



29 September 2006

The Company Announcements Officer
Australian Stock Exchange Limited
Exchange Centre
20 Bridge Street
SYDNEY NSW 2000
By Electronic Lodgement

2006 ANNUAL REPORT

Please find attached the 2006 Annual Report incorporating the audited financial statements for the year ended 30 June 2006. The printed version is expected to be released towards the end of October with the Annual General Meeting scheduled for 29 November 2006.

Yours faithfully,



Andy Lydyard
Managing Director

General Enquiries

Andy Lydyard
Managing Director
Comet Ridge Limited
600 17th Street, Suite 600-S
Denver, Colorado
Phone: +1 (303) 226 1303
Fax: +1 (303) 226 1301
Mobile: +1 (303) 547 4478
Email: comet@cometridge.com.au



COMET RIDGE LIMITED

ANNUAL REPORT

FOR THE YEAR ENDED 30 JUNE 2006

Corporate Directory

DIRECTORS

Mr Jeff Schneider (Non Executive Chairman)
Mr Andy Lydyard (Managing Director)
Mr Simon Ashton (Non Executive Director)
Ms Gillian Swaby (Non Executive Director)

COMPANY SECRETARY

Ms Gillian Swaby

REGISTERED OFFICE

Level 9, Wesfarmers House
40 The Esplanade
Perth WA 6000
Telephone: 08 6464 0499
Facsimile: 08 6464 0498
Email: comet@cometridge.com.au
Website: www.cometridge.com.au
ABN: 47 106 092 577

USA OPERATIONS

600 17th Street, Suite 600-S
Denver, Colorado 80202
Telephone: +1 (303) 226 1300
Facsimile: +1 (303) 226 1301

AUSTRALIAN OPERATIONS

Level 3, Waterfront Place
1 Eagle Street
Brisbane QLD 4000
Telephone: (07) 3360 0215
Facsimile : (07) 3360 0222

AUDITORS

HLB Mann Judd
15 Rheola Street
WEST PERTH WA 6005

SOLICITORS

Blakiston & Crabb
1202 Hay Street
West Perth WA 6005

INVESTOR RELATIONS

Jo Ford
Resource PR
Telephone: 0140 633 370
Email: jo@resourcepr.com.au

SHARE REGISTRY

Computershare Investor Services Pty Limited
Level 2
45 St Georges Terrace
Perth WA 6000
Telephone: 9323 2000
Facsimile: 9323 2033
Website: www.computershare.com

LISTED ON AUSTRALIAN STOCK EXCHANGE LIMITED

ASX CODE: COI

Contents

Chairman's Letter to Shareholders	4
Managing Director's Report	5
Business Overview	7
Company Projects	8
<i>US Projects</i>	8
Grays Harbor – Washington State	8
Tow Creek / Bear River – Colorado	10
Cedar Creek – Washington State	10
<i>Australian Projects</i>	11
Mahalo – Central Eastern Queensland	11
Tipton West – South East Queensland	12
ATP'S 743P & 744P – Galilee Basin, Queensland	13
PEL 427 & 428 – Gunnedah Basin, New South Wales	13
Personnel	13
Health, Safety and Environment	14
Corporate Governance Statement	15
Directors' Report	21
Auditors' Independence Declaration	29
Income Statement	30
Balance Sheet	31
Statement of Changes in Equity - Consolidated	32
Statement of Change in Equity – Company	33
Cash Flow Statement	34
Notes to the Financial Statements	35
Directors' Declaration	64
Independent Audit Report	65
Shareholder Information	67

The financial report covers both Comet Ridge Limited as an individual entity and the consolidated entity consisting of Comet Ridge limited and its subsidiaries.

Comet Ridge Limited is a company limited by shares, incorporated and domiciled in Australia. Its registered office and principal place of business is:-

Comet Ridge Limited
Level 9, Wesfarmers House
40 The Esplanade
PERTH WA 6000

Through the use of the internet, we have ensured that our corporate reporting is timely, complete, and available globally at minimum cost to the company. All press releases, financial statements and other information is available on our website www.cometridge.com.au

Chairman's Letter

Dear Shareholders,

Your company has made great progress in this last year and is poised for what I expect will be a period of exceptional growth.

At a General Meeting in October last year, Shareholders voted unanimously in favour of the sale of the Company's Tipton West coal seam gas interests in south-eastern Queensland. The funds realised from the sale have primarily been applied to advancing our US strategy.

During this year the Company has:-

- secured exploration rights, on a 100% basis, covering 420,000 acres in the prospective Grays Harbor basin southwest of Seattle in Washington State
- extended the acreage position in the Cedar Creek project area in Washington State, south of Seattle to approximately 130,000 acres (40% interest held by a Comet Ridge subsidiary)
- increased both its equity interests and acreage position in the Tow Creek and Bear River oil field redevelopment projects in Colorado
- maintained a program to earn its 40% interest in the Mahalo coal seam gas project area in Queensland.

Field exploration activities are planned in all of these project areas in the coming year. Even modest success in any of these opportunities will provide shareholders with a highly leveraged position. If targeted exploration outcomes are realised, the upside potential for shareholders is very significant.

A key to the advancement of our US strategy has been the re-location of the Managing Director to Denver in December 2005. His presence on the ground has enabled the Company to recruit an experienced and energetic team to continue to identify new opportunities and to progress them as operator if it adds value to do so.

I believe this operating capability is critical to Comet Ridge's capacity to capture and develop high impact opportunities. We aim to control our own destiny as far as is reasonably possible. Where we have non-operated positions it will be with operators in whom we have confidence – not only in their technical skills, but also their desire to "get on with the job".

On behalf of all directors, I would like to thank Andy Lydyard, our Managing Director and all other employees for their considerable efforts both in Australia and in North America. Most of our employees have joined the Company during this year. Their courage in joining a fledgling oil and gas company is appreciated and will, I am certain, be rewarded with being part of building a great company and the financial success that will bring to them as equity holders.

I also thank shareholders for their support during this past 12 months. I am confident this support will also be well rewarded in the coming year.

Yours faithfully,

JEFF SCHNEIDER
Chairman

Managing Director's Report

Introduction

2005/06 has been a watershed year for Comet Ridge Limited and its shareholders with the Company executing on its expanded strategy which now:

- emphasises activities in North America
- incorporates conventional oil and gas as well as coal seam gas
- emphasises control via operatorship of projects

Strategy

The Company's strategy is to provide maximum leverage to shareholders by focusing on:

- Generating our own opportunities
- Securing large acreage positions and, where possible, "owning the play"
- Maintaining meaningful ownership interests
- Operating when practicable
- Applying proven technology in new areas
- Building a diversified portfolio
- Remaining vigilant for identification of new opportunities

We seek over-looked areas. Our search parameters are simple:

- Areas where industry activity levels are currently low
- Existing well control with oil and gas indications or historical production
- Unique opportunities to secure large, contiguous land positions
- Presence of infrastructure

2005/06 Results:

- Comet established in the US controlling over 560,000 gross acres (>2,250 km²)
- Three new "company maker projects"
- Operator of three separate joint ventures
- US management and operational team assembled
- Preparations for drilling on Tow Creek and Bear River are well advanced

Objectives for 2006/07:

- Drill nine wells in the first half of the year
- Fulfil earning commitment at Mahalo, Queensland
- Establish a basis for commercial development at Mahalo
- Establish reserves, production and cash flow at Tow Creek, Colorado
- Prove the presence of a large coal seam gas resource at Cedar Creek in Washington
- Develop drillable prospects in Grays Harbor Basin, Washington
- Increase level of drilling activity into 2007
- Secure additional drilling prospects

Managing Director's Report

Your Company is poised for what we expect will be phenomenal growth. We have a very strong portfolio of “Company Maker” projects and a team of people (all of whom have meaningful equity positions) capable of converting this immense potential into significant rewards for shareholders.

2005/06 was a year of refocusing and building the opportunity portfolio; 2006/07 is the year where we expect to commence realising this potential.

A J LYDYARD
Managing Director

Business Overview

Comet Ridge Limited and its wholly owned US subsidiaries, Comet Ridge USA Inc. and St. Helens Energy LLC, have participating interests in five Australian exploration permits and extensive leasehold positions over three significant project areas in the United States. The Company also retains a 1.5% gross royalty over the Tipton West coal seam gas field and two associated exploration permits in south-eastern Queensland (Table 1).

