

Comet Ridge Limited

(ABN 47 106 092 577)

Half Year Report 31 December 2006

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DIRECTORS' REPORT

Your directors submit the financial report of the consolidated entity for the half year ended 31 December 2006. In order to comply with the provisions of the Corporations Act 2001, the directors report as follows:

Directors

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

J W Schneider	Chairman
A J Lydyard	Managing Director
S M Ashton	Non-Executive Director
G Swaby	Non-Executive Director
G W Drobnack	Non-Executive Director appointed 1 October 2006

REVIEW OF OPERATIONS

The last six months have seen your Company establish a presence in North America as an operator with significant land holdings. The Company has built a portfolio of four US project areas along with a small dedicated team of oil and gas professionals. The Company also maintains a sizeable portfolio of Australian interests including a royalty over the Tipton West coal seam gas development in SE Queensland.

The Company operated its first well in the USA in some trying weather conditions. Based on indications during drilling and on measurements taken down hole by specialized logging tools the well is expected to be an oil producer once completed.

Comet Ridge raised AUD\$7.7 million late in the year via a successful Entitlement Issue and a subsequent Shortfall Placement. Our shareholder base has increased from fewer than 600 shareholders at June 30, 2006 to over 700 at December 31, 2006.

Highlights

- First operated well successfully drilled with oil and gas shows over 245 foot thick reservoir section – well to be completed in New Year.
- Drilling of second "proof of concept" well on Tow Creek imminent.
- Portfolio of 30+ leads developed on Grays Harbor project.
- Grays Harbor leasehold position increased by 18,500 acres.
- 3 drilling permits for Vader/Cedar Creek submitted.
- Leasehold position increased by 25,600 gross acres at Vader.
- Rocky Mountain JV partners elect to participate in Florence.
- Expanded 3D seismic program for Florence in final planning stage.
- AUD \$7.7 million was raised via Entitlement Issue and Shortfall Placement.

REVIEW OF OPERATIONS (Cont)

Significant Project Activities

United States

- **Tow Creek/Bear River Project – Colorado (Comet Ridge 33.75 to 37.5%, Operator)**

Comet Ridge operates the Tow Creek and Bear River projects with interests of 37.5% and 33.75% respectively. The Company embarked on a three well "Proof of Concept" drilling programme late in the year to confirm that its concepts of fracture development and drilling and completion technologies were working.

The first two wells were drilled in December and January, harsh winter conditions, difficult access, rig equipment failures and the extended efforts towards recovering a stuck drill string in the CVU 31-4 well, resulted in cost overruns of approximately US\$1 million to Comet Ridge. The reported financials reflect accruals for expenditures incurred through 31 December, 2006.

Coal View Unit 31-4

The Coal View Unit 31-4 was successfully drilled to a measured depth of 6,600 feet on 26 December.

The well was drilled on the south-eastern flank of the large Tow Creek structure seeking to extend the productive limits of the structure. The well was drilled such that the hole is angled at 40 degrees across the target zones. Oil and gas shows were encountered across two target reservoir intervals. A specialised down hole imaging tool reveals both intervals to be moderately to heavily-fractured. It is the fractures that provide the storage and flow paths for the oil trapped in the reservoir so the presence of numerous fractures is very encouraging.

Completion of the well was commenced subsequent to the report period. Rig delays and very cold weather saw the completion attempt delayed. Down hole problems in the form of a bottom hole assembly getting stuck in the well bore has frustrated attempts to run casing. The plan is now to re-enter the well bore after the spring thaw and re-drill the pay section.

Peltier 11-12

The second well in the program, the Peltier 11-12, spudded in the New Year. It reached a total depth of 6,700 feet on 31 January, 2007. All three reservoir objectives are interpreted to be fractured and oil and gas shows were observed during drilling. Casing was successfully run in the well and the well was placed on production test in late February.

