MARION ENERGY LIMITED

ABN 99 000 031 292

(Formerly Carpenter Pacific Resources Limited)

INTERIM FINANCIAL REPORT

FOR THE HALF-YEAR ENDED 31 DECEMBER 2005

MARION ENERGY LIMITED
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TABLE OF CONTENTS

Contents	Page

MARION ENERGY LIMITED
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DIRECTORS' REPORT

Your Directors present their report on the Consolidated Entity for the half-year ended 31 December 2005.

Directors

The names of Directors who held office during or since the end of the half-year are:

Director	Position Held	Date Appointed
Michael Atkins	Non Executive Director	18 September 2003
John William (Bill) Burdett	Non Executive Director	21 December 2004
Jeffrey Clarke	Chief Executive Officer	13 December 2004
Peter Collery	Executive Director & Company Secretary	13 December 2004
Alan Edgar	Non Executive Director	11 March 2005
Gregory Harvey	Chairman	21 December 2004
Karel Louman	Executive Director & Chief Financial Officer	13 December 2004

Operating Results

The loss of the Consolidated Entity after providing for income tax for the half year amounted to $1,136,126 (half year to 31 December 2004 - $268,500, loss).

Overview

The Directors of Marion Energy Limited ("Marion") (ASX: MAE, MAEO) are pleased with the progress that has been made during the six months ended 31 December 2005, the highlights of which include the following:

- The first well in the program at the Consolidated Entity's Clear Creek project in Utah was successfully tested at a flow rate of 3.1 million cubic feet of gas per day. The Consolidated Entity has a 67.5% working interest in this project.

- The completion and testing of the KRR #1 well at the Helper project in Utah commenced. This operation was successfully completed in early January 2006 with the well testing at a rate of over 1.3 million cubic feet of gas per day. The Consolidated Entity has also tested the KRR #2 well at a rate of 1.1 million cubic feet of gas per day and is currently completing and testing the Cordingly Canyon 15-1 and 15-2 wells, and the Ball Park Canyon #1 well, as part of a 15 well program.

- On 8 March 2006 the Consolidated Entity entered into an agreement to sell a 15% working interest in the Helper project for US$3.6 million. After the sale the Consolidated Entity will have a 48.75% working interest in the project and will remain the operator of the field.

- The Davis #2, Childers #1 and Huntington #3 wells in East Texas were successfully re-completed. Testing of these wells indicates a total combined flow rate of approximately 1.2 million cubic feet of natural gas equivalent per day to the Consolidated Entity.

- Successful re-completion of the Harris #1-U well in East Texas with a flow rate of 1.1 million cubic feet of gas a day. The Consolidated Entity has a 30% working interest in this project.

- A significant infrastructure upgrade program was commenced in East Texas in early December 2005. This is expected to result in an increase in East Texas production, once all the wells are fully brought back into production. This program is largely complete and will be finalised during the first quarter of 2006.

- Successfully placed 16 million shares at 32 cents each in November 2005, raising $4.82 million net of costs.

- Successfully placed 5.6 million shares at 69 cents each in February 2006, raising $3.87 million net of costs.

- During the June quarter the Consolidated Entity expects to become cash flow positive from operations before capital expenditures.
- In calendar year 2006, Marion Energy currently plans to drill a total of 35 wells.

Review of Operations and Future Developments

The Consolidated Entity's operations in Utah are building significant momentum and will be the primary focus of operations for the next 12 months. Encouraged by recent success and the substantial reserve potential in its Utah projects, the Consolidated Entity is expecting to be running two drilling rigs there by the end of April, one in its Helper project and the other in Clear Creek. However, in East Texas, as with the rest of the industry, the Consolidated Entity has experienced unavoidable delays in bringing on production and obtaining drilling rigs due to a lack of equipment and services. Although Marion is making good progress in bringing its wells on production, full production will probably not be achieved until the middle of March. The Consolidated Entity expects these delays and equipment shortages in Texas to lessen as the industry begins to cope with the increased activity brought on by the strong commodity prices.