Table 1. Interests in Australian Petroleum Tenements and US Oil & Gas Leases

Country	State	Project/Permit	Play Type	Area (Sq km)	Interest	Operator
Australia	QLD	Mahalo	CSG	1,053	40%	Santos
					1.5%	Arrow
	QLD	Tipton West	CSG	5,933	ORRI	Energy
	QLD	ATPA 743	CSG+Conv	6,482	100%	Comet Ridge
	QLD	ATPA 744	CSG+Conv	6,524	100%	Comet Ridge
	NSW	PEL 427	CSG+Conv	7,014	25%	Eastern Star
	NSW	PEL 428	CSG+Conv	6,021	20%	Eastern Star
		Total		33,027		
USA	Colorado	Tow Creek	Oil	49	37½%	Comet Ridge
	Colorado	Bear River	Oil	16	33¾%	Comet Ridge
	Washington	Cedar Creek	CSG+Conv	526	40%	Cascadia
	Washington	Grays Harbor	Oil & Gas	1,700	100%	Comet Ridge
			Total		2,291	

Conv = conventional oil and gas

This year saw a major shift in the company's strategy, from an Eastern Australian coal seam gas focus to an expanded strategy that incorporates conventional oil and gas and coal seam gas in Australia and the USA. The shift in strategy has resulted in the Company becoming transaction oriented resulting in eight significant transactions being initiated and closed during the year (Table 2). Numerous smaller lease acquisitions occurred in the latter half of the year, principally at Tow Creek.

Table 2. Significant Transactions

Transaction Type	Project	Property Type	Date	Net Proceeds	Cost USD
Divest	Tipton West	Proved Gas Field	Aug 05	\$4,885,000*	
Acquisition	Cedar Creek	Lease option	Aug 05		40,000
Acquisition	Cedar Creek	Leasehold	Nov 05		40,000
Acquisition	Tow Creek	Leasehold	Jan 06		350,000
Acquisition	Bear River	Leasehold	Feb 06		95,000
Acquisition	Cedar Creek	Lease option	May 06		7,000
Acquisition	Tow Creek	Well + Leasehold	May 06		45,000
Acquisition	Grays Harbor	Lease option	Jun 06		400,000

* Plus 1.5% gross royalty capped at \$8 million

Business Overview

The Company drilled and tested two core holes under Phase 2 of its earning obligations at Mahalo in Queensland. The final earning well, Mahalo 2 was drilled after the report period in late August 2006. Drilling of this well had been delayed due to the tight rig market in Queensland. The Company is still in the process of evaluating the results of the well but initial indications are disappointing. Despite this setback the other 4 wells drilled as part of Comet Ridge's earning program have demonstrated that there is a potential coal seam gas project at Mahalo. Comet Ridge has now fulfilled its earning obligation and it has a 40 percent interest in the project.

Comet Ridge closed on the sale of its interests in the Tipton West field in early January 2006. Total proceeds from the sale exceeded \$4.88 million in cash. As indicated in Table 2, the Company retains a 1.5% gross royalty (capped at \$8 million) in the project. As of the end of June 2006 the operator has drilled 18 of 75 planned wells and is forecasting first gas sales, and hence cash flow to Comet Ridge, in early 2007.

Comet Ridge farmed out majority equity in PEL 427 and 428 in New South Wales to Eastern Star. Little progress has occurred on the farmin due to the limited availability of seismic crews to New South Wales in 2005-06. Upon Eastern Star completing the earning Comet Ridge will hold 25% equity in PEL 427 and 20% equity in PEL 428. Eastern Star is due to carry Comet Ridge through a program of seismic and one well in each PEL in the coming year.

The Company is working with the Queensland Government Indigenous Services to finalise preconditions for the formal grant of ATP 743 and ATP 744P in the Galilee basin area of central Queensland. This process should come to a conclusion in the coming year with exploration planned to commence late 2007.

The Company's broader strategy of operating the majority of its projects and the focus on the USA has required the building of an operational capability in the US. The Managing Director relocated to Denver, Colorado in December 2005. Since then a permanent office has been established and a team of oil and gas specialists has been assembled.

Significant progress has been achieved towards readying for an active drilling program in the USA. Drilling on the Tow Creek/Bear River prospects is expected in September with drilling on the Cedar Creek project in the State of Washington also expected in the first half of the financial year.

In May, the Company raised a total of \$2.5 million via a placement of 9.17 million fully paid shares.

COMPANY PROJECTS

US PROJECTS

GRAYS HARBOR – WASHINGTON STATE – COMET RIDGE 100%

Comet Ridge via its wholly owned subsidiary, St. Helens Energy, LLC, (St. Helens) has secured a 2 year lease option on over 420,000 acres (1640 sq km) covering a large part of the prospective Grays Harbor Basin in western Washington State, USA. The Company owns 100% and is the operator.

Business Overview

Terms

Terms of the lease option are as follows:

- An upfront cash payment of USD400,000;
- A commitment to exploration work to the value of USD650,000 over the term of the option agreement;
- Comet Ridge (via St Helens) has the exclusive right to lease any of the 420,000 acres (subject to 4,000 acre minimum and 10,000 acre maximum leases) on pre-negotiated terms.
- The leases will have five year terms and are subject to reasonable per acre bonus payments (cash up front), rentals (annual payments) and royalty rates (payable from production);
- The landowner has the right to participate in any drilling project up to a 15% interest but has to pay its pro-rata share of prospect and drilling costs; and
- Comet Ridge has access, at no cost, to all relevant technical data held by the landowner including 600 miles of 1980's vintage two dimensional (2D) seismic data.

Location

The Grays Harbor Basin (GHB) lies some 160 km (100 miles) southwest of the city of Seattle in the State of Washington. The project area lies to the north and south of the Chehalis River, inland from the coast.

Objectives

St. Helens is pursuing **conventional** oil and gas in predominantly structural traps under this extensive land holding. This opportunity provides shareholders with significant leverage to exploration success. The Company views the basin to have excellent potential for commercial success despite it having only been lightly explored. All of the key parameters necessary for commercial oil and gas accumulations are present including: oil and gas shows (mature source rocks), multiple good quality sandstone reservoirs, seismically defined structures, good seal rocks, excellent access and pipeline infrastructure in place.

The option agreement comes with an inventory of 15 mapped leads, access to an extensive geological and geophysical database and the 960 km or 600 miles of two dimensional seismic data. Indicative reserve potential for the existing leads ranges between 50 and 250 billion cubic feet (BCF) of gas. Clearly, success at Grays Harbor will add very significant value to the Company.

The seismic data is of particular importance as it has not been reprocessed since the early to mid 1980's. There have been a number of very significant seismic processing advances in that time frame that help add resolution to the data and might also be able to differentiate gas accumulations via certain seismic attributes.

Timing and Work Programme

Processing of the 2D seismic is expected to commence in early August. The reprocessed data will then be re-interpreted along with the available sub-surface data. The Company is planning to acquire new seismic data in the spring of 2007 (or earlier if possible) to further delineate the previously mapped leads to bring them up to drillable status for planned drilling in the latter half of 2007.

Business Overview

TOW CREEK/BEAR RIVER – COLORADO, COMET RIDGE 33.5 TO 37.5%

Comet Ridge is the operator and owns working interests between 33.5% and 37.5% in the Tow Creek and Bear River prospects in Routt County, Northern Colorado. Preparations to drill the first wells on the prospects are well advanced and drilling is expected to commence in the third quarter of 2006.

Delays to the commencement of the program have resulted from protracted negotiations with surface landowners controlling access to our preferred well locations. Surveying and permitting of the wells has commenced.

The Tow Creek and Bear River prospects are relatively low risk exploration prospects with sizeable per well reserve targets (200 to 500 thousand barrels). With current oil prices close to \$70 per barrel and expected production rates of 50 to 150 BOPD it is evident that success can quickly translate into cash flow and significant reserve value. A number of drillable locations have been identified and are being permitted for drilling later in 2006 and 2007.

Many of the planned wells will be directionally drilled; primarily to limit surface impacts and to access hitherto inaccessible areas and also to increase the probability of encountering fractures within the target reservoirs. The Company will utilise US rig equipment initially but is still working with Australian directional drilling specialist AJ Lucas Limited to access their expertise and drilling equipment for the 2007 programme.

The Company has approximately 12,000 acres under lease and continues to acquire additional acreage over the project area. A low rate producing well was acquired for the 640 acres that it holds.

CEDAR CREEK PROSPECT – WASHINGTON STATE, USA, COMET RIDGE 40%

St Helens Energy owns a 40% working interest in the Cedar Creek project area. Total acreage controlled by the Company and its joint venture partner and operator, Cascadia Energy, exceeds 526 sq km or 130,000 acres. A significant amount of work has been done assembling and evaluating a large amount of technical data including previous oil and gas drilling results, coal exploration activity, seismic and other geophysical information. The Company believes that based on the information available, substantial quantities of biogenic gas, similar to that being developed and produced in the Powder River Basin in Wyoming and Montana, are contained in the coal seams and shallow sands in this area.