Undesignated Coal View Unit Well

Drilling of the third well will be delayed until the summer. Colorado has experienced a series of winter weather systems with significant snowfalls. These conditions are expected to continue for some time and add significantly to the cost of operations. They also add to the risk of injury. Continuing to operate in these conditions beyond the current obligation well and incurring the additional costs is not the best use of shareholders funds.

Leasehold Positioned Strengthened

The Company's leasehold position has been increased to almost 15,000 gross acres over the combined prospect areas and further transactions are expected.

- **Florence Project – Colorado (Comet Ridge 26%, Operator)**

The Company announced on 3 October, 2006 that it had closed on the acquisition of a 78% working interest in 4,678 acres (19 sq km) over the historic Florence Oil field in southern Colorado. Since then the Company has added to its significantly to its lease position (now approaching 7,000 acres) and is in the final stages of planning the acquisition of an expanded 3D seismic program covering approximately 8 sq miles.

Florence is the first expansion of the Niobrara oil play that Comet Ridge is pursuing in northern Colorado. In addition to the directional under-balanced drilling technology being applied at Tow Creek, the Company is looking to identify potentially untapped subsurface fracture trends via the application of 3D seismic.

The Company's Rocky Mountain Joint Venture partners, Strike Oil Limited (ASX Code: STX) and A.J. Lucas Group Limited (ASX Code: AJL) both elected to participate in the Florence opportunity.

Comet Ridge retains a 26% working interest and is the operator on the project.

REVIEW OF OPERATIONS (Cont)

- **Grays Harbor Project – Washington State (Comet Ridge 100% and Operator (via St. Helens Energy LLC))**

Significant progress has been achieved on the Grays Harbor project. All but one of the existing 2D lines have been received from the seismic reprocessors and interpretation is ongoing. The seismic is being integrated with the well information and other geophysical data sets to create a set of coherent structural and stratigraphic maps. In excess of 30 leads have already been identified and are in various stages of documentation, risking and ranking.

Comet Ridge via its wholly owned subsidiary St. Helens Energy acquired leases covering in excess of 18,000 acres (74 sq km) at the Washington State oil and gas lease auction held in late October. The average acquisition cost was \$6 (AUD\$8) per acre for 7 year, 12.5% royalty leases.

St. Helens now has approximately 438,000 acres (1,770 sq km) under either lease option or oil and gas lease.

Our objective is to be ready to drill in Grays Harbor by the end of 2007. In preparation, additional seismic acquisition is planned for the second quarter of 2007.

The Grays Harbor project offers numerous opportunities in the form of seismically defined structures and interpreted sand bodies encased in shales. Some of the structures are of sufficient size to contain 50 to 250 Billion Cubic Feet (BCF) of gas.

- **Cedar Creek/Vader Prospect – Washington (Comet Ridge 40% and non-operator (via St. Helens Energy LLC))**

The operator of the Cedar Creek/Vader project, Cascadia Energy, advised St. Helens that drilling on the Vader and Cedar Creek prospect areas was likely to be delayed until the second quarter due primarily to rig availability and permitting delays. Cascadia has since secured a drilling rig and operations are expected to commence late in the first quarter.

The objective of these wells is to establish a potential coal seam gas resource. Two of the locations will also test the shallow gas potential of sands trapped in structures along trend from a well that tested at a rate of 700 mcf/day from a sandstone reservoir at a depth of 700 feet.

The project area is ideally situated with respect to gas pipeline infrastructure with the Vader prospect acreage lying within 10 miles of a major interstate pipeline.

Australia

- **Mahalo, Northern ATP 337P, Queensland (Comet Ridge 40%, Non Operator)**

A wire line log and a static borehole pressure survey were run in the Mahalo 2 well. The log revealed that the main objective coal seam has thinned and is 10 metres lower than the same coal in the Mahalo 1 well which is only 100 metres away. The surveys conducted do not resolve the question concerning the permeability of the coals nor the apparent lack of gas shows in the second well.

