GREAT ARTESIAN OIL AND GAS LIMITED

ABN 44 078 607 682

Half-year report

for the six month period ended 31 December 2005

Contents

Directors' report

Your directors present their report on the results of Great Artesian Oil and Gas Limited ("the company") for the half-year ended 31 December 2005. In order to comply with the provisions of the Corporations Act 2001, the directors report as follows:

Directors

The following persons were directors of the company during the whole of the half-year and up to the date of this report:

Norman J Zillman B.Sc (Hons) (Non-Executive Chairman)

Raymond D Shaw BSc (Hons), PhD, M Aus IMM (Managing Director)

Michael P Callahan B.A., MBA (Non-Executive Director)

Principal activities

Exploration for commercial hydrocarbon accumulations within the company's petroleum prospects in the onshore Cooper, Eromanga and Surat Basins as well as the offshore Otway Basin.

Review of operations

A summary of the results for the half-year is set out below:

Operations of the company concentrated on seismic acquisition and drilling operations in PELs 106 and 107 of the South Australian Cooper Basin. In addition negotiations were finalised for the sale of gas and construction of a pipeline from the Smegsy new field gas discovery and for the first sale of crude oil from the Kiana-1 oil and gas discovery with the South Australian Cooper Basin Producers (SACBP).

PEL 106

During the period two seismic surveys and the drilling of one exploration well have been undertaken within the permit. The Karla Seismic Survey comprised 136.4 km of 2D seismic data, designed to provide "infill" seismic control across a number of potential drillable targets across the central and north-western portions of the permit. This survey was completed in October 2005. Data acquired during the Karla Seismic Survey are currently being processed, prior to interpretation. Immediately following completion of the Karla Seismic Survey, acquisition commenced on the second survey, the Paranta 3D Seismic Survey. This is the first 3D seismic survey conducted by the company and it was designed to provide high-fidelity seismic coverage across a number of relatively low relief potential targets in and around the Nutmeg and Paranta areas of the permit. The total survey covered an area of 82.5 sq km. The survey was completed in early November 2005 and funded by Everdue Pty Ltd, under the terms of a farmin agreement. Currently the data are being processed, prior to interpretation. It is anticipated that this survey will provide potential up-dip locations for exploration or appraisal drilling across the Paranta structure. Initial results indicate that the data quality is good and that the pre-survey objectives will be met.

Rossco-1, a permit year 2 commitments well, was spudded on 14 December 2005 and reached total depth of 3050m within the Tirrawarra Formation on 29 December 2005. At the end of the period wire line logs were being run and subsequently a decision was made to case and suspend the well as a potential future new field gas discovery. Independent interpretation of wire-line logs, including a comprehensive formation pressure data set, has confirmed the likely presence of several combined gas and or gas/oil bearing zones. Following the mechanical failure of open-hole drill stem test ("DST") #1, it was decided that no further open-hole DSTs would be attempted, but that a cased hole production testing program will be designed to determine the specific nature, quantity and flow rates of hydrocarbons within a number of net pay zones, interpreted by independent consultants from the wire-line log data. Rossco-1 is being cased and suspended as a potential future gas and/or oil producer, pending the outcome of the cased hole production testing, timing of which will depend upon the availability of a suitable work-over rig.

Directors' report (continued)

Review of operations (continued)

Rossco-1, intersected a number of interpreted hydrocarbon bearing zones within the primary Patchawarra Formation as well as within the Toolachee and Tirrawarra formations. Rossco-1 is located approximately 6 km north of the Jack Lake Gas Field, 5 km west of the Nephrite Gas Field, 8 km south of the Paranta-1 and 7 km northeast of the Smegsy new field gas discovery.

During the period the company, as operator of the Smegsy Block Joint Venture, finalized a gas sales agreement with the Santos lead SACBP for firstly, the sale of gas from the Smegsy new field gas discovery, and secondly, the construction and maintenance of the pipeline and well head facilities. Although the details of the sales agreement remain confidential in broad terms the contract provides for the purchase of raw gas and payment for sales gas, liquefied petroleum gas (LPG) and condensate components for a period of up to 3 years. The contract provides for flexible production consistent with a single well head, Smegsy gas field. The pipeline construction and maintenance agreement provides for the SACBP to construct and maintain the 4.5 km pipeline tie-in connection from Smegsy to existing SACBP pipeline facilities. Fully funded by the Smegsy Joint Venture this pipeline construction contract will ensure that there is total compatibility between technical specifications of the tie-in pipeline and existing infra-structure. Moreover, an on-going maintenance and operating agreement with the SACBP will ensure that Smegsy gas production will be relatively seamlessly incorporated into existing gas production facilities at Moomba which is owned and operated by the SACBP.

These are the first contracts of this nature entered into by the SACBP with a third party and as such it represents a significant signal to industry that junior explorers can discover and commercialize gas accumulations in an area where production has previously been in the exclusive domain of the Santos Ltd led SACBP consortia. The significance of this was recognised in a press-release by the South Australian Acting Minister of Mineral Resources, the Hon. Patrick Conlon, made on 1 September 2005.

