIABILITIES	563,044	-	563,044
TOTAL LIABILITIES	563,044	-	563,044
NET ASSETS	8,416,807	-	8,416,807
EQUITY			
Issued capital	17,039,127	-	17,039,127
Accumulated losses	(8,622,320)	-	(8,622,320)
TOTAL EQUITY	8,416,807	-	8,416,807



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

**NOTE 2 – FIRST TIME ADOPTION OF AUSTRALIAN EQUIVALENTS TO
INTERNATIONAL FINANCIAL REPORTING STANDARDS (continued)**

	ECONOMIC ENTITY		
	Previous GAAP	Effect of transition to Australian equivalent to IFRS	Australian equivalents to IFRS
	\$	\$	\$
Reconciliation of Profit and Loss for the half year ended 31 December 2004			
Revenue from ordinary activities	156,093	-	156,093
Employee benefits expense	(382,546)	-	(382,546)
Depreciation expense	(13,556)	-	(13,556)
Administration costs	(400,729)	-	(400,729)
Exploration expenditure	(2,913,259)	-	(2,913,259)
Other expenses from ordinary activities	(109,316)	-	(109,316)
Loss before income tax expense	(3,663,313)	-	(3,663,313)
Income tax expense	-	-	-
Net loss attributable to members of the parent entity	(3,663,313)	-	(3,663,313)
Reconciliation of Profit & Loss for the year ended 30 June 2005			
Revenue from ordinary activities	524,698	-	524,698
Employee benefits expense	(435,395)	-	(435,395)
Depreciation expense	(39,362)	-	(39,362)
Administration costs	(530,477)	-	(530,477)
Consultancy costs	(460,322)	-	(460,322)
Exploration expenditure	(4,161,506)	-	(4,161,506)
Book value of assets sold	(7,500)	-	(7,500)
Provision for restoration	(125,000)	-	(125,000)
Loss before income tax expense	(5,234,864)	-	(5,234,864)
Income tax expense	-	-	-
Net loss attributable to members of the parent entity	(5,234,864)	-	(5,234,864)



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

**NOTE 2 – FIRST TIME ADOPTION OF AUSTRALIAN EQUIVALENTS TO
INTERNATIONAL FINANCIAL REPORTING STANDARDS (continued)**

(a) Income Tax

Previously, the economic entity adopted the liability method of tax-effect accounting whereby the income tax expense was based on the accounting profit adjusted for any permanent differences. Timing differences were brought to account as either a provision for deferred income tax or future income tax benefit.

Under AASB 112: Income Taxes, the entity is required to adopt a balance sheet approach under which temporary differences are identified for each asset and liability rather than the effects of the timing and permanent differences between taxable income and accounting profit.

The financial effect of this impact is nil due to the Company's unutilised available tax losses and the uncertainty over whether they will be realised in the future.

(b) Non-Current Investments

Under AASB 139: Financial Instruments: Recognition and Measurement, financial assets are required to be classified into four categories, which determines the accounting treatment of the item. The categories and various treatments are:

- held to maturity, measured at amortised cost;
- held for trading, measured at fair value with unrealised gains or losses charged to the profit and loss;
- loans and receivables, measured at amortised cost; and
- available for sale instruments, measured at fair value with unrealised gains or losses taken to equity.

Under AASB 139: Financial Instruments: Recognition and Measurement, the measurement of available for sale instruments at fair value differs to previous accounting policy which measured non-current investments at cost with an annual review by directors to ensure the carrying amounts were not in excess of the recoverable value of the instrument. AASB 139 has prospective application for years commencing on or after 1 January 2005.

(c) Impairment of Assets

Under AASB 136: Impairment of Assets, the recoverable amount of an asset is determined as the higher of fair value less costs to sell and value in use. In determining value in use, projected future cash flows are discounted using a risk adjusted pre-tax discount rate and impairment is assessed for the individual asset or at the 'cash generating unit' level. A 'cash generating unit' is determined as the smallest group of assets that generates cash flows that are largely independent of the cash inflows from other assets or groups of assets. The previous policy was to determine the recoverable amount of an asset on the basis of undiscounted net cash flows that would be received from the asset's use and subsequent disposal.