CLEAR CREEK

Utah (67.5% owned by Marion Energy)

The Clear Creek Unit - which comprises approximately 17,090 acres - is located in Carbon and Emery counties approximately 12 miles west of the Drunkards Wash field in the Uinta Basin in central Utah. The field was drilled in the 1950's and mostly produced through the early 1970's on over 1,000 acres spacing. It has produced 137 billion cubic feet ("Bcf") of natural gas from conventional Ferron sand reservoirs. In the Consolidated Entity's opinion, the well spacing was not sufficient to drain all the gas in place and significant gas remains to be produced. Similar reservoirs in the area are drilled on 40- 80 acre spacing – and in some instances less - to achieve efficient drainage and to optimise production and recoverable reserves. The Consolidated Entity believes that this field represents its largest potential resource. Potential reserves in the area could be in excess of 500 Bcf of gas.

Ridge Runner 13-17 Well

The Ridge Runner 13-17 well was successfully completed and tested with a stabilized flow rate of 3.1 million cubic feet of gas a day. This successful outcome confirms the existence of commercial gas in areas of the Ferron reservoir not previously drained by drilling in the 1950's. It is the first step in the confirmation of a potentially large resource as previously indicated by independent reservoir engineers. The result supports Management's initial geological theory and should lead to repeatable low risk value creation.

Utah Fuel #2 Well

In July 2005, a completion rig was moved to the Clear Creek unit and re-completion activities commenced on the Utah Fuel #2. This well is currently undergoing dewatering and testing. Early results are encouraging.

Ridge Runner 11-20 Well

The well was perforated, fracture stimulated and closed down for the winter. Activities to complete and test this well will recommence in spring/summer of 2006 as weather conditions allow.

2006 Drilling Program

The Consolidated Entity had anticipated drilling 10 new wells and had planned 4 re-completions of existing wells in 2006. However, the early success may result in the Consolidated Entity expanding and accelerating this program.

HELPER

Utah (48.75% owned by Marion Energy after partial sell down in March 2006)

On 8 March 2006 the Consolidated Entity entered into an agreement with Odyssey Energy Limited to sell a 15% working interest in the Helper project for US$3.6 million with Marion Energy remaining the operator and owner of the largest working interest of 48.75%.

The Helper Project - comprises approximately 5,000 acres and is part of a large coal bed methane play located in the Uinta Basin, Utah. The Helper Field - a Northern extension of the Drunkards Wash Field - has produced some 55 billion Bcf of gas from the Ferron coal and sands. Other potentially productive reservoirs are the Blackhawk coals and the Bluegate shales.

Based on empirical data of recoveries from the Helper field, Marion anticipates successful wells could contain recoverable reserves of at least of 1.4 Bcf per well.

KRR #1 Well

The Consolidated Entity successfully completed and tested the KRR #1 well with a stabilised flow rate of 1.3 million cubic feet of gas per day.

The successful completion of the well confirms the northern extension of the Helper and Drunkards Wash Fields. The flow achieved from this well is approximately four times the average well in the area, indicating a significant upside in recoverable reserves.

Other Wells

The Consolidated Entity has also tested the KRR #2 well at a rate of 1.1 million cubic feet of gas per day and is currently completing and testing the Cordingly Canyon 15-1 and 15-2 wells, and the Ball Park Canyon #1 well, as part of a 15 well program.

Both the Helper and the Clear Creek Projects have easy access to pipelines; contracts for the sale of gas are currently being finalized.

2006 Drilling Program

The wells discussed above are part of a 15 well drilling program, although as a result of the success achieved to date the Consolidated Entity is considering expanding this program.

JEFFERSON-MCLEOD

East Texas (30% owned by Marion Energy)

The Jefferson-McLeod project is in part a re-development of the large Rodessa field and other reservoirs (Pettit, Travis Peak, Cotton Valley and Bossier) located in Marion and Cass counties in the NE corner of Texas. Other plays are also being developed as the Consolidated Entity expands its knowledge in the area.

Well Re-Completions

In the second half of the 2005 calendar year, the Consolidated Entity re-completed the Davis #2, Childers #1 and Huntington #3 wells. Testing of these wells indicates a total combined flow rate of approximately 1.2 million cubic feet of natural gas equivalent per day to the Consolidated Entity.