Following mapping of the Udacha Prospect, the company entered into a negotiation with Beach Petroleum Limited ("Beach") for the unitization of the prospect which straddles both PELs 91 and 106. The agreement will provide for the company retaining a 70% interest in the prospect, subject to subsequent farmouts.

During the period the company entered into a number of farmin agreements concerning prospects in PEL 106. Under the terms of a Heads of Agreement signed with Enterprise Energy N.L. ("Enterprise"), Enterprise agreed to participate in the drilling of four low-risk oil and gas prospects located in the company's brownfields PEL 106 by funding 25% of the drilling costs of four wells, including Rossco-1 and Udacha-1. The remaining two wells will be drilled during 2006 also on prospects also within PEL 106, once a suitable drill rig can be obtained. The agreement provides for Enterprise to earn a 12.5% interest in any subsequent production licence if drilling results in a commercial discovery. The agreement was conditional upon Enterprise successfully completing a capital raising with Bell Potter Securities Limited, which has now been satisfied.

The company also signed two farmin agreements with Blue Energy Pty Ltd ("Blue Energy") by which its two wholly owned subsidiaries will participate in the Paranta and Rossco Prospects. Under the terms of the first farmin agreement Blue Energy's wholly owned subsidiary Everdue Pty Ltd (ACN 116 290 441) ("Everdue") has provided $850,000 to fund the acquisition of 3D seismic data across the Paranta Farmin Block in PEL 106 with an option until 31 March 2006 in which to elect to fully fund an exploration well within the 3D seismic survey area in order to earn a 50% interest in any production licence resulting from a commercial discovery. Everdue will also have options to drill subsequent farmin wells on similar terms within the Paranta Farmin Block. Under the terms of the second farmin agreement Blue Energy's wholly owned subsidiary Kompliment Pty Ltd (ACN 116 828 945) funded 75% of the Rossco-1 well in order to earn a 37.5% interest in any production licence should that well result in a commercial discovery.

Directors' report (continued)

Review of operations (continued)

Also during the period a Heads of Agreement involving a farmin with Magellan Petroleum (Southern) Pty Ltd, a wholly-owned subsidiary of Magellan Petroleum Australia Limited ("Magellan"), was signed whereby Magellan has an option to participate in the drilling of exploration wells within the permit, following its earlier decision to participate in the funding of 60% of the drilling costs for the Kiana-1 and Tyringa-1 in PEL 107. Following the drilling of those wells Magellan has indicated that it will participate, on similar terms, in the drilling of Udacha-1, which will test the Udacha Prospect which lies across PELs 91 and 106.

During the period Rawson Resources Limited ("Rawson") also agreed to participate in a farmin to the Udacha Block, and by funding 20% of the well costs it will earn a 10% interest in any subsequent production licence.

Following application to the Primary Industry and Resources South Australia ("PIRSA") the company has successfully sought to have the Year 2 work program modified so that Udacha-1 will count as a PEL 106 commitment well and expenditure for acquisition and processing of the Paranta 3D seismic will also count as an effective commitment well. These changes will ensure that the desired exploration program and expenditure will keep the permit in good-standing at the end of the current permit year.

PEL 107

In PEL 107 the company participated in the drilling of two, relatively shallow, oil prospects. Both wells were subject to farmin by Magellan, whereby it agreed to pay the company's costs for drilling these wells in order to earn a 30% interest in any subsequent production licence in the event of a commercial discovery. The first well, Kiana-1 spudded on 18 August 2005. This well was completed as an oil and gas producer on 15 September 2005 having reached a total depth of 2017 m. Five drill stem tests were conducted during the drilling of this well. Of these drill stem test #4 resulted in a flow of 2.8 million cubic feet of gas, and 1100 barrels of oil, per day from the interval 1939 – 1948 m. Wire line logs and formation pressure testing suggested that other zones could also contain hydrocarbons. However, because of deteriorating hole, conditions it was not possible to conduct any further tests prior to the hole being cased and suspended as a future oil and gas producer. Subsequently, and following installation of two 880 barrel storage tanks and a separator, production testing was conducted over an approximate 2 week period commencing on 12 November 2005. This first phase of production testing yielded a total production of 4,959 barrels of oil and no water. The well was shut in for pressure build-up tests from the 21 November 2005 until 6 December 2005.

Immediately following the drilling of Kiana-1, the Century Resources Rig moved to the Tyringa-1 well location, also within PEL 107. This well was drilled to a total depth of 1972 m. The well was subsequently plugged and abandoned on 4 October 2005 after DST#1, conducted over an interval 1403.5-1411.0m within the Mc Kinlay Member, failed to produce any hydrocarbons.

In October 2005, the operator conducted the Discus Seismic Survey, a 73 km 2D seismic survey designed to provide infill seismic coverage across a number of potential drillable targets. At the end of the period the seismic data were still being processed. Also in October Rawson collected over 600 geochemical soil samples as part of a program to select a suitable drilling target in the Appadare Farmin Block. Under the terms of their farmin agreement Rawson will fully fund an exploration well and earn a 50% interest in any subsequent production licence in the event that their farmin well results in a commercial discovery.