The objective is to assemble an acreage position that can support and sustain a large scale shallow coal seam gas development similar to that of the prolific Powder River Basin. Assuming the area will be developed with 80 acre well spacing, the joint venture partners already control hundreds of potential locations

A number of coal exploration and water wells drilled in the area have flowed gas. One exploration well drilled within the project area flowed gas on test from a sand at 700 feet. These indications are very similar to those seen in the Powder River Basin prior to it being recognised as a major coal seam gas play. That basin now produces nearly 1 billion cubic feet per day from similar coals. The partners are also evaluating the potential for conventional gas in shallow sands and in deeper sandstones that are the lateral equivalents to those that produce gas at the Mist Field in northern Oregon (65 to 70 BCF of gas produced to date) some 30 kilometres to the southwest of the Cedar Creek area.

Business Overview

Four holes will be drilled in the second half of 2006 to test the coals underlying the acreage for coal thickness, gas content, permeability, and continuity. The objective of these wells is to confirm the extent of the play and to establish the potential resource.

AUSTRALIA

MAHALO, NORTHERN ATP 337P, QUEENSLAND, COMET RIDGE 40%

Comet Ridge is earning a 40% interest in part of the Santos operated ATP 337P permit in the Denison Trough of central eastern Queensland.

This area is prospective for coal seam gas in Permian aged coals that are draped over a large north-south trending structural high known as the Comet Ridge. These coals have proven to be productive at the Fairview and Spring Gully CSG development projects (Santos Limited and Origin Energy CSG Ltd) some 150 km to the south on the same structural high.

Two core holes, Mira 1 and Humboldt 1, were drilled during February 2006 (Figure). These holes were drilled to verify the thickness, gas content, and permeability of the Permian aged Bandanna Formation coals in the eastern part of the project area. The results are encouraging.

Comet Ridge engaged Dr. John Seidle, Senior Reservoir Engineer of Denver, Colorado based Sproule Associates, to derive permeability measurements from the results of four drill stem tests run in the two holes. Dr. Seidle is a recognised expert on coal seam gas reservoir engineering and has experience in many countries and coal seam gas developments.

Permeability, the measure of how well a coal reservoir can flow gas and water, can be determined by careful analysis of the pressures recorded down hole when a drill stem test is conducted. A drill stem test comprises of a series of flowing and shut-in periods during which the pressure changes are measured by accurate down-hole pressure gauges. These pressure data are analysed by specialists such as Dr. Seidle, to determine the permeability and also to indicate any damage created during the drilling process (mud and mud filtrate are quickly imbibed into the coal and fill up the cleats or micro-fractures in the coal).

The tested zones have interpreted coal permeabilities in the range of 6 to 56 millidarcies. These permeability figures are similar to those recorded at other commercial coal seam gas developments in Queensland.

Gas contents for the wells cored to date have ranged from ~5.0 m³/t to 7.6 m³/t. Average gas content for all coals encountered has been ~6.5 m³/t which is comparable with gas contents of other similar coal seam developments in the region.

In place gas resource estimates for the project range between a low of 180 BCF to almost 1,000 BCF (or one trillion cubic feet).

Drilling of Mahalo 2, the fifth and final well in Comet's earning program, after being repeatedly delayed due to rig availability was drilled in late August, 2006. The well was drilled to a total depth of 247 metres. No measurable gas or water flows were observed on penetration of the coals. This disappointing result suggests that either the

Business Overview

coals have low permeability or that they were damaged during the drilling process. The apparent poor permeability observed in Mahalo 2 is inconsistent with the gas influx experienced in Mahalo 1 (drilled 100 metres from Mahalo 2) and the recent favourable permeabilities measured in the Humboldt 1 and Mira 1 holes. The operator is planning to conduct a pressure build-up survey to help determine why we failed to see a gas or water inflow.

Despite this setback the other 4 wells drilled as part of Comet Ridge's earning program have demonstrated that there is a potential coal seam gas project at Mahalo. Comet Ridge has now fulfilled its earning obligation and has a 40 percent interest in the project

TIPTON WEST, SE QUEENSLAND – COMET RIDGE 1.5% GROSS ROYALTY

The Company announced the sale of its 20% non-operated interest in the Tipton West coal seam gas project plus associated exploration permit interests in south-eastern Queensland, to Arrow Energy NL (Arrow) on 19 August 2005.

Total consideration for the transaction exceeded \$12.5 million including a 1.5% gross royalty capped at \$8 million. A summary of the transaction is shown below:-

- An upfront cash payment of \$2,250,000 plus 2,000,000 unlisted options to acquire fully paid shares in Arrow within three years, at 60 cents per share.
- On or before 31 December 2005, a second payment of \$2,250,000 in the form of (at Arrow's election) cash or by issuing fully paid shares in Arrow at a 10% discount to the volume weighted average trading price of its shares calculated over the 10 trading days immediately preceding 31 December 2005.

A gross royalty payment of 1.5% of the wellhead value of the gas until Comet Ridge has received cumulative cash payments of \$8,000,000.

The Company's shareholders unanimously approved the transaction at the annual general meeting held on 5 October 2005.

Comet Ridge received the initial payment of \$2.25 million plus two million options from Arrow on 7 October 2005. The Company subsequently placed the options and realised net proceeds of \$286,810.

Arrow elected to pay the second instalment by issuing Comet Ridge with 3,652,598 million fully paid ordinary shares on 30 December 2005. The Company subsequently placed these shares realising net proceeds of \$2,348,073.

Taking into account the sale of the securities, the Company has received cash proceeds from the sale of \$4,884,883 and retains a 1.5% gross royalty on production until it has received \$8 million.

Development drilling has commenced on the project with Arrow maintaining 4 rigs on the project. As of the end of the June 2005, 18 out of a planned 75 well programme had been drilled.

First gas sales, and hence royalty income for Comet Ridge, are expected in early 2007.

Business Overview

ATP'S 743P & 744P (A), GALILEE BASIN, QUEENSLAND – COMET RIDGE 100%

ATP'S 743P & 744P cover a large portion of the Galilee Basin in central Queensland. The Galilee Basin comprises Late Carboniferous, Early and Late Permian and Middle Jurassic sediments which are overlain by Jurassic and Cretaceous deposits of the Eromanga Basin sequence. Few conventional wells have been drilled in the Galilee Basin to date however three wells have been drilled to the Permian in ATP 743P and five within ATP 744P. All wells exhibited gas and or oil shows. Numerous coal exploration wells have also been drilled along the outcrop/subcrop edge of the basin. There is little seismic over either permit.

Significant exploration potential exists within the permits for CSG (coal seam gas) from the Permian Betts Creek coals (similar age to the major Fairview and Spring Gully CSG fields to the south) and for conventional oil and gas in the deeper Permian and Carboniferous formations.

The permits are yet to be formally granted due to the large area of non-exclusive possession tenure acreage in the area. Comet is working with the Queensland Department of Indigenous Services to work through the Native Title process and a successful outcome is expected in the coming year. The Year 1 commitments for both permits comprise geological and geophysical studies.

PEL 427 (COMET 25%) AND 428 (COMET 20%), GUNNEDAH BASIN, NEW SOUTH WALES

PEL 427 AND 428 lie in the Permo-Triassic Gunnedah Basin with forms the central portion of the much larger Sydney – Gunnedah – Bowen Basin system. Jurassic and Cretaceous sediments of the Surat Basin sequence unconformably overlie the Gunnedah Basin sequence.

Comet has farmed out equity in both blocks to enable it to receive a free carry by Eastern Star Gas Limited through a seismic and drilling program on both blocks. Seismic will focus on structural leads established from an interpretation of high resolution aeromagnetic data and regional mapping. The seismic lines will provide necessary additional structural and stratigraphic control.

The main petroleum objectives in the currently mapped leads are conventional sandstone reservoirs in the Triassic Digby Formation, Late Permian Black Jack Formation and the Early Permian Maules Creek Formation.

Delays in obtaining a seismic crew has delayed the earning program. Subject to the NSW Department of Mineral Resources approving extensions to the permit terms, plans are for an accelerated program which should see both the seismic program and a well in each PEL drilled within the coming year.

PERSONNEL

The Company has been fortunate to be able to assemble an excellent team of professionals, both in Australia and the USA, despite the market being intensely competitive.

Our Australian projects and investor relations are managed by Mr Vic Palanyk and Ms Joanne Ford respectively. Both are based in Brisbane, Queensland.

The Denver based team now comprises of six personnel providing administrative, land, operational and technical resources.

The Company recognises that all of the oil and gas industry is competing for the small pool of talented geoscientists graduating from US universities. As a result the Company provided a USD25,000 grant to the

Business Overview

Warner College of Natural Resources at the Colorado State University to support a graduate student's field work and thesis in the Tow Creek area of Colorado.

HEALTH, SAFETY AND ENVIRONMENT

No HSE incidents occurred during the year.

The board and management of the Company are focused on ensuring that all of our staff are committed to working safely and acting responsibly in the field. We view our commitment to sustainable development as providing the Company with a competitive advantage.

We are privileged to operate in some spectacular areas that demand special attention to preserving the environment. We seek to minimise surface impacts and also to limit visual and audible impact on our neighbours and the wildlife. Operations on our projects in the State of Washington will require close liaison with forestry operations and also wildlife experts.