Despite this setback your management team is still enthusiastic about the Mahalo project due to the positive results of the four other wells drilled under the farm-in arrangement. The results of Mahalo 2 have not impacted the in-place gas resource assessment of between 180 and 1,000PJ at this time. With the recently developed trend of consolidation in the coal seam gas business in Queensland, in conjunction with the ever increasing doubts over the Papua New Guinea pipeline during a strengthening gas market, this project still has the potential to deliver significant shareholder value. Comet Ridge now owns a 40% interest in the project having fulfilled all of its earning obligations.

- **Tipton West Project (Comet Ridge 1.5% royalty)**

Comet Ridge retains a 1.5% gross royalty interest in the Arrow Energy NL operated permits in south-eastern Queensland where the target is the Jurassic aged Walloon Coal Measures.

Development drilling was completed in December and dewatering is underway.

Arrow announced in early November that the Tipton West Joint Venture had executed a Processing Agreement with the Australian Pipeline Trust who will own and operate a \$31 million processing facility.

First gas sales, and hence royalty income for Comet Ridge, are expected early this year.

REVIEW OF OPERATIONS (Cont)

- **Galilee Basin Permits (Comet Ridge 100%, Operator)**

Comet Ridge has received approval from the Queensland Government to commence the Right to Negotiate process with Native Title Claimants over its two Galilee basin permit applications ATP 743P and ATP 744P.

Comet Ridge is also negotiating with a potential partner for both permits. This partner will carry Comet Ridge through a work program to earn an interest. The Company expects to execute definitive exploration agreements early in the New Year.

- **Gunnedah Basin Permits (Comet Ridge farming out)**

Farminnee, Eastern Star Gas, anticipates commencing operations on a seismic acquisition programme on PEL's 427 and 428 in New South Wales by the end of the second quarter of 2007. Comet Ridge will retain a 25% interest in PEL 427 and a 20% interest in PEL 428 following completion of Eastern Star's earning programme that comprises of seismic and a well on both permits.

Capital-Raising

The Company raised a total of AUD\$7.7 million before costs via a combination Non Renounceable Entitlement Issue and Shortfall Placement that was closed early in the New Year.

The listed securities on issue now total 99,799,536 fully paid shares and 14,185,638 listed options exercisable at AUD 40 cents and expiring 29 June 2007.

Personnel

The Company's Brisbane based General Manager, Mr. Vic Palanyk, has accepted a full time position elsewhere and will no longer represent Comet Ridge in Australia. The Company thanks Vic for his support and dedication over the past 2 1/2 years and congratulates him on his new position.

The Managing Director has resumed being the principal point of contact for the Company's Australian interests.

Health, Safety and Environment

The Company and its contractors are very focused on keeping our people safe. The extreme weather conditions being experienced in the Rockies this winter add significantly to the challenge.

Corporate Health and Safety Manuals and well specific Emergency Response Plans are in place.

Financial

As of 1 July 2006 the Company's presentation currency was changed to the US dollar and all financial reports, including the financial reports in this report will be stated in US dollars. The fiscal year remains 1 July to 30 June.

REVIEW OF OPERATIONS (Cont)

Second Half Activities

Tow Creek/Bear River

- Side-track and complete the Coal View Unit 31-4
- Production test Peltier 11-12 well
- Prepare to drill third "Proof of Concept" well
- Permit the CVU 36-15, CVU 18-14 and Kruse Trust 10-7 locations

Vader/Cedar Creek

- Permit and prepare to drill 3 to 4 wells in Q2 '07

Grays Harbor

- Finalize mapping of seismic, well data and surface geology
- Map and rank leads and prospects
- Permit and acquire 2D seismic in Q2 '07
- Prepare for drilling late in 2007

Florence

- Acquire, process and interpret 8 sq miles 3D seismic survey
- Commence permitting process for well or wells in Q3 '07

Tipton West

- Gas sales expected to commence by March, 2007

Galilee Basin

- Execute farmout documents
- Commence Right to Negotiate process with Native Title Claimants

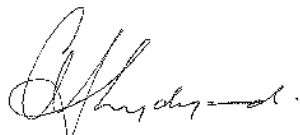
Gunnedah Basin

- Seismic surveys anticipated to commence in May

AUDITOR'S INDEPENDENCE DECLARATION

Section 307C of the Corporations Act 2001 requires our auditors, HLB Mann Judd, to provide the directors of the company with an Independence Declaration in relation to the review of the half-year financial report. This Independence Declaration is set out on page 7 and forms part of this directors' report for the half-year ended 31 December 2006.