In the last calendar quarter of 2005, the Harris #1U well was successfully re-completed, resulting in a flow rate of 1.1 million cubic feet of gas per day, or approximately 265,000 cubic feet of gas per day to the Consolidated Entity. The program continues to show positive and repeatable results which will result in a solid build-up of cash flow in 2006.

Upgrade of Production Infrastructure

In late November 2005, the Consolidated Entity commenced a program to upgrade existing infrastructure. The infrastructure upgrades include pumping systems, the building of new pipeline gathering systems and the building of a new salt water disposal plant to handle the Consolidated Entity's produced water, as well as third party water for commercial purposes which are expected to generate strong cash flow. This program will be completed in late March 2006. As a result of this program, it is expected that there will be increases in production rates and accompanying cash flow.

2006 Drilling Program

The Consolidated Entity expects to participate in the drilling of 8 new wells and 4 well re-completions in 2006. However, it needs to be recognised that equipment shortages in East Texas may possibly cause some delays in this program.

Significant changes in the State of Affairs

Placement of Shares

In November 2005, the Consolidated Entity successfully completed a placement of 16,000,000 shares, at 32 cents each, principally to institutional investors. The placement raised $4.82 million net of costs. The purpose of the issue was to provide additional capital to enable the Consolidated Entity to expand and accelerate its development drilling and well work-over program in East Texas and Utah.

In February 2006, the Consolidated Entity successfully completed a private placement of 5,615,982 shares, at 69 cents each, to swisspartners Investment Limited, one of Switzerland's leading independent investment management firms. The placement raised $3.87 million net of costs. The purpose of the issue was to provide additional capital to enable the Consolidated Entity to accelerate its drilling program of up to 35 new wells and to allow further expansion of land acquisition activities in Utah.

Supplementary Incentive Options

The Annual General Meeting of the Consolidated Entity held on 30 November, 2005 approved the issue of 20,000,000 Supplementary Incentive Unlisted Options exercisable at 25 cents with an expiry date of 30 June, 2009 and 20,000,000 Supplementary Unlisted Incentive Options exercisable at 30 cents with an expiry date of 30 June, 2009. These options have been issued to Management. These options are not additional options and only become operative in the event of management's existing 20,000,000 25 cent options and 20,000,000 30 cent options not being exercised by their expiry dates of 30 June 2007 and 30 June 2008 respectively.

Change of Name of Company

The Annual General Meeting of the Company held on 30 November, 2005 approved the change of name of the Company to Marion Energy Limited (MAE). Regulatory approval for the name change was subsequently obtained and the change of name on the Australian Stock Exchange became effective on 23 December, 2005.

Appointment of Chairman

At the Annual General Meeting of the Company held on 30 November, 2005 Mr. Michael Atkins announced that he would be stepping down as Chairman of the Board of Directors whilst remaining on the Board. The Board of Directors subsequently elected Mr. Gregory Harvey to the position of Chairman of the Board of Directors.

Adoption of Australian equivalents to International Financial Reporting Standards ("AIFRS")

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

Auditor's Independence Declaration

The lead auditor's independence declaration under section 307C of the *Corporations Act* 2001 is set out on page 6 for the half-year ended 31 December 2005.

Signed in accordance with a resolution of the Board of Directors

P.T. Colley

....

Peter Collery
Director

Dated at Melbourne this 16th day of March 2006

BDO

Chartered Accountants

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DECLARATION OF INDEPENDENCE BY BDO TO THE DIRECTORS OF MARION ENERGY LIMITED

To the best of my knowledge and belief, there have been no contraventions of:

- the auditor independence requirements of the Corporations Act in relation to the review; and
- any applicable code of professional conduct in relation to the review..

M. Schofield

M J Schofield
Partner

BDO
Chartered Accountants

Melbourne, 16 March 2006

MARION ENERGY LIMITED
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DIRECTORS' DECLARATION

The Directors of the Company declare that:

1. The financial statements, comprising the Income Statement, Balance Sheet, Cash Flow Statement, Statement of Changes in Equity and accompanying notes are in accordance with the Corporations Act 2001 and:

   a) comply with Accounting Standard and the Corporations Regulations; and

   b) give a true and fair view of the Consolidated Entity's financial position as at 31 December 2005 and of its performance for the half-year ended on that date.