Following interpretation of the Kiana-1, phase one production testing the operator was granted permission by PIRSA to conduct extended production testing for a 6 month period. This phase of production testing commenced on 15 December 2005.

Directors' report (continued)

Review of operations (continued)

During the period Rawson, having successfully completed its Initial Public Offering, confirmed its intention to commit to its farmin obligations within the so-called Appadare Farmin Block, located in the western portion of PEL 107. As already mentioned these involved undertaking a geochemical survey, and fully funding an exploration well, in order to earn a 50% interest in any subsequent commercial discovery.

PEL 91

During the period seismic data acquired as part of the Mytilus PEL 91 2D Seismic Survey, was processed by the operator Beach. At the end of the period the interpretation of this seismic survey had not been completed. Also, during the period Beach and the company continued negotiations on a unitization agreement involving the Udacha prospect. As outlined elsewhere in this report under PEL 106, the Udacha Prospect is subject to a number of farmins.

EPP 27

Negotiations for a Farmin Agreement and Joint Operating Agreement were being continued during the period with Oilex NL ("Oilex"), which is farming into the permit. Under the terms of a Letter Agreement, Oilex has committed to fully fund the drilling of a well during the permit year 6. No field operations were conducted during the period. On 28 December 2005 the company advised the ASX that it had received notification from the Commonwealth – South Australia Offshore Petroleum Joint Authority that its application to put EPP 27 into suspension for a period of up to 12 months from the 21 December 2005, because of the unavailability of a suitable drilling vessel, had been approved. The term of the licence has now been extended until 24 February 2007. This suspension will enable the permit to remain in good-standing whilst arrangements are made to satisfy the permit year 6 work program commitment. The company has also advised Oilex that it is to conclude its negotiations for a farmin and joint venture terms, as contemplated by the Letter Agreement, by not later than 27 February 2006.

ATP 552

During the period Rawson confirmed its intention to drill an under-balanced exploration well, in order to earn a 50% participating interest within the permit. No field operations were conducted during the period.

Adoption of Australian Equivalents to IFRS

This half-year 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 6 of this report.

Auditor's independence declaration

The audit partner's independence declaration under section 307C of the Corporations Act 2001 is set out on page 7 for the half-year ended 31 December 2005.

This report has been signed in accordance with a resolution of the directors made pursuant to section 306 (3) of the Corporations Act 2001.

For and on behalf of the directors

Raymond D Shaw
Managing Director

15 March 2006
Sydney

Deloitte.

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The Board of Directors
Great Artesian Oil and Gas Limited
1st Floor
1304 Hay Street
West Perth WA 6005

15 March 2006

Dear Board Members

Great Artesian Oil and Gas Limited

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

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

(i) the auditor independence requirements of the Corporations Act 2001 in relation to the review; and

(ii) any applicable code of professional conduct in relation to the review.

Yours sincerely

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

PETER RUPP
Partner
Chartered Accountants

Income statement
for the half-year ended 31 December 2005

	Half-year ended 31 December 2005 $	Half-year ended 31 December 2004 $
Revenue from ordinary activities	**465,300**	74,760
Administration expenses	**(604,246)**	(386,040)
Write down of oil and gas interests	**(20,000)**	(385,545)
Loss before income tax expense	**(158,946)**	(696,825)
Income tax expense	**-**	-
Loss after income tax expense	**(158,946)**	(696,825)
Basic earnings per share	**(0.11)**	(0.76)
Diluted earnings per share	**(0.11)**	(0.76)

The above income statement should be read in conjunction with the accompanying notes.

Balance sheet
as at 31 December 2005

	31 December 2005 $	30 June 2005 $
Current Assets		
Cash and cash equivalents	**7,356,844**	4,342,205
Receivables	**2,179,641**	327,498
Other	**64,065**	81,555
Total Current Assets	**9,600,550**	4,751,258
Non-Current Assets		
Plant and equipment	**75,241**	61,592
Oil and gas interests	**10,947,200**	8,085,771
Other financial assets	**112,415**	112,415
Total Non-Current Assets	**11,134,856**	8,259,778
Total Assets	**20,735,406**	13,011,036
Current Liabilities		
Payables	**3,644,351**	170,515
Accruals	**59,766**	86,013
Total Current Liabilities	**3,704,117**	256,528
Non-Current Liabilities		
Provisions	**55,000**	-
Total Non-Current Liabilities	**55,000**	-
Total Liabilities	**3,759,117**	256,528
Net Assets	**16,976,289**	12,754,508
Equity		
Issued capital	**24,654,111**	20,318,611
Employee equity- settled benefit reserve	**178,406**	133,179
Accumulated losses	**(7,856,228)**	(7,697,282)
Total Equity	**16,976,289**	12,754,508

The above balance sheet should be read in conjunction with the accompanying notes.