Corporate Governance Statement

INTRODUCTION

The Board of Directors of Comet Ridge Limited is responsible for the corporate governance of the Company. The Board guides and monitors the business of Comet Ridge on behalf of shareholders, by whom they are elected and to whom they are accountable. The Board is responsible for setting corporate direction, defining policies, and monitoring the business of the Company, to ensure it is conducted appropriately and in the best interests of shareholders.

Comet has adopted systems of control and accountability as the basis for the administration of corporate governance.

The following additional information about the Company's corporate governance practices is set out on the Company's website at www.cometridge.com.au :

- (a) Board Charter, including details of materiality threshold;
- (b) Summary of policy and procedure for selection and appointment of new directors;
- (c) Summary of Code of Conduct for Directors and key executives;
- (d) Code of Conduct for the Company;
- (e) Summary of Policy on Securities Trading;
- (f) Policy and procedure for selection of external auditor and rotation of audit engagement partners;
- (g) Summary of policy and procedures for compliance with continuous disclosure requirements;
- (h) Summary of arrangements regarding communication with and participation of shareholders;
- (i) Summary of Company's Risk Management Policy and internal compliance and control system; and
- (j) Summary of process for performance evaluation of the Board, Board committees, individual directors and key executives.

The ASX Corporate Governance Council has developed a set of guidelines, Principles of Good Corporate Governance and Best Practice Recommendations. This document articulates ten core principles that the ASX Corporate Governance Council believes underlie good corporate governance, together with best practice recommendations. Companies are required to disclose in their Annual Report the extent to which these recommendations have been complied with. They are not prescriptive and, if certain recommendations are not appropriate for the company given its circumstances, the Company may choose not to adopt that particular practice. It must, however, disclose in its Annual Report which recommendations have not been followed and the reasons why. The Company has complied with each of the Ten Essential Corporate Governance Principles and the corresponding Best Practice Recommendations as published by the Australian Stock Exchange Corporate Governance Council, other than in relation to the matters referred to below in respect of the independence of the Board and the existence of a Nomination Committee.

ROLE OF THE BOARD

The Board guides and monitors the business of Comet Ridge on behalf of shareholders, by whom they are elected and to whom they are accountable. The Board is responsible for setting corporate direction, defining policies, and monitoring the business of the Company, to ensure it is conducted appropriately and in the best interests of shareholders.

Corporate Governance Statement

The role of the Board is to oversee and guide the management of the Company with the aim of protecting and enhancing the interests of its shareholders, taking into account the interests of other stakeholders including employees, customers, suppliers and the wider community.

The Board operates under a Charter and has a written Code of Conduct which establishes guidelines for its conduct. The purpose of the Code is to ensure that Directors act honestly, responsibly, legally and ethically and in the best interests of the Company.

The Board is responsible for setting the strategic direction and establishing goals for management and the monitoring of the achievements against these goals.

INDEPENDENCE OF BOARD

The Best Practice Recommendations state a majority of the Board should be Independent Directors. The Board considers two out of four Directors to be independent (Jeffrey Schneider and Gillian Swaby).

The Board notes that Mr Schneider and Ms Swaby do not strictly satisfy the test of independence as set out in the recommendations, however, the Board's reasons for considering the two directors to be independent are set out below under the heading "Identification of Independent Directors". The Board considers that its current structure is appropriate to efficiently and independently carry out its functions, given the size and level of its current activities. Its Independent Directors form the Audit Committee and the Remuneration Committee.

INDEPENDENCE OF CHAIRMAN

As the Board considers that Jeff Schneider is an Independent Director, the Board considers that their recommendation that the Chairperson is an Independent Director has been satisfied.

IDENTIFICATION OF INDEPENDENT DIRECTORS

Mr Schneider is on the Board of Directors of Strike Oil Ltd, a major shareholder of the Company. As a result he does not fall within the criteria of independence as set out in paragraph 2.1 of the Principles of Good Corporate Governance and Best Practice Recommendations as published by the ASX Corporate Governance Council ("**Independence Criteria**"). However, he fulfils the other Independence Criteria. The Board of Comet Ridge (in the absence of Mr Schneider) considers he is capable of making decisions and taking actions which are designed to be in the best interests of the Company, and therefore considers him to be independent. The Board notes the potential for conflict in matters where Strike Oil Limited is involved and recognises that in such circumstances Mr Schneider would declare such interest and not participate in the decision making process unless otherwise sanctioned by the Board, as is required under the Corporations Act.

Through her consultancy company, Strategic Consultants Pty Ltd, Ms Swaby provides company secretarial services and has been involved in the preparation of financial statements for the Company. In this regard, Ms Swaby fulfils a quasi-executive role, and does not meet paragraphs 2 and 3 of the Independence Criteria. Ms Swaby is not a substantial shareholder of the Company and meets all of the other Independence Criteria. Having regard to issues of materiality, the Board, in the absence of Ms Swaby, considers that Ms Swaby's consultancy relationship with the Company does not impede her ability to act in the best interests of the Company. Furthermore, Ms Swaby no longer has a significant role in the preparation of the Company's financial accounts as this function is now fulfilled by an executive in a dedicated finance and administration role. For these reasons the Board considers Ms Swaby to be independent.

Corporate Governance Statement

SKILLS, EXPERIENCE, EXPERTISE, AND TERM OF OFFICE OF EACH DIRECTOR

The relevant details for each Director are contained in the profile for each Director in the Directors' Report.

STATEMENT CONCERNING AVAILABILITY OF INDEPENDENT PROFESSIONAL ADVICE

If a director considers it necessary to obtain independent professional advice to properly discharge the responsibility of his/her office as a director then, provided the director first obtains approval for incurring such expense from the Chairman, the Company will pay the reasonable expenses associated with obtaining such advice.

BOARD COMMITTEES

The Board has established Audit and Remuneration Committees which assist in the discharge of the Board's responsibilities. Board approved charters set out the terms of reference and rules governing these Committees.

AUDIT COMMITTEE

The Audit Committee assists the Board in discharging its responsibilities to ensure that the Company complies with appropriate and effective accounting, auditing, internal control, compliance and reporting practices in accordance with the Audit Committee Charter.

The role of the Audit Committee is to:

- Monitor the integrity of the financial statements of the Company, reviewing significant financial reporting judgements;
- Review the Company's internal financial control system;
- Monitor and review the effectiveness of the Company's internal audit function (if any);
- Monitor and review the external audit function including matters concerning appointment and remuneration, independence and non-audit services; and
- Perform such other functions as assigned by law, the Company's constitution, or the Board.

The current members of the Audit Committee are:-

- Gillian Swaby - Chairman
Non-Executive Director/Company Secretary
- Jeff Schneider
Non-Executive Director

The members of the Audit Committee by virtue of their professional background experience and personal qualities are well qualified to carry out the functions of the Audit Committee.

The Audit Committee, however, does not meet the requirements for composition in that there are only two members (rather than three) of the Audit Committee. The Board considers it a priority to restrict membership of the Audit Committee to independent directors. Accordingly, due to the current structure of the Board, only Ms Swaby and Mr Schneider are eligible to be members of the Audit Committee. The Board considers the composition of the Audit Committee satisfactory to properly discharge the duties of the Audit Committee.

Corporate Governance Statement

Mr Schneider has over 30 years of experience in various management and executive roles in the resource industry, and is therefore well qualified by his industry knowledge to form the Audit Committee. In addition, Mr Schneider has acquired financial literacy through his relevant academic qualifications.

Ms Swaby has over 20 years experience in the Australian mining and exploration industry. Further, she has gained financial expertise through her academic qualifications and practical experience in management accounting and corporate financial management.

The Board would consider appointing another member to the Audit Committee should a further non-executive director be appointed to the Board.

The Audit Committee meets at least twice a year and at any other time requested by a Board member, Company Secretary, or external auditor. The external auditors attend at least twice a year and on other occasions where circumstances warrant.

The number of meetings of the Audit Committee during the reporting period and the attendance record of members is set out in the Directors' Report.

NOMINATION COMMITTEE

There is no formal Nomination Committee. The full Board considers those matters and issues arising that would usually fall to a Nomination Committee. The Board considers that no efficiencies or other benefits would be gained by establishing a separate Nomination Committee.

REMUNERATION COMMITTEE

The role of the Committee, in accordance with the Remuneration Committee Charter, is to assist the Board with respect to remuneration by reviewing and making appropriate recommendations on:-

- a) Remuneration packages of Executive Directors, Non-Executive Directors and senior executives; and
- b) Employee incentive and equity based plans including the appropriateness of performance hurdles and total payments proposed.

The ASX Listing Rules and the Constitution require that the maximum aggregate amount of remuneration to be allocated among the Non-Executive Directors be approved by the shareholders in general meeting. In proposing the maximum amount of consideration by shareholders, and in determining the allocation, the Remuneration Committee will take into account the time demands made on Directors and such factors as fees paid on Non-Executive Directors in comparable Australian companies.