2. In the Directors' opinion there are reasonable grounds to believe that the Consolidated Entity 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 and dated this 16th day of March, 2006.

P.T. Collery

Peter Collery
Director

MARION ENERGY LIMITED
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CONSOLIDATED INCOME STATEMENT
FOR THE HALF-YEAR ENDED 31 DECEMBER 2005

	Note	Consolidated Entity	
		Half-year ended 31.12.2005 $	Half-year ended 31.12.2004 $
Revenue from operating activities		527,142	299,402
Gain on disposal of oil and gas property		429,283	-
Revenue from outside operating activities		82,763	235,617
Revenue		1,039,188	535,019
Cost of sales		(399,795)	-
Administration expenditure		(152,789)	(273,406)
Employee benefits expense		(1,260,077)	(150,112)
Legal and professional fees		(362,653)	(302,541)
Management fees		-	(77,460)
Loss before income tax expense	3	(1,136,126)	(268,500)
Income tax benefit		-	-
Net loss for the period		(1,136,126)	(268,500)
Loss attributable to members of the parent entity		(1,136,126)	(268,500)
Basic earnings per share (cents per share)		(0.7)	(0.6)
Diluted earnings per share (cents per share)		(0.7)	(0.6)

The accompanying notes form part of these financial statements.

MARION ENERGY LIMITED
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CONSOLIDATED BALANCE SHEET
AS AT 31 DECEMBER 2005

	Note	Consolidated Entity 31.12.2005 $	Consolidated Entity 30.6.2005 $
CURRENT ASSETS			
Cash and cash equivalents		4,603,801	5,356,061
Trade and other receivables		894,629	1,272,855
Other current assets		43,734	165,547
TOTAL CURRENT ASSETS		5,542,164	6,794,463
NON CURRENT ASSETS			
Receivables		202,763	125,678
Available-for-sale financial assets		581,984	219,719
Plant and equipment		2,073,111	1,386,212
Oil and gas properties		23,827,702	18,727,878
Other		-	110,085
TOTAL NON CURRENT ASSETS		26,685,560	20,569,572
TOTAL ASSETS		32,227,724	27,364,035
CURRENT LIABILITIES			
Trade and other payables		1,887,911	909,637
Interest bearing loans and borrowings		14,455	8,466
Provisions		15,197	8,177
TOTAL CURRENT LIABILITIES		1,917,563	926,280
NON-CURRENT LIABILITIES			
Interest bearing loans and borrowings		37,402	5,572
Provisions		326,608	220,476
TOTAL NON-CURRENT LIABILITIES		364,010	226,048
TOTAL LIABILITIES		2,281,573	1,152,328
NET ASSETS		29,946,151	26,211,707
EQUITY			
Issued capital	4	69,154,162	64,333,656
Capital profits reserve		277,610	277,610
Share option reserve		2,726,159	2,695,000
Foreign currency translation reserve		(432,925)	(451,830)
Retained losses		(41,778,855)	(40,642,729)
TOTAL EQUITY		29,946,151	26,211,707

The accompanying notes form part of these financial statements.

MARION ENERGY LIMITED
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CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE HALF-YEAR ENDED 31 DECEMBER 2005

	\$ Share Capital Ordinary	\$ Capital Profits Reserves	\$ Share Option Reserve	\$ Foreign Currency Translation Reserve	\$ Retained Losses	\$ Total
Balance at 1.7.2004	53,118,745	277,610	-	-	(39,365,782)	14,030,573
Shares issued during the period	21,035,074	-	-	-	-	21,035,074
Conversion of options	49,000	-	-	-	-	49,000
Return of capital	(9,869,163)	-	-	-	-	(9,869,163)
Share options issued	-	-	2,695,000	-	-	2,695,000
Translation of foreign currency statements (A)	-	-	-	133,953	-	133,953
Loss attributable to members of the parent entity	-	-	-	-	(268,500)	(268,500)
Balance at 31.12.2004	64,333,656	277,610	2,695,000	133,953	(39,634,282)	27,805,937
Balance at 1.7.2005	64,333,656	277,610	2,695,000	(451,830)	(40,642,729)	26,211,707
Shares issued during the period	4,820,506	-	-	-	-	4,820,506
Share options issued	-	-	31,159	-	-	31,159
Translation of foreign currency statements (A)	-	-	-	18,905	-	18,905
Loss attributable to members of the parent entity	-	-	-	-	(1,136,126)	(1,136,126)
Balance at 31.12.2005	69,154,162	277,610	2,726,159	(432,925)	(41,778,855)	29,946,151

(A) The foreign currency translation reserve is used to record exchange differences arising from the translation of the financial statements of foreign subsidiaries.