Statement of changes in equity
as at 31 December 2005

	Attributable to equity holders			
	Issued capital	Employee equity-settled benefit reserve	Accumulated losses	Total equity
	$	$	$	$
At 1 July 2005	20,318,611	133,179	(7,697,282)	12,754,508
Loss for the period	-	-	(158,946)	(158,946)
Total recognised income/expense for the period	-	-	-	-
Issue of share capital (net of issue costs)	4,335,500	-	-	4,335,500
Share based payment expense	-	45,227	-	45,227
At 31 December 2005	**24,654,111**	**178,406**	**(7,856,228)**	**16,976,289**

	Attributable to equity holders			
	Issued capital	Employee equity-settled benefit reserve	Accumulated losses	Total equity
	$	$	$	$
At 1 July 2004	14,295,811	64,032	(6,763,855)	7,595,988
Loss for the period	-	-	(696,825)	(696,825)
Total recognised income/expense for the period	-	-	-	-
Issue of share capital	3,764,250	-	-	3,764,250
Share based payment expense	-	34,858	-	34,858
At 31 December 2004	**18,060,061**	**98,890**	**(7,460,680)**	**10,698,271**

The above statement of changes in equity should be read in conjunction with the accompanying notes.

Cash flow statement
for the half-year ended 31 December 2005

	Half-year ended 31 December 2005 $	Half-year ended 31 December 2004 $
Cash flows from operating activities		
Receipts from customers (inclusive of goods and service tax)	**104,381**	389,159
Payments to suppliers and employees (inclusive of goods and service tax)	**(879,738)**	(1,162,314)
Interest received	**195,729**	74,110
Exploration and evaluation expenditure	**(1,586,104)**	(2,682,583)
Farminee funds received in advance	**850,000**	-
Net cash outflow from operating activities	**(1,315,732)**	(3,381,628)
Cash flows from investing activities		
Payments for property, plant and equipment	**(5,129)**	(46,039)
Net cash outflow from investing activities	**(5,129)**	(46,039)
Cash flows from financing activities		
Proceeds from the issue of shares	**4,600,000**	4,000,000
Share issue expenses	**(264,500)**	(235,750)
Net cash inflow from financing activities	**4,335,500**	3,764,250
Net increase in cash and cash equivalents	**3,014,639**	336,583
Cash and cash equivalents at the beginning of the reporting period	**4,342,205**	3,201,447
Cash and cash equivalents at the end of the reporting period	**7,356,844**	3,538,030

The above cash flow statement should be read in conjunction with the accompanying notes.

Notes to the financial statements
for the half-year ended 31 December 2005

1. Summary of significant accounting policies

This general purpose financial report for the interim half-year reporting period ended 31 December 2005 has been prepared in accordance with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001.*

The interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 30 June 2005 and any public announcements made by the company during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001.*

(a) Basis of preparation of half-year financial report

The principal accounting policies adopted in the preparation of the financial report are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

Application of AASB 1 First-time Adoption of Australian Equivalents to International Reporting Standards
This interim financial report is the first company interim financial report to be prepared in accordance with A-IFRSs. AASB 1 *First-time Adoption of Australian Equivalents to International Reporting Standards* has been applied in preparing these financial statements, with 1 January 2004 being the date of transition.

Financial statements of the company until the 30 June 2005 had been prepared in accordance with previous Australian Generally Accepted Accounting Principles (AGAAP). AGAAP differs in certain respects from A-IFRS. When preparing the company's interim financial report for the half year ended 31 December 2005, management has amended certain accounting and valuation methods applied in the previous AGAAP financial statements to comply with A-IFRS.

Reconciliations and descriptions of the effect of transition from previous AGAAP to AIFRS on the company's equity and its net income are given in note 6.

Historical cost convention
These financial statements have been prepared under the historical cost convention.

(b) Segment reporting

The company operates in a single industry and geographical segment being the petroleum exploration industry in Australia.

(c) Foreign currency translation

All foreign currency transactions during the financial year are brought to account using the exchange rate in effect at the date of the transaction. Exchange differences are recognised as income or an expense in the period in which they arise.

(d) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Amounts disclosed as revenue are net of returns, trade allowances and duties and taxes paid (where applicable). Interest on bank deposits is recognised as income as it accrues.

Notes to the financial statements
for the half-year ended 31 December 2005

1. Summary of significant accounting policies (continued)

(e) Income tax

Current tax
Current tax is calculated by reference to the amount of income taxes payable or recoverable in respect of the taxable profit or tax loss for the period. It is calculated using tax rates and tax laws that have been enacted or substantively enacted by reporting date.

Deferred tax
Deferred tax is accounted for using the comprehensive balance sheet liability method in respect of temporary differences arising from differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax base of those items.

In principle, deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that sufficient taxable amounts will be available against which deductible temporary differences or unused tax losses and tax offsets can be utilised. However, deferred tax assets and liabilities are not recognised if the temporary differences giving rise to them arise from the initial recognition of assets and liabilities, which affects neither taxable income nor accounting profit.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset and liability giving rise to them are realised or settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the reporting date. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the company expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

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

(f) Operating leases

Operating lease payments are recognised as an expense on a basis which reflects the pattern in which economic benefits from the leased assets are consumed.

(g) Impairment of assets

At each reporting date, the company reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the company estimates the recoverable amount of the cash-generating unit to which the asset belongs.

(h) Cash and cash equivalents

Cash and cash equivalents include cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments.