The remuneration paid to Directors and senior executives is shown in the Remuneration Report contained in the Directors' Report, which includes details on the Company's remuneration policies.

The Chairman of the Board is the Chairman of the Remuneration Committee and the Committee shall meet at least twice a year and otherwise as required.

Corporate Governance Statement

The current members of the Remuneration Committee are:-

- Jeff Schneider - Chairman
Non-Executive Director
- Gillian Swaby
Non-Executive Director

The number of meetings of the Remuneration Committee during the reporting period and the attendance record of members is set out in the Directors' Report.

BOARD PERFORMANCE EVALUATION

During the year an evaluation of Board performance was undertaken. The purpose of the review was to identify any issues relating to the performance of individual director's (including the Managing Director) and the Board as a whole. The review was undertaken by an independent consultant on a confidential and anonymous basis to encourage full and open disclosure. Accountability for undertaking the review and resolving any issues is with the Chairman.

RELATIONSHIP WITH SHAREHOLDERS

The Company places a high priority on communications with and accountability to shareholders. The Board recognises that shareholders, as the ultimate owners of the Company, are entitled to receive timely and relevant high quality information about their investment. Similarly, prospective investors should be able to make an informed decision when considering the purchase of shares in Comet Ridge.

To safeguard the effective dissemination of information, the Board has implemented procedures for compliance with continuous disclosure requirements and adopted a Shareholder Communications Policy. These reinforce the Company's commitment to its continuous disclosure obligations imposed by law.

Information will be communicated to shareholders by:-

- Ensuring that published financial and other statutory reports are prepared in accordance with applicable laws and industry best practice;
- Ensuring the disclosure of full and timely information about the Company's activities in accordance with the general and continuous disclosure principles in the ASX Listing Rules, the Corporations Act in Australia and any other relevant legislation;
- Providing detailed reports from the Chairman and the Managing Director at the Annual General Meeting;
- Placing all material information released to the market (including Notices of Meeting and explanatory materials) on the Company's website as soon as practical following release; and
- Placing the Company's market announcements and financial data for the preceding three years on its website.

In addition, the website includes a facility to allow interested parties to subscribe to receive, electronically, public releases and other relevant material concerning the Company.

Shareholders are encouraged to attend Annual General Meetings and ask questions of Directors and senior management and also the Company's external auditors, who are required to be in attendance. In the event that

Corporate Governance Statement

shareholders are unable to attend meetings, they are encouraged to lodge proxies signifying their approval or otherwise of the business to be considered.

ENVIRONMENT

The Company is currently in the process of refining and finalising its environmental policy and environmental management system, which will be in place prior to commencement of drilling and field operations. These will be reflective of the Company's position as operator in a number of sensitive environmental areas in the USA.

As a matter of policy, the Directors are committed to the Company operating at the highest possible standards.

SAFETY

The Company is currently developing a rigorous safety policy which will be consistent with and exceed the requirements of all Federal and State regulatory bodies and will be integrated with sophisticated systems that are in place with our land owners, where they exist, some of whom are forestry companies.

SECURITIES OWNERSHIP AND DEALINGS

The Company has a Policy for Trading in Company Securities which is binding on all Directors and employees. The purpose of this policy is to provide a brief summary of the law on insider trading and other relevant laws, set out the restrictions on dealing in securities by people who work for or are associated with Comet Ridge and assist in maintaining market confidence in the integrity of dealings in Comet Ridge securities.

EXISTENCE AND TERMS OF ANY SCHEMES FOR RETIREMENT BENEFITS FOR NON-EXECUTIVE DIRECTORS

There are no termination and retirement benefits for Non-Executive Directors.

Comet Ridge Limited and Subsidiaries

DIRECTORS' REPORT

Your directors present their report on Comet Ridge Limited and its subsidiaries ("Comet Ridge" or "the group") for the financial year ended 30 June 2006. The Company was incorporated on 23 August 2003 and listed on the Australian Stock Exchange on 19 April 2004.

Directors and Company Secretary

The directors in office at any time during or since the end of the year are as follows:-

Directors have been in office since the start of the financial year to the date of this report unless otherwise stated.

Jeff W Schneider	—	Chairman (Non-Executive)
Qualifications	—	B.Com
Experience	—	Mr Schneider joined Comet Ridge on 28 August 2003. He has over 30 years' extensive experience in the global oil and gas industry, starting with Woodside Petroleum Limited, in 1978. He held a variety of roles over 24 years at Woodside, with his final role being Director, Australian Gas. In November 2002 he left Woodside to pursue other interests. Age: 56
Interest in Shares and Options	—	1,323,055 ordinary shares in Comet Ridge Limited and options to acquire a further 200,000 ordinary shares.
Special Responsibilities	—	Mr Schneider is chairman of the Remuneration Committee and a member of the Audit Committee.
Other Directorships	—	Strike Oil Limited (since 2002).
Andrew J Lydyard	—	Managing Director
Qualifications	—	B.AppSc (Applied Geology)
Experience	—	Mr Lydyard joined Comet Ridge on 1 October 2003. He has 25 years' technical and managerial experience in the global oil and gas industry. He has extensive experience in the development and production of coal seam gas (CSG) operations, particularly in the San Juan and Powder River basins, in USA. He was instrumental in building a substantial CSG business for J M Huber Corporation, as the company's Vice President, CSG. In 2001 he joined Strike Oil Limited to build the company's CSG business, before moving to Comet Ridge in 2003. In recognition of the increased emphasis on the United States, he relocated to Denver, Colorado in December 2005. Age: 49
Interest in Shares and Options	—	1,750,000 ordinary shares in Comet Ridge Limited and options to acquire a further 4,500,000 ordinary shares.
Other Directorships	—	Nil

Comet Ridge Limited and Subsidiaries

DIRECTORS' REPORT

Simon M Ashton	—	Director (Non-Executive)
Qualifications	—	B.Sc (Geology) (Hons) (Adelaide), M.Sc (Petroleum Geology) (London), MBA (Melbourne)
Experience	—	Mr Ashton joined Comet Ridge on 28 August 2003. He has over 30 years' extensive experience in the global oil and gas industry, starting with WMC Limited in 1974. He held a variety of roles over 22 years at WMC, including responsibility for the establishment of the company's USA petroleum subsidiary, Greenhill Petroleum Corporation based in Houston, Texas. In 1991 he returned to Australia as Manager, International New Business (Petroleum). In 1996 he left WMC to pursue other interests. In 1997 he co-founded Strike Oil Limited, where he holds the position of Managing Director. Age: 55
Interest in Shares and Options	—	2,457,675 ordinary shares in Comet Ridge Limited and options to acquire a further 200,000 ordinary shares.
Other Directorships	—	Strike Oil Limited (since 1997).
Gillian Swaby	—	Director (Non-executive) and Company Secretary
Qualifications	—	B.Bus FCIS, FAICD
Experience	—	Ms Swaby was appointed Company Secretary on 28 August 2003 and a Director on 9 January 2004. She has over 26 years' extensive experience in the Australian resources industry. She specialises in the areas of corporate secretarial practice, corporate law, accounting, financial management, and control. Ms Swaby is the principal of a corporate consulting company and past Chair of the Western Australia Council of Chartered Secretaries of Australia and a former Director on their National Board. Age: 46
Interest in Shares and Options	—	2,638,492 ordinary shares in Comet Ridge Limited and options to acquire a further 100,000 ordinary shares.
Special Responsibilities	—	Ms Swaby is chairman of the Audit Committee and a member of the Remuneration Committee.
Other Directorships	—	Deep Yellow Limited (since 2005).

Principal Activities

The principal activities of the group during the financial year were oil and gas exploration. The group's activities expanded during the year from coal seam gas exploration.

Operating Results

The consolidated loss of the group after providing for income tax amounted to \$661,781 (2005: \$789,281).

Dividends Paid or Recommended

No dividends have been paid during the financial year. No dividend is recommended for the current financial year.

Review of Operations

A review of activities of the group is set out in the accompanying Business Overview.

Comet Ridge Limited and Subsidiaries

DIRECTORS' REPORT

Significant Changes in State of Affairs

In the opinion of the directors, other than as disclosed elsewhere in this report, there were no significant changes in the state of affairs of the group.

Adoption of Australian Equivalents to IFRS

As a result of the introduction of Australian equivalents to International Financial Reporting Standards (IFRS), the Company's financial report has been prepared in accordance with those Standards. A reconciliation of adjustments arising on the transition to IFRS is included in Note 2 to the financial statements.

After Balance Date Events

No matters or circumstances have arisen since the end of the financial year which significantly affected or may significantly affect the operations of the group, the results of those operations, or the state of affairs of the group in future financial years.

Likely Developments

Likely future developments in the operations of the Company are referred to in the accompanying Business Overview.