The accompanying notes form part of these financial statements.

MARION ENERGY LIMITED
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CONSOLIDATED CASH FLOW STATEMENT
FOR THE HALF-YEAR ENDED 31 DECEMBER 2005

	Half-year ended 31.12.2005 $	Half-year ended 31.12.2004 $
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	911,815	299,402
Payments to suppliers and employees	(1,976,953)	(1,160,949)
Payments for capitalised exploration and development expenditure	(4,973,146)	-
Finance costs	(695)	-
Interest received	62,985	235,617
Net cash used in Operating activities	(5,975,994)	(625,930)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of investments	1,472,791	-
Loans to associated entities	-	(720,846)
Payments for investments	(377,362)	(14,112,950)
Funds transferred (to)/from short term investments	-	11,478,744
Payment for plant and equipment	(730,020)	-
Net cash provided by / (used in) Investing activities	365,409	(3,355,052)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from borrowings	43,454	-
Proceeds from share issues	5,120,000	22,544,994
Payment of share issue costs	(299,494)	(1,421,370)
Return of capital to shareholders	-	(9,869,163)
Repayment of borrowings	(5,635)	-
Net cash provided by Financing activities	4,858,325	11,254,461
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	(752,260)	7,273,479
Cash and cash equivalents at 1 July	5,356,061	429,240
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	4,603,801	7,702,719

The accompanying notes form part of these financial statements.

1. SUMMARY 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, Australian Accounting Standard AASB 134: Interim Financial Reporting, Urgent Issues Group Interpretations and other authoritative pronouncements of the Australian Accounting Standards Board.

Marion Energy Limited is a public company listed on the Australian Stock Exchange, incorporated and domiciled in Australia, with interests in oil and gas properties in the United States of America.

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

As this is the first interim financial report prepared under Australian equivalents to International Financial Reporting Standards ("AIFRS"), the accounting policies applied are inconsistent with those applied in the 30 June 2005 annual report as this report was presented under previous Australian Generally Accepted Accounting Principles ("AGAAP"). Accordingly, a summary of the significant accounting policies under AIFRS has been included below. A reconciliation of equity and profit and loss between previous GAAP and AIFRS is included in Note 2.

The half-year report does not include full disclosures of the type normally included in an annual financial report.

(a) Principles of Consolidation

A controlled entity is an entity Marion Energy 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 except for Marion Energy Inc, a USA incorporated entity with a December financial year end.

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

Where controlled entities have entered the Consolidated Entity during the year, their operating results have been included from the date control was obtained.

(b) Foreign Currency Translation

The functional and presentation currency of Marion Energy Limited and its Australian subsidiaries is Australian dollars ($). Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

Transactions in foreign currencies are initially recorded in the functional currency by applying the exchange rates ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of the initial transaction.

The functional currency of the foreign operations, Marion Energy Inc., is United States dollars (US$).

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(b) Foreign Currency Translation (cont'd)

As at the reporting date the assets and liabilities of this subsidiary are translated into the presentation currency of Marion Energy Limited at the rate of exchange ruling at the balance sheet date and its income statement is translated at the weighted average exchange rate for the year.

The exchange differences arising on the translation are taken directly to a separate component of equity.

On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in profit or loss.

(c) Revenue

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

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

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

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

(d) 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 form the Australian Taxation 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 statement of financial position are shown inclusive of GST.

(e) Income Tax

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

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 the 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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(f) Cash and Cash Equivalents

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

(g) Receivables

Trade receivables are recognised and carried at original invoice amount less a provision for any uncollectible debts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off as incurred.

(h) Investments

Shares in listed companies are classified as financial instruments available-for-sale. After initial recognition available-for-sale investments are measured at fair value with gains or losses being recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is recognised in profit or loss.