**Notes to the financial statements
for the half-year ended 31 December 2005**

1. Summary of significant accounting policies (continued)

(i) Trade receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost, less provision for doubtful debts. Collectibility of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off. A provision for doubtful receivables will be established when there is objective evidence that the company will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the income statement.

(j) Property, plant and equipment

All plant and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Depreciation is provided on plant and equipment. Depreciation is calculated on a diminishing value basis so as to write off the net cost of each asset over its expected useful life. The following estimated useful lives are used in the calculation of depreciation:

- Plant and Equipment 3 to 20 years

(k) Intangible assets – Oil and gas interests

Exploration and evaluation expenditure
Exploration and evaluation expenditures in relation to separate areas of interest are capitalised in the year in which they are incurred and are carried at cost less accumulated impairment losses where the following conditions are satisfied:

i) the rights to tenure of the area of interest are current; and
ii) at least one of the following conditions is also met:

- the exploration and evaluation expenditures are expected to be recouped through successful development and exploration of the area of interest, or alternatively, by its sale: or
- exploration and evaluation activities in the area of interest have not at the reporting date reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable hydrocarbon reserves, and active and significant operations in, or in relation to, the area of interest are continuing.

Capitalised exploration costs are reviewed each reporting date to determine whether an indication of impairment exists. If any such indication exists, the recoverable amount of the capitalised exploration costs is estimated to determine the extent of the impairment loss (if any). Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in previous years. Where a decision is made to proceed with development, accumulated expenditure will be tested for impairment, transferred to development properties, and then amortised over the life of the reserves associated with the area of interest once operations have commenced.

Notes to the financial statements
for the half-year ended 31 December 2005

1. Summary of significant accounting policies (continued)

(k) Intangible assets – Oil and gas interests (continued)

Development expenditure

Development expenditure is recognised at cost less accumulated amortisation and any impairment losses. Where commercial production is an area of interest has commenced, the associated costs are amortised over the estimated economic life of the field on a units-of-production basis. Changes in factors such as estimates of proved and probable reserves that affect unit-of-production calculations are dealt with on a prospective basis.

(l) Other Financial Assets

Other financial assets consist of fully refundable deposits and are recognised at amortised cost less impairment (if applicable).

(m) Payables and accruals

Payables and accruals are recognised when the company becomes obliged to make future payments resulting from the purchase of goods and services.

(n) Provisions

Provisions are recognised when the company has a present legal obligation or constructive obligation as a result of past events; and the amount has been reliably estimated. The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the reporting date, taking into account the risks and uncertainties surrounding the obligation.

The company recognises any obligations for removal and restoration that are incurred during a particular period as a consequence of having undertaken exploration and evaluation activity. Restoration and abandonment obligations are reviewed annually.

(o) Share based payments

Share options granted after 7 November 2002 and vested after 1 January 2005
The fair value of options granted is recognised as an employee benefit expense with a corresponding increase in equity. The fair value is measured at grant date and recognised over the period during which the employees become unconditionally entitled to the option.

The fair value at grant date is independently determined using an option model that takes into account the exercise price, the term of the option, the vesting criteria and the impact of dilution, the non-tradeable nature of the option, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk-free interest rate for the term of the option. The fair value of the options granted excludes the impact of non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. At each balance sheet date, the entity revises its estimate of the number of options that are expected to become exercisable. The employee benefit expense recognised each period takes into account the most recent estimate.

Upon the exercise of options, the balance of the share-based payments reserve relating to those options is transferred to issued capital.

Notes to the financial statements
for the half-year ended 31 December 2005

1. Summary of significant accounting policies (continued)

(p) Issued capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

(q) Earnings per share

(i) Basic earnings per share
Basic earnings per share is calculated by dividing the profit attributable to equity holders of the company excluding any costs of servicing equity other than ordinary shares, by weighted average number of ordinary shares outstanding during the half-year, adjusted for bonus elements in ordinary shares issued during the half year.
(ii) Diluted earnings per share
Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with the dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

(r) Financial instruments

In accordance with AASB 1, the company has elected not to restate comparatives under AASB 132 – Financial instruments: disclosure and presentation and AASB 139 – Financial instruments: recognition and measurement. On adoption of these standards, there has been no impact to the financial report.

The following accounting policy was applicable as at 30 June 2005 and at the date of this report.

Debt and equity instruments are classified as either liabilities or equity in accordance with the substance of the contractual arrangement. Transaction costs arising on the issue of equity instruments are recognised directly in equity as a reduction of the proceeds of the equity instruments to which the costs relate. Transaction costs are the costs that are incurred directly in connection with the issue of those equity instruments and which would not have been incurred had those instruments not been issued.

(s) Joint venture operations

Interests in joint venture operations are reported in the financial statements by including the company's share of assets employed in the joint ventures, the share of the liabilities incurred in relation to the joint ventures and the share of any expenses incurred in relation to the joint ventures in their respective classification categories.

(t) Goods and services tax

Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST), except:

(i) where the amount of GST incurred is not recoverable from the taxation authority, it is recognised as part of the cost of acquisition of an asset or as part of an item of expense; or
(ii) for receivables and payables which are recognised inclusive of GST.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables. Cash flows are included in the statement of cash flows on a gross basis. The GST component of cash flows arising from investing and financing activities which is recoverable from, or payable to, the taxation authority is classified as operating cash flows.