Environmental Issues

The group's operations are subject to environmental regulation under the laws of Australia and the United States of America. Group policy dictates compliance with its environmental performance obligations and at the date of this report, is not aware of any breach of such regulations.

Remuneration Report

The remuneration report is set out under the following main headings:

- A Principles used to determine the nature and amount of remuneration
- B Details of remuneration
- C Service agreements
- D Share-based compensation

A *Principles used to determine the nature and amount of remuneration*

The Remuneration Committee, on behalf of the Board of Directors, monitors compensation of Directors and executives of the Company.

Generally, compensation is provided by the Company to its Directors and executives, by way of base salary, bonus payments, granting of employee options and superannuation. The overall objective is to ensure that remuneration is fair and reasonable and sufficient to attract and retain qualified and experienced Directors and executives.

The remuneration program for the Directors and executives of the Company is designed to ensure that the level and form of remuneration achieves certain objectives, including:

- (a) attracting and retaining talented, qualified and effective Directors and executives;
- (b) motivating their short and long-term performance; and

Comet Ridge Limited and Subsidiaries

DIRECTORS' REPORT

(c) aligning their interests with those of the Company's shareholders.

Given the evolving nature of the Company's business, the Remuneration Committee continues to review and redesign the overall compensation plan for Directors and executives so as to continue to address the objectives identified above.

Company Performance

The overall level of remuneration takes into account the growth in shareholder wealth of the Company, by virtue of participation in the Company's Employee Share Incentive Option Plan and a bonus structure aligned to increases in the Company's share price.

As a result of the exploration nature of the Company's activities the overall level of remuneration does not focus on the earnings of the Company.

Remuneration Report Cont

A Principles used to determine the nature and amount of remuneration cont.

Directors' Fees

Fees payable to Non-Executive Directors are set at \$35,000 per annum, together with statutory superannuation obligations at the rate of 9%. An exception to this fee structure is the Chairman of the Board who does not receive superannuation.

Compensation paid to the Managing Director is set out under Section C - Service agreements.

In addition, the Company's Constitution provides for additional remuneration to be paid if any of the Directors are called upon to perform extra services or make any special exertions on behalf of the Company or the business of the Company. The Directors may remunerate such Director in accordance with such services or exertions, and such remuneration may be either in addition to or in substitution for the Directors' fees referred to above.

Base Salary

The first step to attracting and retaining talented, qualified and effective Directors and executives is paying base salaries which are competitive in the markets in which the Company operates. Competitive salary information on companies earning comparable revenues in a similar industry is compiled from a variety of sources, including surveys conducted by independent consultants and national and international publications.

The Remuneration Committee is responsible for assessing whether the measures are met and will take into account, amongst other things, the progress of the Company in meeting its objectives, the financial performance of the Company, and the growth in market capitalisation.

Company Employee Share Incentive Option Plan

The Company believes that encouraging its Directors and executives to become shareholders is the best way of aligning their interests with those of its shareholders. Equity participation is accomplished through the Company's employee option plan. Options are granted to Directors and executives taking into account a number of factors, including the amount and term of options previously granted, base salary and competitive factors.

Information on the Employee Share Incentive Option Plan is set out under Section D - Share-based compensation below.

Comet Ridge Limited and Subsidiaries

DIRECTORS' REPORT

B Details of remuneration (this information has been audited)

Details of the remuneration of each Director of the Company and Specified Executives is set out in the following tables

2006	Salary, Fees & Commissions	Superannuation Contributions	Cash Bonus	Options	Total Remuneration
	\$	\$	\$	\$	\$
Directors					
J W Schneider	35,000	-	-	-	35,000
A J Lydyard	254,507	16,509	50,000	166,046	487,062
S M Ashton	35,000	3,150	-	-	38,150
G Swaby	83,000	3,150	-	-	86,150
	407,507	22,809	50,000	166,046	646,362

Remuneration Report Cont

B Details of remuneration (this information has been audited) cont.

2006	Salary, Fees & Commissions	Superannuation Contributions	Cash Bonus	Options	Total Remuneration
Specified Executives					
G J Mabie	45,106	-	-	11,490	56,596
M E Cuba	27,896	-	-	11,490	39,386
J M Knox	27,044	-	-	4,355	31,399
V S Palanyk	144,498	-	24,000	-	168,498
	244,544		24,000	27,335	295,879

C Service agreements

Remuneration and other terms of employment for the Managing Director are formalised in an employment contract.

Mr A J Lydyard renewed his employment contract with the Company commencing 1 January 2006, pursuant to which he receives a salary and a bonus based on corporate performance. Therefore, enhanced Company performance will return a financial benefit to Mr Lydyard.

If the employment contract is terminated by the Company for any reason other than Mr Lydyard's bankruptcy, death, misconduct, or breach of the employment contract, Mr Lydyard is entitled to be paid his salary and entitlements for the balance of the term of the employment contract.

1. Term

3 years from 1 January 2006

2. Termination

3 months where termination is by mutual agreement. If the employment contract is terminated for any reason other than the Managing Director's bankruptcy, death, misconduct or breach of employment contract he is to be paid his salary and entitlements for the balance of the term of the contract period.

Comet Ridge Limited and Subsidiaries

DIRECTORS' REPORT

3. Salary

US\$200,000 per annum with salary reviews to be conducted annually and effective January 2007 and 2008 plus 6% superannuation.

4. Incentive

An incentive cash payment up to a maximum of 100% of base salary will be paid for the attainment of performance milestones (milestones to be established by the Board each year and to apply from 1 January to 31 December). The performance milestones will include project performance, financial performance, safety, and organisational objectives.

5. Options

As consideration for the Managing Director executing this new contract and relocating to the United States, 1,500,000 20 cent options vesting on 1 January 2006 and expiring on 31 December 2008 were issued on 29 December 2005, following shareholder approval at the 2005 Annual General Meeting.

2006	Number Granted	Options Granted as part of Remuneration	Total Remuneration represented by Options	Total
	No	\$	%	\$
Director				
A J Lydyard	1,500,000	166,046	34.1	166,046
	1,500,000	166,046	34.1	166,046
Specified Executives				
G J Mabie	100,000	11,490	20.3	11,490
M E Cuba	100,000	11,490	29.2	11,490
J M Knox	250,000	4,355	13.9	4,355
	450,000	27,335	21.4	27,335

30 June 2006	Vested	Granted	Terms and Conditions for each Grant				
	No.	No.	Grant Date	Fair Value per option at grant date \$	Exercise price per option \$	First Exercise Date	Last Exercise Date
Directors							
A J Lydyard	1,500,000	1,500,000	29/12/05	0.11	0.20	29/12/05	31/12/08
Specified Executives							
G J Mabie	-	100,000	10/5/06	0.19	0.40	1/8/06	11/5/09
M E Cuba	-	100,000	10/5/06	0.19	0.40	1/8/06	11/5/09
J M Knox	-	250,000	10/5/09	0.19	0.40	11/5/07	11/5/09
Total	1,500,000	1,950,000					

Comet Ridge Limited and Subsidiaries

DIRECTORS' REPORT

Meetings of Directors

During the year, the following meetings of directors (including committees of directors) were held. Attendances by each director during the year were:

	COMMITTEE MEETINGS					
	DIRECTORS' MEETINGS		AUDIT COMMITTEE		REMUNERATION COMMITTEE	
	Number eligible to attend	Number attended	Number eligible to attend	Number attended	Number eligible to attend	Number attended
J W Schneider	8	8	2	2	1	1
A J Lydyard	8	8	-	-	-	-
S M Ashton	8	8	-	-	-	-
G Swaby	8	8	2	2	2	2

Indemnities and Insurance

During the year the Company insured Directors and certain officers of the Company and related bodies corporate. The officers of the Company covered by the insurance policy include the Directors named in this report.

The Directors' and Officers' Liability Insurance provides cover against all costs and expenses that may be incurred in defending civil or criminal proceedings that fall within the scope of the indemnity and that may be brought against the officers in their capacity as officers of the Company or a related body corporate. The insurance policy does not contain details of the premium paid in respect of individual officers of the Company. Disclosure of the nature of the liability cover is subject to a confidentiality clause under the insurance policy.

The Company has entered into an agreement with the Directors and certain officers to indemnify these individuals against claims and related expenses, which arise as a result of work completed in their respective capacities.

Neither the Company nor any of its related bodies corporate have provided any insurance for an auditor of the Company or a related body corporate.

Options

At the date of this report, the unissued ordinary shares of Comet Ridge Limited under option are as follows:

Grant Date	Date of Expiry	Exercise Price	Number Under Option
15 January 2004	1 December 2006	20 cents	5,350,000
2 March 2005	2 March 2008	20 cents	1,000,000
18 August 2005	18 August 2008	20 cents	500,000
31 December 2005	31 December 2008	20 cents	1,500,000
11 May 2006	11 May 2009	40 cents	450,000
26 June 2006	26 June 2009	45 cents	75,000
31 July 2006	31 July 2009	45 cents	1,000,000
			<u>9,875,000</u>

During the year ended 30 June 2006, the following ordinary shares of Comet Ridge Limited were issued on the exercise of options granted. No further shares have been issued since that date. No amounts are unpaid on any of the shares.