No material impact has been assessed on prior periods stated under previous accounting policies as the carrying values are considered to be supported by either an assets fair value less costs to sell or its value in use.



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AND CONTROLLED ENTITIES

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

NOTE 3 – CHANGE IN ACCOUNTING POLICY

Deferred Exploration and Evaluation Expenditure

The economic entity changed its accounting policy for the half year ending 31 December 2005 relating to deferred exploration and evaluation expenditure.

Exploration, evaluation and development expenditure incurred were previously either written off as incurred or accumulated in respect of each identifiable area of interest. Costs were only carried forward to the extent that they were expected to be recouped through the successful development of the area, sale of the respective areas of interest or where activities in the area had not yet reached a stage which permits reasonable assessment of the existence of economically recoverable reserves.

The group has now elected to adopt the policy of not carrying forward investments or capitalising exploration expenditure until an economic commercial discovery has been delineated. The aggregate effect of the change in accounting policy on the half year financial statements to 31 December 2005 is as follows (no taxation effect results from these changes):

Economic Entity

	Previously Stated Dec 2005 \$	Adjustment Dec 2005 \$	Restated Dec 2005 \$
Income Statement			
Exploration expenditure	(2,094,776)	(420,530)	(2,515,306)
Balance Sheet			
Deferred exploration and evaluation expenditure	420,530	(420,530)	-
Basic loss per share (cents per share)	(6.1)	(1.0)	(7.1)
Diluted loss per share (cents per share)	(6.1)	(1.0)	(7.1)

	Previously Stated Dec 2004 \$	Adjustment Dec 2004 \$	Restated Dec 2004 \$
Income Statement			
Exploration expenditure	(2,699,361)	(213,898)	(2,913,259)
Balance Sheet			
Deferred exploration and evaluation expenditure	213,898	(213,898)	-
Basic loss per share (cents per share)	(9.31)	(0.58)	(9.89)
Diluted loss per share (cents per share)	(9.31)	(0.58)	(9.89)

	Previously Stated 1 July 2004 \$	Adjustment 1 July 2004 \$	Restated 1 July 2004 \$
Accumulated Losses			
Adjustment to opening accumulated losses	(1,256,456)	(2,131,000)	(3,387,456)



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**NOTES TO THE FINANCIAL STATEMENTS
FOR THE HALF YEAR ENDED
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NOTE 4 - ACQUISITION OF SUBSIDIARY

Acquisition of Independence Oil & Gas Ltd

The parent entity acquired 98.04% of the issued capital of the unlisted company Independence Oil & Gas Limited (IOGL) in December 2005. The consideration for the acquisition was 980,534 Oilex shares at an issue price of \$0.30 each, plus one free Oilex option exercisable at \$0.50 per share and expiring on 7 December 2008. The issue was based on the market price on the date of purchase. The vesting of the shares and exercise of the options is conditional upon the acquisition by IOGL of an onshore petroleum permit in Timor L'Este (formerly East Timor) within the option period. All of these securities are subject to a 12 month voluntary escrow.

Purchase consideration	\$404,889
Equity issued as consideration	\$404,889
Fair value of assets acquired	<u>-</u>
Goodwill	<u>\$404,889</u>

NOTE 5 - SEGMENT INFORMATION

Primary Reporting- Geographic Segments

	Australia	India	Economic Entity
	\$	\$	\$
2005			
Total segment revenue	<u>340,256</u>	<u>-</u>	<u>340,256</u>
Segment result	(2,391,490)	(640,275)	(3,031,765)
Income tax expense	<u>-</u>	<u>-</u>	<u>-</u>
Loss after income tax	<u>(2,391,490)</u>	<u>(640,275)</u>	<u>(3,031,765)</u>
2004			
Total segment revenue	<u>156,093</u>	<u>-</u>	<u>156,093</u>
Segment result	(3,663,313)	-	(3,663,313)
Income tax expense	<u>-</u>	<u>-</u>	<u>-</u>
Loss after income tax	<u>(3,663,313)</u>	<u>-</u>	<u>(3,663,313)</u>

NOTE 6 – CONTINGENT LIABILITIES

With the exception of the Company's amended commitment as set out in Note 7 (a) below, there has been no change in contingent liabilities since the last annual reporting date.