Notes to the financial statements
for the half-year ended 31 December 2005

2. Segment Information

The company operates in a single industry and geographical segment being the petroleum exploration industry in Australia.

3. Contingent liabilities and contingent assets

Contingent liabilities

As at the date this report is made out, there were no contingent liabilities.

Contingent assets

As at the date this report is made out, there were no contingent assets.

4. Events occurring after balance sheet date

It is the opinion of the directors of the company that in the interval between the end of the period and the date of this report, there are items, transactions or events of a material and unusual nature significantly affecting the operations of the company. The results of those operations or the state of affairs in the company, the directors believe the following items, transactions or events are relevant:

Rossco-1, drilled within PEL 106, reached a total depth of 3050 m within the Tirrawarra Sandstone on 30 December 2005. Logs were run subsequently and on 4 January 2006, the company announced to the ASX, following interpretation of wireline logging results, that Rossco-1 was to be cased and suspended as a potential future gas producer, after several gas and gas/oil zones were interpreted. The rig was released from the Rossco-1 well site on 5 January 2006. The well will be subject to cased hole production testing later in the year to ascertain whether these zones are likely to be commercial. The company will retain a 50% interest in any subsequent production licence in the event that the well proves to be commercial.

Udacha-1 well was spuded on 11 January 2006. This well, operated by Beach Petroleum Limited, was drilled to a total depth of 2728 m terminating within the Merrimelia Formation on 4 February 2006. The well is located within the Udacha Unitization Block, comprising portions of PEL 106 and PEL 91. Following the penetration of two sandstones with elevated gas readings and fluorescence within the Patchawarra Formation, the decision was made to conduct DST #1 over the interval 2605 – 2628 m. This drill stem test was aborted due to fill in the bottom of the well clogging the test tool. Following completion of drilling DST# 1A, conducted over the same interval, resulted in a flow of gas to surface in 20 minutes. During testing the gas flow was continuing to build and had reached a rate of 0.44 MMCFPD at the time the test was terminated. No oil or water was recovered during the test flow. The sandstone interval, tested by DST #1A, is interpreted to have 3 m of net pay. Between 3 and 10 m of additional gas pay are interpreted in other sands penetrated by this well. Accordingly, a decision was made to case and suspend the well as a potential future gas producer. The well will be subject to cased hole production testing later in the year in order to ascertain whether these zones are likely to be commercial. The company will retain a 32.5% interest in the event that the well proves to be commercial.

**Notes to the financial statements
for the half-year ended 31 December 2005**

4. Events occurring after balance sheet date (continued)

Middleton-1 well spuded on 15 February 2006. The well, operated and fully funded by Beach Petroleum Limited, was drilled to a total depth of 2841 m, terminating within the Merrimelia Formation on 2 March 2006. Elevated gas recordings made whilst penetrating a number of sandstones within the Patchawarra Formation resulted in the operator conducting DST #1 over the interval 2653.0 – 2666.6 m. This drill stem test was also a mis-run due to fill in the hole clogging the test tool. Following completion of drilling on 2 March 2006, the well was logged and a decision was made to test one of several potential hydrocarbon bearing zones interpreted from the wireline logs. During DST #2, conducted over the interval 2653-2663 m, a flow rate of 11 MMCFPD was recorded from a sand interpreted to have 7 m of net pay. Preliminary wireline log evaluation indicates an additional 3 to 9 m of net pay elsewhere within the well. This is one of the largest test flows recorded in this portion of the Cooper Basin for some years. Accordingly the well was cased and suspended as a potential future gas producer. The rig was released on 9 March 2006. The well will be subject to cased hole production testing later in the year in order to ascertain whether these zones are likely to be commercial. The company will retain a 50% interest in any subsequent production licence in the event that the well proves to be commercial.

As advised to the ASX on 1 March 2006 the company has concluded farmin negotiations concerning EPP 27, Offshore Otway Basin, with Oilex NL ("Oilex"). As had been foreshadowed in Oilex's ASX announcement of 14 February 2006 the farmin involves Oilex, in conjunction with Videocon Industries Limited ("Videocon"), the oil and gas member of the major diversified Videocon group of companies and Gujarat State Petroleum Corporation Limited ("GSPC"), a vertically integrated oil and gas company owned by the Government of the State of Gujarat.

The new agreement between the company, Oilex, Videocon and GSPC will see the farminees funding an exploration well at a location to be determined and acquiring up to $2 million of new 2D seismic data. Planning has commenced for possible seismic acquisition in May – June 2006 with expectations that the well will be drilled during late 2006 or 2007, subject to government approvals and rig availability. Once the well is drilled Oilex, Videocon and GSPC will each be entitled to a 20% interest in EPP 27, with the company retaining the remaining 40%.

All parties have signed the farmin agreements, which are effective from 28 February 2006. As announced on 28 December 2005, the company advised that due to the lack of availability of a rig to undertake the drilling, it had been necessary to seek a suspension of EPP 27 for up to 12 months, until 21 December 2006. The revised end of the current exploration phase is 24 February 2007.