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



AJ LYDYARD

Managing Director

Dated this 15 day of March 2007.

Auditor's Independence Declaration

As lead auditor for the review of the financial report of Comet Ridge Limited for the half year ended 31 December 2006, 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.

This declaration is in respect of Comet Ridge Limited.



Perth, Western Australia
15 March 2007

L DI GIALLONARDO
Partner, HLB Mann Judd

**CONDENSED INCOME STATEMENT
FOR THE HALF YEAR ENDED 31 DECEMBER 2006**

Consolidated			
	Note	31 Dec 2006 \$USD	31 Dec 2005 \$USD
Revenue	2	58,402	728,506
Employee benefits expense		(235,785)	(124,539)
Employee share option expense		(69,508)	(140,363)
Corporate costs		(133,825)	(105,680)
Exploration expenditure written off		(20,648)	(1,894)
Impairment in value of financial asset		-	(108,269)
Consultancy costs		(65,768)	(27,809)
Technology costs		(25,381)	(11,439)
Property costs		(30,781)	(4,700)
Insurance costs		(14,718)	(24,686)
Depreciation expense		(28,702)	(12,479)
Other expenses		(161,963)	(48,424)
Earnings (loss) before income tax expense		(728,677)	118,224
Income tax expense		-	-
Net earnings (loss)		(728,677)	118,224
Minority interest		-	-
Net earnings (loss) attributable to members of parent		(728,677)	118,224
		Cents USD	Cents USD
Basic earnings (loss) per share		(1.01)	0.19
Dilutive earnings (loss) per share		(1.01)	0.19

The accompanying notes form part of these financial statements

**CONDENSED BALANCE SHEET
AS AT 31 DECEMBER 2006**

	Note	Consolidated	
		31 Dec 2006 \$USD	30 June 2006 \$USD
Assets			
Current Assets			
Cash and cash equivalents		6,650,826	3,078,043
Trade and other receivables		2,201,607	441,953
Other		87,706	103,869
Total Current Assets		8,940,139	3,623,865
Non-Current Assets			
Exploration and evaluation expenditure		6,257,609	3,090,104
Property, plant and equipment		138,263	113,380
Other		88,948	63,948
Total Non-Current Assets		6,484,820	3,267,432
Total Assets		15,424,959	6,891,297
Liabilities			
Current Liabilities			
Trade and other payables		3,327,554	288,702
Provisions		19,247	8,090
Total Current Liabilities		3,346,801	296,792
Total Liabilities		3,346,801	296,792
Net Assets		12,078,158	6,594,505
Equity			
Issued capital	3	13,795,126	7,901,707
Reserves		387,236	68,325
Accumulated losses		(2,104,204)	(1,375,527)
Total Equity		12,078,158	6,594,505

The accompanying notes form part of these financial statements

**CONDENSED STATEMENT OF CHANGES IN EQUITY
FOR THE HALF YEAR ENDED 31 DECEMBER 2006**

	Consolidated			Total Equity \$USD
	Issued Capital \$USD	Accum. Losses \$USD	Reserves \$USD	
Balance at 1 July 2005	5,968,483	(948,900)	186,441	5,206,024
Profit attributable to members of the parent entity	-	118,224	-	118,224
Recognition of share based payments	-	-	140,363	140,363
Foreign currency translation	-	-	(206,805)	(206,805)
Balance at 31 December 2005	5,968,483	(830,676)	119,999	5,257,806
Balance at 1 July 2006	7,901,707	(1,375,527)	68,325	6,594,505
Shares issued	5,785,392	-	-	5,785,392
Exercise of options	108,027	-	-	108,027
Loss attributable to members of parent entity	-	(728,677)	-	(728,677)
Recognition of share based payments	-	-	69,508	69,508
Foreign currency translation	-	-	249,403	249,403
Balance at 31 December 2006	13,795,126	(2,104,204)	387,236	12,078,158