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

NOTE 7 – SUBSEQUENT EVENTS

(a) Oilex & India Joint Venture Partners Execute EPP27 Farmin Agreements

On 28 February 2006 Oilex and two key players in the Indian oil and gas sector, Gujarat State Petroleum Corporation Ltd and Videocon Industries Ltd, finalised farmin and joint operating agreements over Great Artesian Oil & Gas Ltd's EPP27 permit in the Otway Basin, South Australia. The agreements are aimed at formalising the terms of a letter agreement, originally entered into between Oilex and Great Artesian Oil & Gas Ltd whereby Oilex could earn a 60% participating interest in EPP27 subject to completing a well commitment. Under arrangements introducing the Indian companies, each of the three parties are entitled to earn a 20% participating interest in EPP27 by funding (in equal portions) a \$2 million seismic program followed by the drilling of an exploration well with Great Artesian Oil & Gas Ltd retaining a 40% participating interest in EPP27.

(b) Oilex NL Commences Trading on the AIM Market

On 16 February 2006, ordinary shares of Oilex NL were admitted to trading on the AIM market of the London Stock Exchange. Oilex shares will also continue to be listed on the Australian Stock Exchange.

(c) LinQ Mezzanine Finance Facility of A\$5 Million

On 20 February 2006 an agreement with LinQ Resources Fund for the provision of an A\$5 million mezzanine finance facility to assist Oilex in funding the development of its Indian production interests, including the drilling of the Cambay Field (with Oilex as operator) was reached. The Cambay development program is in the final stages of preparation for presentation to the Cambay joint venture partners for approval in March 2006. As part of this facility, 5 million unlisted options exercisable at \$0.50 over a four year term are to be issued, with a portion subject to shareholder approval.

The financial affect of the above events has not been brought to account at balance date.



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AND CONTROLLED ENTITIES

DIRECTORS' DECLARATION

The directors of the company declare that:

- (a) The financial statements and notes, as set out on pages 4-21:
 - (i) comply with Accounting Standard AASB134: Interim Financial Reporting and the *Corporations Regulations 2001*; and
 - (ii) give a true and fair view of the economic entity's financial position as at 31 December 2005 and of its performance for the half year ended on that date.
- (b) In the directors' opinion there are reasonable grounds to believe that the company will be able to repay its debts as and when they become due and payable.

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

A handwritten signature in blue ink, appearing to be "M.D.J. Cozijn".

M.D.J. Cozijn
Chairman

A handwritten signature in black ink, appearing to be "B.H. McCarthy".

B.H. McCarthy
Managing Director

Perth, Western Australia
9th March 2006

INDEPENDENT REVIEW REPORT TO THE MEMBERS OF OILEX NL

Scope

The half-year financial report and directors' responsibility

The half-year financial report comprises the balance sheet, income statement, statement of changes in equity, cash flow statement, notes to the financial statements and the directors' declaration for the consolidated entity, for the half-year ended 31 December 2005. The consolidated entity comprises both the Oilex NL (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 half-year 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 half-year financial report.

Review approach

We conducted an independent review of the half-year financial report in order to state whether, on the basis of the procedures described, anything has come to our attention that would indicate that the half-year financial report is not presented fairly in accordance with Accounting Standard AASB 134: *Interim Financial Reporting* and other mandatory professional reporting requirements in Australia and statutory requirements so as to present a view which is consistent with our understanding of the consolidated entity's financial position and performance as represented by the results of its operations and its cash flows, and in order for the company to lodge the half-year financial report with the Australian Securities & Investments Commission/Australian Stock Exchange Limited.

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

Independence

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

In accordance with ASIC Class Order 05/83, we declare to the best of our knowledge and belief that the auditor's independence declaration has not changed as at the date of providing our review opinion.

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Statement

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Oilex NL is not in accordance with:

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

GRANT THORNTON WESTERN AUSTRALIAN PARTNERSHIP



SEAN MCGURK
Partner

Dated 9 March 2006

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