Comet Ridge Limited and Subsidiaries

DIRECTORS' REPORT

Grant Date	Exercise Price	Number of Shares Issued
15 January 2004	20 cents	400,000

No person entitled to exercise the option had or has any right by virtue of the option to participate in any share issue of any other body corporate.

Proceedings on Behalf of Company

No person has applied for leave of a Court to bring proceedings on behalf of the company or intervene in any proceedings to which the company is a party for the purpose of taking responsibility on behalf of the company for all or any part of those proceedings.

The company was not a party to any such proceedings during the year.

Non-Audit Services and Auditor Independence

The Company may decide to employ the auditor on assignments additional to their statutory audit duties where the auditor's expertise and experience with the company and/or the consolidated entity are important.

The Board of Directors has considered the position and is satisfied that the provision of the non-audit services is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001. The Directors are satisfied that the provision of non-audit services by the auditor, as set out below, did not compromise the auditor independence requirements of the Corporation Act 2001 as none of the services undermine the general principles relating to auditor independence as set out in Professional Statement F1, including reviewing or auditing the auditor's own work, acting in a management or a decision-making capacity for the Company, acting as advocate for the Company or jointly sharing economic risk and rewards.

HLB Mann Judd received the following amounts during the year for the provision of non-audit services:

	\$
Taxation services	700
	<hr/>
	700
	<hr/>

The Directors received an independence declaration from the auditors of the Company, HLB Mann Judd, and a copy as required under section 307C of the Corporation Act 2001 is set out on the following page and forms part of this Directors' report for the year ended 30 June 2006.

Signed on behalf of and in accordance with a resolution of the Board of Directors.



A J Lydyard

Managing Director

Dated this 29 day of September 2006

Auditor's Independence Declaration

As lead auditor for the audit of the financial report of Comet Ridge Limited for the year ended 30 June 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 audit; and
- b) no contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Comet Ridge Limited.



Perth, Western Australia
29 September 2006

L Di Giallonardo
Partner, HLB Mann Judd

Comet Ridge Limited and Subsidiaries

INCOME STATEMENT FOR THE YEAR ENDED 30 JUNE 2006

	Note	Consolidated		Company	
		2006 \$	2005 \$	2006 \$	2005 \$
Revenue	3	1,209,634	283,388	1,253,475	283,382
Employee benefits expense		(482,349)	(264,530)	(386,289)	(264,530)
Corporate costs		(324,096)	(294,093)	(303,705)	(294,093)
Exploration expenditure written off	4	(262,372)	(120,678)	(213,335)	(102,325)
Impairment in value of financial asset	4	(146,104)	-	(616,543)	(155,511)
Consultancy costs		(78,850)	(25,495)	(50,251)	(10,909)
Technology costs		(55,071)	(20,656)	(33,932)	(20,656)
Property costs		(57,359)	(30,000)	(17,496)	(30,000)
Insurance costs		(42,241)	(72,262)	(38,987)	(72,262)
Depreciation expense		(39,292)	(18,501)	(33,215)	(18,501)
Other expenses		(383,681)	(226,454)	(160,084)	(103,876)
Loss before income tax	4	(661,781)	(789,281)	(600,362)	(789,281)
Income tax expense	5	-	-	-	-
Loss for the year		(661,781)	(789,281)	(600,362)	(789,281)
Loss attributable to members of the parent entity		(661,781)	(789,281)	(600,362)	(789,281)
Earnings Per Share					
Basic (cents per share)	8	(1.05)	(1.29)		
Diluted (cents per share)	8	(1.05)	(1.29)		

The accompanying notes form part of these financial statements.

Comet Ridge Limited and Subsidiaries

BALANCE SHEET AS AT 30 JUNE 2006

	Note	Consolidated		Company	
		2006 \$	2005 \$	2006 \$	2005 \$
ASSETS					
CURRENT ASSETS					
Cash and cash equivalents	9	4,195,234	1,318,436	2,470,862	1,318,195
Receivables	10	602,362	23,797	30,998	23,797
Other financial assets	11	141,569	36,647	82,069	36,647
TOTAL CURRENT ASSETS		4,939,165	1,378,880	2,583,929	1,378,639
NON-CURRENT ASSETS					
Exploration & evaluation expenditure	14	4,211,673	5,516,842	2,226,944	5,475,054
Property, plant and equipment	15	154,625	80,029	47,137	80,029
Other financial assets	11	87,158	35,963	4,229,943	77,992
TOTAL NON-CURRENT ASSETS		4,453,456	5,632,834	6,504,024	5,633,075
TOTAL ASSETS		9,392,621	7,011,714	9,087,953	7,011,714
CURRENT LIABILITIES					
Trade and other payables	16	393,488	168,913	99,848	168,913
Provisions	17	11,028	5,365	-	5,365
TOTAL CURRENT LIABILITIES		404,516	174,278	99,848	174,278
TOTAL LIABILITIES		404,516	174,278	99,848	174,278
NET ASSETS		8,988,105	6,837,436	8,988,105	6,837,436
EQUITY					
Issued capital	18	10,518,019	7,983,804	10,518,019	7,983,804
Reserves	19	370,642	92,407	309,223	92,407
Accumulated losses		(1,900,556)	(1,238,775)	(1,839,137)	(1,238,775)
TOTAL EQUITY		8,988,105	6,837,436	8,988,105	6,837,436

The accompanying notes form part of these financial statements.

Comet Ridge Limited and Subsidiaries

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2006

Consolidated

	Note	Issued Capital	Options Reserve	Foreign Currency Translation Reserve	Accumulated Losses	Total
		\$	\$	\$	\$	\$
Balance at 1 July 2004	2	7,983,804	67,149	-	(449,494)	7,601,459
Profit attributable to members of parent entity		-	-	-	(789,281)	(789,281)
Option reserve on recognition of bonus element of options		-	25,258	-	-	25,258
Balance at 30 June 2005		7,983,804	92,407	-	(1,238,775)	6,837,436
Shares issued during the year		2,647,600	-	-	-	2,647,600
Transaction costs		(113,385)	-	-	-	(113,385)
Profit attributable to members of parent entity		-	-	-	(661,781)	(661,781)
Adjustments from translation of foreign controlled entities		-	-	61,419	-	61,419
Option reserve on recognition of bonus element of options		-	216,816	-	-	216,816
Balance at 30 June 2006		10,518,019	309,223	61,419	(1,900,556)	8,988,105

The accompanying notes form part of these financial statements.

Comet Ridge Limited and Subsidiaries

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2006

Company

	Note	Issued Capital	Options Reserve	Foreign Currency Translation Reserve	Accumulated Losses	Total
		\$	\$	\$	\$	\$
Balance at 1 July 2004	2	7,983,804	67,149	-	(449,494)	7,601,459
(Loss) attributable to members of parent entity		-	-	-	(789,281)	(789,281)
Option reserve on recognition of bonus element of options		-	25,258	-	-	25,258
Balance at 30 June 2005		7,983,804	92,407	-	(1,238,775)	6,837,436
Shares issued during the year		2,647,600	-	-	-	2,647,600
Transaction costs		(113,385)	-	-	-	(113,385)
(Loss) attributable to members of parent entity		-	-	-	(600,362)	(600,362)
Adjustments from translation of foreign controlled entities		-	-	-	-	-
Option reserve on recognition of bonus element of options		-	216,816	-	-	216,816
Balance at 30 June 2006		10,518,019	309,223	-	(1,839,137)	8,988,105

The accompanying notes form part of these financial statements.