The accompanying notes form part of these financial statements

**CONDENSED CASH FLOW STATEMENT
FOR THE HALF YEAR ENDED 31 DECEMBER 2006**

	Consolidated	
	31 Dec 2006 \$USD	31 Dec 2005 \$USD
Cash flows from operating activities		
Receipts from customers and joint venture partners	1,275,098	-
Payments to suppliers and employees	(1,589,222)	(305,448)
Interest received	65,796	34,823
Net cash used in operating activities	(248,328)	(270,625)
Cash flows from investing activities		
Payment for exploration and evaluation	(1,486,815)	(728,061)
Proceeds from sale of non-current asset	-	1,886,219
Purchase of property, plant and equipments	(62,661)	(249)
Payments for other assets	(25,000)	-
Net cash provided (used) in investing activities	(1,574,476)	1,157,909
Cash flows from financing activities		
Proceeds from the issuance of shares	5,297,244	-
Net cash provided by financing activities	5,297,244	-
Net increase in cash held	3,474,440	887,284
Cash and cash equivalents at 1 July	3,078,043	1,003,858
Effect of exchange rate changes on cash	98,343	(81,672)
Cash and cash equivalents at 31 December	6,650,826	1,809,470

The accompanying notes form part of these financial statements

NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF YEAR ENDED 31 DECEMBER 2006

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

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

The half-year report has been prepared on a historical cost basis.

It is recommended that this financial report be read in conjunction with the annual financial report for the year ended 30 June 2006 and any public announcements made by Comet Ridge Limited during the half-year, in accordance with the continuous disclosure requirements of the Corporations Act 2001.

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

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

Accounting Policies

(a) Principles of Consolidation

A subsidiary is any entity Comet Ridge Limited has the power to control the financial and operating policies of so as to obtain benefits from its activities.

All controlled entities have a June financial year-end.

All intercompany balances and transactions between entities in the consolidated entity, including any unrealised gains 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 company.

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

(b) Income Tax

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

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 consolidated entity will derive sufficient future assessable income to enable the benefit to be realised and comply with the conditions of deductibility imposed by the law.

NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF YEAR ENDED 31 DECEMBER 2006

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (Cont)

(c) Property, Plant and Equipment

Each class of property, plant and equipment is carried at cost or fair value less, where applicable, any accumulated depreciation and impairment losses.

Plant and equipment

Plant and equipment are measured on the cost basis.

The carrying amount of plant and equipment is reviewed at least 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 that 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.

The cost of fixed assets constructed within the consolidated entity includes the cost of materials, direct labour, borrowing costs and an appropriate proportion of fixed and variable overheads.

Depreciation

All plant and equipment is depreciated on a straight-line basis over their useful lives to the consolidated entity commencing from the time the asset is held and ready for use.

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

<u>Class of Fixed Asset</u>	<u>Depreciation Rate</u>
Furniture and fittings	12½% to 14%
Computer equipment	25% to 33⅓%

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 to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

(d) Exploration, Evaluation and Development Expenditure

Exploration, evaluation and development expenditure incurred is accumulated in respect of each identifiable area of interest. These costs are only carried forward to the extent that they are expected to be recouped through the successful development of the area or where activities in the area have not yet reached a stage that permits reasonable assessment of the existence of economically recoverable reserves.

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

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.

Costs of site restoration are provided over the life of the facility from when exploration commences and are included in the costs of that stage. Site restoration costs include the dismantling and removal of plant, equipment and building structures, waste removal, and rehabilitation of the site in accordance with clauses of the permits. Such costs have been determined using estimates of future costs, current legal requirements and technology on an undiscounted basis.