The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business on the balance sheet date. For investments with no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument that is substantially the same; discounted cash flow analysis and option pricing models.

(i) Investments in Associates

Investments in associate companies are recognised in the financial statements by applying the equity method of accounting.

(j) Interests in Joint Ventures

Interests in the joint ventures are carried at the lower of the equity-accounted amount and recoverable amount in the consolidated financial report.

(k) Plant and Equipment

Plant and Equipment is stated at cost less accumulated depreciation and any impairment in value.

The carrying amount of plant and equipment is reviewed annually by Directors to ensure it is not in excess of the recoverable amount from these assets. The recoverable amount is assessed on the basis of the expected net cash flows 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 the recoverable amount. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Depreciation

The depreciable amount of all fixed assets including any capitalised lease assets is depreciated on a straight line basis over their useful lives to the Consolidated Entity commencing from the time the asset is held ready for use. The depreciation rates used for each class of depreciable assets are:

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(k) Plant and Equipment (cont'd)

Class of Fixed Asset	Depreciation Period	Depreciation Rate
Leasehold improvements	7 years	14%
Plant and equipment	5 to 7 years	14-20%

Impairment

The carrying values of plant and equipment are reviewed for impairment at each reporting date, with recoverable amount being estimated when events or changes in circumstances indicate that the carrying value may be impaired.

The recoverable amount of plant and equipment is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

For an asset that does not generate largely independent cash inflows, recoverable amount is determined for the cash-generating unit to which the asset belongs, unless the asset's value in use can be estimated to be close to its fair value.

An impairment exists when the carrying value of an asset or cash-generating units exceeds its estimated recoverable amount. The asset or cash-generating unit is then written down to its recoverable amount.

For plant and equipment, impairment losses are recognised in the income statement in the cost of sales line item.

(l) 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 full in the year in which the decision to abandon the area is made.

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

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

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 mining plant, equipment and building structures, waste removal and rehabilitation of the site in accordance with clauses of the mining permits. Such costs are 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 for 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 are determined on the basis that restoration will be completed within one year of abandoning a site.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(m) Payables

Liabilities for trade creditors and other amounts are carried at cost which is the fair value of the consideration to be paid in the future for goods and services received, whether or not billed to the Company.

(n) Leases

Finance leases, which transfer to the Consolidated Entity substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised as an expense in profit or loss.

Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset and the lease term if there is no reasonable certainty that the Consolidated Entity will obtain ownership by the end of the lease term.

Operating lease payments are recognised as an expense in the income statement on a straight-line basis over the lease term. Lease incentives are recognised in the income statement as an integral part of the total lease expense.

(o) Employee Benefits

Provision is made for the Consolidated Entity's liability for employee benefits arising from services rendered by employees to balance date. Employee benefits that are expected to be settled within one year have been measured at the amounts expected to be paid when the liability is settled, plus related on-costs. Other employee benefits payable later than one year have been measured at the present value of the estimated future cash outflows to be made for those benefits.

Contributions are made by the Consolidated Entity to a defined-contribution employee superannuation fund and are charged as expenses when incurred.

(p) Contributed Equity

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

(q) Share-based Payment

The Consolidated Entity provides benefits to employees (including senior executives) of the Consolidated Entity in the form of share-based payments, whereby employees render services in exchange for shares or rights over shares (equity-settled transactions).

The cost of these equity-settled transactions with employees is measured 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 valuer.

In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares of Marion Energy Limited (market conditions) if applicable.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(q) Share-based Payment (cont'd)

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award (the vesting period).

The cumulative expense recognised for equity-settled transactions at each reporting date until vesting date reflects (i) the extent to which the vesting period has expired and (ii) the Group's best estimate of the number of equity instruments that will ultimately vest. No adjustment is made for the likelihood of market performance conditions being met as the effect of these conditions is included in the determination of fair value at grant date. The income statement charge or credit for a period represents the movement in cumulative expense recognised as at the beginning and end of that period.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is only conditional upon a market condition.

If the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified. In addition, an expense is recognised for any modification that increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee, as measured at the date of modification.