As announced to the ASX on 3 March 2006 the company, as operator for the Smegsy Block Joint Venture, advised that gas and condensate sales commenced on 1 March 2006 following commissioning of the Smegsy tie-in pipeline. Initial production of gas was between 4 and 5 million cubic feet of raw gas per day. Associated condensate production is anticipated to be approximately 120 and 150 barrels per day. This production represents the first commercialisation of third-party gas production in the Cooper Basin.

5. Issuances, repurchases and repayments of securities

During the half-year reporting period, the company issued 28,750,000 ordinary shares at an issue price of $0.16 per shares (2004: 20,000,000 ordinary shares issued at an issue price of $0.20 per share). The company also granted and issued, for no issue price, 4,000,000 options (2004: nil). These share options had a fair value at grant date of $0.111 for the first 3,000,000 options and $0.103 for the remaining 1,000,000 options.

Notes to the financial statements
for the half-year ended 31 December 2005

6. Explanation of transition to Australian equivalents to IFRS

(1) Reconciliation of equity reported under previous Australian Generally Accepted Accounting Principles (AGAAP) to equity under Australian equivalents to IFRS (A-IFRS)

(a) At the date of transition to A-IFRS: 1 July 2004

	Previous AGAAP $	Effect of transition to A-IFRS $	A-IFRS $
Current Assets			
Cash and cash equivalents	3,201,447	-	3,201,447
Receivables	106,138	-	106,138
Other	62,244	-	62,244
Total Current Assets	3,369,829	-	3,369,829
Non-Current Assets			
Plant and equipment	28,341	-	28,341
Oil and gas interests	4,559,566	-	4,559,566
Other financial assets	101,798	-	101,798
Total Non-Current Assets	4,689,705	-	4,689,705
Total Assets	8,059,534	-	8,059,534
Current Liabilities			
Payables	405,096	-	405,096
Accruals	58,450	-	58,450
Total Current Liabilities	463,546	-	463,546
Total Liabilities	463,546	-	463,546
Net Assets	**7,595,988**	-	**7,595,988**
Equity			
Issued capital	14,295,811	-	14,295,811
Employee equity- settled benefit reserve	-	64,032	64,032
Accumulated losses	(6,699,823)	(64,032)	(6,763,855)
Total Equity	**7,595,988**	-	**7,595,988**

Notes to the financial statements
for the half-year ended 31 December 2005

6. Explanation of transition to Australian equivalents to IFRS (continued)

(b) At the end of the last half-year reporting period under previous AGAAP: 31 December 2004

	Previous AGAAP $	Effect of transition to A-IFRS $	A-IFRS $
Current Assets			
Cash and cash equivalents	3,538,030	-	3,538,030
Receivables	139,496	-	139,496
Other	276,742	-	276,742
Total Current Assets	3,954,268	-	3,954,268
Non-Current Assets			
Plant and equipment	66,216	-	66,216
Oil and gas interests	7,467,841	-	7,467,841
Other financial assets	112,415	-	112,415
Total Non-Current Assets	7,646,472	-	7,646,472
Total Assets	11,600,740	-	11,600,740
Current Liabilities			
Payables	390,640	-	390,640
Accruals	511,829	-	511,829
Total Current Liabilities	902,469	-	902,469
Total Liabilities	902,469	-	902,469
Net Assets	**10,698,271**	-	**10,698,271**
Equity			
Issued capital	18,060,061	-	18,060,061
Employee equity- settled benefit reserve	-	98,890	98,890
Accumulated losses	(7,361,790)	(98,890)	(7,460,680)
Total Equity	**10,698,271**	-	**10,698,271**

Notes to the financial statements
for the half-year ended 31 December 2005

6. Explanation of transition to Australian equivalents to IFRS (continued)

(c) At the end of the last reporting period under previous AGAAP: 30 June 2005

	Previous AGAAP $	Effect of transition to A-IFRS $	A-IFRS $
Current Assets			
Cash and cash equivalents	4,342,205	-	4,342,205
Receivables	327,498	-	327,498
Other	81,555	-	81,555
Total Current Assets	4,751,258	-	4,751,258
Non-Current Assets			
Plant and equipment	61,592	-	61,592
Oil and gas interests	8,085,771	-	8,085,771
Other financial assets	112,415	-	112,415
Total Non-Current Assets	8,259,778	-	8,259,778
Total Assets	13,011,036	-	13,011,036
Current Liabilities			
Payables	170,515	-	170,515
Accruals	86,013	-	86,013
Total Current Liabilities	256,528	-	256,528
Non-Current Liabilities			
Provisions	-	-	-
Total Non-Current Liabilities	-	-	-
Total Liabilities	256,528	-	256,528
Net Assets	12,754,508	-	12,754,508
Equity			
Issued capital	20,318,611	-	20,318,611
Employee equity- settled benefit reserve	-	133,179	133,179
Accumulated losses	(7,564,103)	(133,179)	(7,697,282)
Total Equity	12,754,508	-	12,754,508