Any changes in the estimates for the costs are accounted on a prospective basis. In determining the costs of site restoration, there is uncertainty regarding the nature and extent of the restoration due to community expectations and future legislation. Accordingly the costs have been determined on the basis that the restoration will be completed within one year of abandoning the site.

NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF YEAR ENDED 31 DECEMBER 2006

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (Cont)

(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.

(f) Financial Instruments

Recognition

Financial instruments are initially measured at costs 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.

Financial assets at fair value through profit and loss

A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management and within the requirements of AASB 139: Recognition and Measurement of Financial Instruments. Derivatives are also categorised as held for trading unless they are designated as hedges. Realised and unrealised gains and losses arising from changes in the fair value of these assets are included in the income statement for the period in which they arise.

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.

Financial liabilities

Non-derivative financial liabilities are recognised at amortised cost, comprising original debt less principal payments and amortisation.

Derivative instruments

Derivative instruments are measured at fair value. Gains and losses arising from changes in fair value are taken to the income statement unless they are designated as hedges.

Fair value

Fair value is determined based on current bid prices for all quoted investments. Valuation techniques are applied to determine the fair value for all unlisted securities, including recent arm's length transactions, reference to similar instruments and option pricing models.

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 asset, 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 intangible 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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF YEAR ENDED 31 DECEMBER 2006

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (Cont)

(h) Interest in Joint Ventures

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

(i) 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 United States ("US") dollars which is the company's presentation currency. The functional currency for the Australian and US operations are the Australian dollar and US dollar, respectively.

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.

Exchange differences arising on the translation of non-monetary items are 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.

Group companies

The financial results and position of the Australian operations whose functional currency is different from the group's presentation currency are translated as follows:

- assets and liabilities are translated at year-end exchange rates prevailing at that reporting date;
- income and expenses are translated at average exchange rates for the period; and
- retained profits/(losses) are translated at the exchange rates prevailing at the date of the transaction.

Exchange differences arising on translation of the Australian operations are transferred directly to the group's foreign currency translation reserve in the balance sheet.

(j) Employee benefits

Provision is made for the group's liability for employee benefits arising from services rendered by employees to balance date. Employee benefits have been measured at the amounts expected to be paid when the liability is settled.

(k) Equity-settled compensation

The group provides benefits to employees in the form of share-based payments. The cost of these share-based payments is measured by reference to the fair value of the equity instruments at the date of which they are granted. The fair value is determined by an external valuer using a Black and Scholes option valuation model.

(l) 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.

(m) Cash and Cash Equivalents

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

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE HALF YEAR ENDED 31 DECEMBER 2006****NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (Cont)****(n) Receivables**

All trade debtors are recognised at the amounts receivable as they are due for settlement no more than 30 days. Collectibles from trade debtors are reviewed on an ongoing basis. Receivables, which are known to be uncollectible, are written off. An allowance for doubtful debts is raised when some doubt as to collection exists.

(o) Trade and other payables

These amounts represent liabilities for goods and services provided to the Company prior to the end of the financial year and which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition.

(p) Revenue

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

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

(q) 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.

(r) Comparative Figures

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

(s) Significant Accounting Judgments, Estimates and Assumptions

The consolidated entity measures the cost of equity-settled transaction with employees by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined by an external third party using a Black and Scholes option valuation model.

NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF YEAR ENDED 31 DECEMBER 2006

NOTE 2: PROFIT/LOSS FROM ORDINARY ACTIVITIES

The following revenue items are relevant in explaining the financial performance for the half year:

Consolidated	
	31 Dec 2006 \$USD
	31 Dec 2005 \$USD
Interest income	65,796
Loss on disposal of administrative assets	(7,394)
Profit on sale of non-current asset	-
Other	691,790
	779
Total revenue	58,402
	728,506

NOTE 3: ISSUED CAPITAL

Consolidated	
	31 Dec 2006 \$USD
	30 Jun 2006 \$USD
<i>Ordinary shares</i>	
Fully paid ordinary shares on issue	13,795,126
	7,901,707

Movements in ordinary shares

At 1 July 2006

9 November 2006 (option conversions at 20 cents AUD)

17 November 2006 (option conversions at 20 cents AUD)

18 December 2006 (entitlement issue at 27 cents AUD)

18 December 2006 (shortfall applications at 27 cents AUD)

31 December 2005 (shortfall placement at 27 cents AUD)

Share issue costs

At 31 December 2006

	31 Dec 2006 No.	31 Dec 2006 \$USD
	70,728,240	7,901,707
	200,000	30,865
	500,000	77,162
	13,992,212	2,956,204
	2,901,826	613,083
	11,477,258	2,445,001
		(228,896)
	99,799,536	13,795,126

Shares outstanding at 31 December 2006 include 11,477,258 shares for the shortfall placement that were allotted on 4 January 2007 and are fully paid. Of these shares, proceeds of \$1,617,000 were received prior to 31 December 2006 and are included in the cash balance at that date (as cash held in trust), and proceeds receivable of \$825,000 are included in receivables at that date.

NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF YEAR ENDED 31 DECEMBER 2006

NOTE 4: SEGMENT REPORTING

GEOGRAPHICAL SEGMENTS

	Australia \$USD	USA \$USD	Elim \$USD	Consol \$USD
31 December 2006				
Segment revenue	143,928	32,468	(117,994)	58,402
Segment results	(190,303)	(538,374)	-	(728,677)
31 December 2005				
Segment revenue	751,668	772	(23,934)	728,506
Segment results	185,056	(66,832)	-	118,224

NOTE 5: CONTINGENT LIABILITIES

There were no contingent liabilities requiring disclosure.

NOTE 6: SUBSEQUENT EVENTS

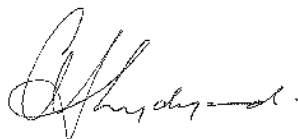
There were no subsequent events requiring disclosure.

DIRECTORS' DECLARATION

The directors of the company declare that:

1. The financial statements and notes thereto, as set out on pages 8 to 18:
 - a. comply with Accounting Standard AASB 134: Interim Financial Reporting and the Corporations Regulations; and
 - b. give a true and fair view of the consolidated entity's financial position as at 31 December 2006 and of its performance for the half-year then ended.
2. In the directors' opinion there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

This declaration is signed in accordance with a resolution of the Board of Directors made pursuant to s.303(5) of the Corporations Act 2001.



AJ LYDYARD
MANAGING DIRECTOR

Dated this 15 day of March 2007

INDEPENDENT AUDITOR'S REVIEW REPORT

**To the members of
COMET RIDGE LIMITED**

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report, which comprises the condensed balance sheet as at 31 December 2006, the condensed income statement, condensed statement of changes in equity and condensed cash flow statement for the half-year ended on that date, other selected explanatory notes and the directors' declaration, of Comet Ridge Limited and the entities it controlled during the half-year ended 31 December 2006 ("consolidated entity").

Directors' Responsibility for the Half-Year Financial Report

The directors of the company are responsible for the preparation and fair presentation of the half-year financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the half-year financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of an Interim Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the *Corporations Act 2001*, including giving a true and fair view of the company's financial position as at 31 December 2006 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Comet Ridge Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001* has been provided to the directors of Comet Ridge Limited on 15 March 2007.

Conclusion

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 Comet Ridge Limited is not in accordance with the *Corporations Act 2001* including:

- (a) giving a true and fair view of the consolidated entity's financial position at 31 December 2006 and of its performance for the half-year ended on that date; and
- (b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

HLB Mann Judd

HLB MANN JUDD
Chartered Accountants

L Di Giallonardo

L DI GIALLONARDO
Partner

Perth, Western Australia
15 March 2007