If an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award and designated as a replacement award on the date that it is granted, the cancelled and new award are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect, if any, of outstanding options is reflected as additional share dilution in the computation of earnings per share.

(r) Earnings Per Share

Basic EPS is calculated as net profit attributable to members, adjusted to exclude costs of servicing equity (other than dividends) and preference share dividends, divided by the weighted average number of ordinary shares, adjusted for any bonus element.

Diluted EPS is calculated as net profit attributable to members, adjusted for:

- Costs of servicing equity (other than dividends) and preference share dividends;
- The after tax effect of dividends and interest associated with the dilutive potential ordinary shares that have been recognised as expenses; and
- Other non-discretionary changes in revenues or expenses during the period that would result from the dilution of potential ordinary shares;

divided by the weighted average number of ordinary shares and dilutive potential ordinary shares, adjusted for any bonus element.

(s) Comparative Figures

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

2. IMPACT OF ADOPTION OF AIFRS

The impacts of adopting AIFRS on the total equity and loss before tax as reported under previous AGAAP are illustrated below.

(i) Reconciliation of total equity as presented under previous AGAAP to that under AIFRS

	Consolidated Entity		
	30.6.05	**31.12.04**	**1.7.04**
	$	**$**	**$**
Total equity under previous AGAAP	23,501,610	24,939,125	14,030,573
Restatement of non-current investments (A)	15,097	-	-
Share-based payment (C)	2,695,000	2,695,000	-
Total equity under AIFRS	26,211,707	27,634,125	14,030,573

(ii) Reconciliation of loss before tax under previous AGAAP to that under AIFRS

	Consolidated Entity	
	Year ended 30.6.05	**Half-year ended 31.12.04**
	$	**$**
Prior period loss before tax as previously reported	(1,743,874)	(134,547)
Restatement of non-current investments (A)	15,097	-
Foreign currency translation adjustments (B)	451,830	(133,953)
Prior period loss before tax under AIFRS	(1,276,947)	(268,500)

(A) Non-current investments, classified as available for sale, have been restated under AASB 139 Financial Instruments to reflect their fair value to the Consolidated Entity as at 30 June 2005, 31 December 2004 and 1 July 2004. This has caused a reduction in loss for the six months ended 30 June 2005 and an increase in total equity at 30 June 2005.

(B) Under AASB 121 exchange differences, arising from the conversion to an Australian Dollar presentation currency of the results and financial position of a controlled foreign entity, are not recognised in profit or loss as under previous AGAAP. This has caused a reduction in the loss for the period ended 30 June 2005 and an increase in the loss for the period ended 31 December 2004. These amounts are now separately disclosed in Equity as a Foreign Currency Translation Reserve.

(C) Share options were issued for services rendered in the acquisition of Marion Energy Inc in the USA. Under AASB 2 the fair value of these options is recognised and is therefore an addition to the oil and gas properties asset in the consolidated accounts.

3. LOSS FROM ORDINARY ACTIVITIES

The following revenue and expense items are relevant in explaining the financial performance for the interim period.

	Half-year ended 31.12.2005 $	Half-year ended 31.12.2004 $
Interest received – other persons	62,985	235,617
Depreciation	40,055	4,519
Borrowing costs – Other persons	695	-
Amortisation	12,759	-

4. ISSUED CAPITAL

	Half-year ended 31.12.2005		Half-year ended 31.12.2004	
	Number	$	Number	$
Issued Shares				
Balance at 1 July	144,106,552	64,333,656	29,906,552	53,118,745
Shares issued during the half-year	16,000,000	4,820,506	113,500,000	21,035,074
Conversion of options	-	-	700,000	49,000
Return of capital	-	-	-	(9,869,163)
Balance at 31 December	160,106,552	69,154,162	144,106,552	64,333,656
	Number	$	Number	$
Issued Options				
Balance at 1 July	85,166,667	2,695,000	700,000	-
Options issued during the half-year	40,000,000	31,159	85,166,667	2,695,000
Options converted during the half-year	-	-	(700,000)	-
Balance at 31 December	125,166,667	2,726,159	85,166,667	2,695,000

Terms of the options on issue as at 31 December 2005 are:

- 45,166,667 of the options are listed on the ASX and are exercisable at 25 cents on or before 31 March 2007.
- 20,000,000 unlisted options are exercisable at 25 cents on or before 30 June 2007.
- 20,000,000 unlisted options are exercisable at 30 cents on or before 30 June 2008.