Notes to the financial statements
for the half-year ended 31 December 2005

6. Explanation of transition to Australian equivalents to IFRS (continued)

(2) Reconciliation of loss under previous AGAAP to loss under A-IFRS

(a) Reconciliation of loss for the half-year ended 31 December 2004

	Previous AGAAP $	Effect of transition to A-IFRS $	A-IFRS $
Revenue from ordinary activities	74,760	-	74,760
Administration expenses	(351,182)	(34,858)	(386,040)
Write down of oil and gas interests	(385,545)	-	(385,545)
Loss from ordinary activities before income tax expense	(661,967)	(34,858)	(696,825)
Income tax expense	-	-	-
Loss from ordinary activities after income tax expense	(661,967)	(34,858)	(696,825)

(b) Reconciliation of loss for the year ended 30 June 2005

	Previous AGAAP $	Effect of transition to A-IFRS $	A-IFRS $
Revenue from ordinary activities	185,804	-	185,804
Administration expenses	(664,539)	(69,147)	(733,686)
Write down of oil and gas interests	(385,545)	-	(385,545)
Loss from ordinary activities before income tax expense	(864,280)	(69,147)	(933,427)
Income tax expense	-	-	-
Loss from ordinary activities after income tax expense	(864,280)	(69,147)	(933,427)

**Notes to the financial statements
for the half-year ended 31 December 2005**

6. Explanation of transition to Australian equivalents to IFRS (continued)

(3) Reconciliation of cash flow statement

The adoption of A-IFRS has not resulted in any adjustments to the cash flow statement.

(4) Notes to the reconciliations

(a) Share-based payments

Under AASB 2 *Share-based Payment* from 1 July 2004 the company is required to recognise an expense for those options that were issued to employees after 7 November 2002 but that had not vested by 1 January 2005. The effect of this is:

(i) At 1 July 2004
For the company there has been a decrease in the accumulated losses of $64,032 and a corresponding increase in reserves.

(ii) At 31 December 2004
For the company there has been a decrease in the accumulated losses of $98,890 and a corresponding increase in reserves.

(iii) At 30 June 2005
For the company there has been a decrease in the accumulated losses of $133,179 and a corresponding increase in reserves.

(iv) For the half-year ended 31 December 2004
For the company there has been an increase in employee benefits expense in the income statement of $34,858.

(v) For the year ended 30 June 2005
For the company there has been an increase in employee benefits expense in the income statement of $69,147.

(b) Provision for rehabilitation and restoration costs

As at the date of transition to A-IFRS no provision was made for rehabilitation and restoration costs, as such an adjustment was considered immaterial. The company has estimated that the overall liability for such costs as at the date of this half-year report to be $55,000, which has been fully provided for.

(c) Income tax

The company has recognised additional deferred tax liabilities on adoption of AASB 112. It has also recognised previously unrecognised tax losses to the extent that it is probable that there will be sufficient taxable profits available such that these losses may be utilised. The recognised deferred tax assets and deferred tax liabilities have been offset as permitted by AASB 112. To the extent that the recovery of other tax losses is not probable they have not been recognised in the financial statements.

Directors' declaration

The directors declare that the financial statements and notes:

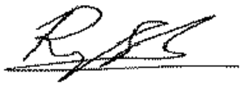
(a) comply with Accounting Standards, the *Corporations Regulations 2001*; and
(b) give a true and fair view of the entity's financial position as at 31 December 2005 and of its performance, as represented by the results of its operations and its cash flows, the half-year ended on that date.

In the directors' opinion:

(a) the financial statements and notes are in accordance with the *Corporation Act 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.

This declaration is made in accordance with a resolution of the directors made pursuant to S. 303(5) of the Corporations Act 2001.

For and on behalf of the directors



Raymond D Shaw
Managing Director

15 March 2006
Sydney

Deloitte.

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Independent review report to the members of Great Artesian Oil and Gas Limited

Scope

The financial report and directors' responsibility

The financial report comprises the balance sheet, income statement, cash flow statement, statement of changes in equity, selected explanatory notes and the directors' declaration for Great Artesian Oil and Gas Limited for the half-year ended 31 December 2005 as set out on pages 8 to 24.

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

Review Approach

We have performed an independent review of the financial report in order to state whether, on the basis of the procedures described, anything has come to our attention that would indicate that the financial report is not presented fairly in accordance with the Corporations Act 2001 and Accounting Standards AASB 134 "Interim Financial Reporting" and AASB 1 "First-time Adoption of Australian Equivalents to International Financial Reporting Standards", so as to present a view which is consistent with our understanding of the company's financial position, and performance as represented by the results of its operations, its changes in equity and its cash flows, and in order for the company to lodge the financial report with the Australian Securities and Investments Commission.

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

Statement

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Great Artesian Oil and Gas Limited is not in accordance with the Corporations Act 2001, including:

(a) giving a true and fair view of the company's financial position as at 31 December 2005 and of its performance for the half-year ended on that date; and

(b) complying with Accounting Standards AASB 134 "Interim Financial Reporting" and AASB 1 "First-time Adoption of Australian Equivalents to International Financial Reporting Standards" and the Corporations Regulations 2001.

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

PETER RUPP
Partner
Chartered Accountants
Perth, 15 March 2006