20,000,000 Supplementary Incentive Unlisted Options, exercisable at 25 cents with an expiry date of 30 June, 2009 and 20,000,000 Supplementary Unlisted Incentive Options, exercisable at 30 cents with an expiry date of 30 June, 2009 have been issued to Management. These options only become operative in the event that management's existing 20,000,000 25 cent options and 20,000,000 30 cent options are not exercised by their expiry dates of 30 June 2007 and 30 June 2008 respectively.

5. ACQUISITION OF SUBSIDIARIES

No subsidiaries were acquired or disposed of during the six months ended 31 December 2005.

6. CONTINGENT LIABILITIES

The Consolidated Entity has no Contingent Liabilities as at 31 December 2005.

7. CHANGE OF NAME

On 23 December 2005 the Consolidated Entity changed its name from Carpenter Pacific Resources Limited to Marion Energy Limited.

8. SEGMENT INFORMATION

Business and geographical segments

	Oil and Gas USA		Corporate Australia		Eliminations		Consolidated Entity	
	2005	2004	2005	2004	2005	2004	2005	2004
	$	$	$	$	$	$	$	$
REVENUE								
External sales	527,142	-	-	299,402	-	-	527,142	299,402
Other revenue	435,733	-	792,284	235,617	(715,971)	-	512,046	235,617
Total segment revenue	962,875	133,953	792,284	535,019	(715,971)	-	1,039,188	535,019
RESULT								
Segment result	(897,257)	(243,860)	(238,869)	(24,640)	-	-	(1,136,126)	(268,500)
Losst before income tax							(1,136,126)	(268,500)

Business and Geographical Segments
The Consolidated Entity has two business segments
- An oil and gas development and production division based in Texas and Utah, USA.
- A corporate head office function based in Camberwell, Victoria, Australia

9. EVENTS SUBSEQUENT TO REPORTING DATE

On 24 February 2006 the Consolidated Entity successfully completed a private placement of 5,615,982 shares at $0.69 per share raising $3.87 million net of costs.

On 8 March 2006 the Consolidated Entity entered into an agreement with Odyssey Energy Limited to sell a 15% working interest in the Helper project for US$3.6 million with Marion Energy remaining the operator and owner of the largest working interest of 48.75%.

There has been no matter or circumstance that has arisen since the end of the reporting period which is not otherwise dealt with in this report, that has significantly effected or may significant affect the operations of the Consolidated Entity, the results of those operations, or the state of affairs of the Consolidated Entity in subsequent financial periods.

BDO

Chartered Accountants

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INDEPENDENT REVIEW REPORT

To the members of Marion Energy Limited

Scope

We have reviewed the financial report comprising the Income Statement, Balance Sheet, Cash Flow Statement, Statement of Changes in Equity, accompanying notes and Directors' Declaration of Marion Energy Limited for the half-year ended 31 December 2005. The disclosing entity's directors are responsible for the financial report. 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 Accounting Standard AASB 134: Interim Financial Reporting, other mandatory professional reporting requirements in Australia and statutory requirements, so as to present a view which is consistent with our understanding of the disclosing entity's financial position, and performance as represented by the results of its operations and its cash flows, and in order for the disclosing entity to lodge the financial report with the Australian Securities & Investments Commission.

Our review has been conducted in accordance with Australian Auditing Standards applicable to review engagements. A review is limited primarily to inquiries of the disclosing 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.

Independence

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

The independence declaration given to the directors in accordance with section 307C would be in the same terms if it had been given at the date of this report.

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 Marion Energy Limited is not in accordance with:

(a) the Corporations Act 2001, including:

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

  (ii) complying with Accounting Standard AASB 134: Interim Financial Reporting and the Corporations Regulations 2001; and

(b) other mandatory professional reporting requirements in Australia.

BDO

BDO
Chartered Accountants

M. Schofield

M J Schofield
Partner

Melbourne, 16 March 2006

BDO is a national association of separate partnerships and entities