Comet Ridge Limited and Subsidiaries

CASH FLOW STATEMENT FOR THE YEAR ENDED 30 JUNE 2006

	Note	Consolidated		Company	
		2006	2005	2006	2005
		\$	\$	\$	\$
CASH FLOWS FROM OPERATING ACTIVITIES					
Interest received		147,579	135,112	271,679	135,112
Receipts from joint venture recoveries		70,333	149,670	70,333	149,670
Payments to suppliers and employees		(958,330)	(909,534)	(850,853)	(969,915)
Net cash used in operating activities	23(a)	(740,418)	(624,752)	(508,841)	(685,133)
CASH FLOWS FROM INVESTING ACTIVITIES					
Payments for exploration and evaluation expenditure		(3,506,050)	(1,107,314)	(997,523)	(1,047,174)
Proceeds from sale of investments		2,250,000	-	2,250,000	-
Purchase of property, plant and equipment		(113,888)	(89,056)	(324)	(89,056)
Proceeds from sale of other financial assets		2,660,999	-	2,660,999	-
Payments to joint venture operations		(161,341)	-	(106,524)	-
Payments for security deposits		(108,138)	-	(56,944)	-
Payments to wholly-owned subsidiaries		-	-	(2,677,254)	-
Investment in wholly-owned subsidiaries		-	-	(1,945,136)	-
Net cash used in investing activities		1,021,582	(1,196,370)	(872,706)	(1,136,230)
CASH FLOWS FROM FINANCING ACTIVITIES					
Proceeds from issue of shares		2,647,600	-	2,647,600	-
Costs on issue of shares		(113,386)	-	(113,386)	-
Net cash provided by financing activities		2,534,214	-	2,534,214	-
Net increase in cash held		2,815,378	(1,821,122)	1,152,667	(1,821,363)
Cash at beginning of financial year		1,318,436	3,139,558	1,318,195	3,139,558
Effect of exchange rates on cash holdings in foreign currencies		61,420	-	-	-
Cash at end of financial year	9	4,195,234	1,318,436	2,470,862	1,318,195

The accompanying notes form part of these financial statements.

Comet Ridge Limited and Subsidiaries

NOTES TO THE FINANCIAL STATEMENTS FOR YEAR ENDED 30 JUNE 2006

Note 1: Statement of Significant Accounting Policies

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

The financial report covers the consolidated entity of Comet Ridge Limited and controlled entities, and Comet Ridge Limited as an individual company. Comet Ridge Limited is a listed public company, incorporated and domiciled in Australia.

The financial report of Comet Ridge Limited and subsidiaries, and Comet Ridge Limited as an individual company, comply with all Australian equivalents to International Financial Reporting Standards (IFRS) in their entirety.

At the date of authorisation of this financial report, there were a number of Standards and Interpretations that were issued but not yet effective, however the directors anticipate that the adoption of these Standards and Interpretations in future reporting periods will have no material impact on the group.

The following is a summary of the material accounting policies adopted by the consolidated entity in the preparation of the financial report. The accounting policies have been consistently applied, unless otherwise stated.

The financial report was authorised for issue by the Directors on 29 September 2006.

Basis of Preparation

First-time Adoption of Australian Equivalents to International Financial Reporting Standards

Comet Ridge Limited and controlled entities, and Comet Ridge Limited as an individual company have prepared financial statements in accordance with the Australian Equivalents to International Financial Reporting Standards (IFRS) from 1 July 2005.

In accordance with the requirements of AASB 1: *First-time Adoption of Australian equivalents to International Financial Reporting Standards*, adjustments to the company and consolidated entity accounts resulting from the introduction of IFRS have been applied retrospectively to 2005 comparative figures excluding cases where optional exemptions available under AASB 1 have been applied. These consolidated accounts are the first financial statements of Comet Ridge Limited to be prepared in accordance with Australian equivalents to IFRS.

The accounting policies set out below have been consistently applied to all years presented. The parent and consolidated entities have however elected to adopt the exemptions available under AASB 1 relating to AASB 132: *Financial Instruments: Disclosure and Presentation*, and AASB 139: *Financial Instruments: Recognition and Measurement*. Refer to Note 26 for further details.

Reconciliations of the transition from previous Australian GAAP to IFRS have been included in Note 2 to this report.

Reporting Basis and Conventions

The financial report has been prepared on an accruals basis and is based on historical costs modified by the revaluation of selected non-current assets, and financial assets and financial liabilities for which the fair value basis of accounting has been applied.

Comet Ridge Limited and Subsidiaries

NOTES TO THE FINANCIAL STATEMENTS FOR YEAR ENDED 30 JUNE 2006

NOTE 1: Statement of Significant Accounting Policies (cont'd)

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.

A list of subsidiaries is contained in Note 12 to the financial statements. 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.

(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 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

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Comet Ridge Limited and Subsidiaries

NOTES TO THE FINANCIAL STATEMENTS FOR YEAR ENDED 30 JUNE 2006

NOTE 1: Statement of Significant Accounting Policies (cont'd)

Depreciation

The depreciable amount of 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 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 immediately 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.

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

Comet Ridge Limited and Subsidiaries

NOTES TO THE FINANCIAL STATEMENTS FOR YEAR ENDED 30 JUNE 2006

NOTE 1: Statement of Significant Accounting Policies (cont'd)

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 in 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 an 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.

(h) Interests 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 statements of financial performance and financial position. Details of the consolidated entity's interests are shown in Note 13.

Comet Ridge Limited and Subsidiaries

NOTES TO THE FINANCIAL STATEMENTS FOR YEAR ENDED 30 JUNE 2006

NOTE 1: Statement of Significant Accounting Policies (cont'd)

(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 Australian dollars which is the company's functional and presentation currency.

Transaction 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 foreign 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 foreign 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 model, further details of which are provided in Note 24.

(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.

Comet Ridge Limited and Subsidiaries

NOTES TO THE FINANCIAL STATEMENTS FOR YEAR ENDED 30 JUNE 2006

NOTE 1: Statement of Significant Accounting Policies (cont'd)

(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.

(n) **Receivables**

All trade debtors are recognised at the amounts receivable as they are due for settlement no more than 30 days. Collectibility of trade debtors is 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.

Cost recovery revenue is recognised when amounts are received from the relevant joint venture.

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 Judgements, Estimates and Assumptions**

The carrying amounts of certain assets and liabilities are often determined based on estimates and assumptions of future events. The key estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of certain assets and liabilities within the next annual reporting period are:

Share-based payment transactions:

The economic 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 valuer using a Black and Scholes model, using the assumptions detailed in Note 24.

Comet Ridge Limited and Subsidiaries

NOTES TO THE FINANCIAL STATEMENTS FOR YEAR ENDED 30 JUNE 2006

NOTE 2: First-time Adoption of Australian Equivalents to International Financial Reporting Standards

Consolidated

Reconciliation of Equity at 1 July 2004

	Note	Previous GAAP at 1 July 2004 \$	Adjustments \$	Australian Equivalents to IFRS at 1 July 2004 \$
ASSETS				
CURRENT ASSETS				
Cash and cash equivalents		3,139,558	-	3,139,558
Other receivables		77,995	-	77,995
Other financial assets		12,260	-	12,260
TOTAL CURRENT ASSETS		3,229,813	-	3,229,813
NON-CURRENT ASSETS				
Exploration & evaluation expenditure		4,594,580	-	4,594,580
Property, plant and equipment		9,474	-	9,474
TOTAL NON-CURRENT ASSETS		4,604,054	-	4,604,054
TOTAL ASSETS		7,833,867	-	7,833,867
CURRENT LIABILITIES				
Trade and other payables		218,609	-	218,609
Short-term provisions		13,799	-	13,799
TOTAL CURRENT LIABILITIES		232,408	-	232,408
TOTAL LIABILITIES		232,408	-	232,408
NET ASSETS		7,601,459	-	7,601,459
EQUITY				
Issued capital		7,983,804	-	7,983,804
Reserves	2(b)	-	67,149	67,149
Retained earnings	2(c)	(382,345)	(67,149)	(449,494)
TOTAL EQUITY		7,601,459	-	7,601,459

Comet Ridge Limited and Subsidiaries

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006

NOTE 2: First-time Adoption of Australian Equivalents to International Financial Reporting Standards (cont'd)

For all periods up to and including the year ended 30 June 2005, the Group prepared its financial statements in accordance with Australian generally accepted accounting practice (AGAAP). These financial statements for the year ended 30 June 2006 are the first the Group is required to prepare in accordance with Australian equivalents to International Financial Reporting Standards (AIFRS).

Accordingly, the Group has prepared financial statements that comply with AIFRS applicable for periods beginning on or after 1 January 2005 and the significant accounting policies meeting those requirements are described in Note 1. In preparing these financial statements, the Group has started from an opening balance sheet as at 1 July 2004, the Group's date of transition to AIFRS, and made those changes in accounting policies and other restatements required by AASB 1: *First-time adoption of AIFRS*.

This note explains the principal adjustments made by the Group in restating its AGAAP balance sheet as at 1 July 2004 and its previously published AGAAP financial statements for the year ended 30 June 2005.

Consolidated

Reconciliation of Equity at 30 June 2005

	Note	Previous GAAP at 30 June 2005 \$	Adjustments \$	Australian Equivalents to IFRS at 30 June 2005 \$
ASSETS				
CURRENT ASSETS				
Cash and cash equivalents		1,318,436	-	1,318,436
Other receivables		23,797	-	23,797
Other current assets		36,647	-	36,647
TOTAL CURRENT ASSETS		1,378,880	-	1,378,880
NON-CURRENT ASSETS				
Exploration & evaluation expenditure		5,516,842	-	5,516,842
Property, plant and equipment		80,029	-	80,029
Other financial assets		35,963	-	35,963
TOTAL NON-CURRENT ASSETS		5,632,834	-	5,632,834
TOTAL ASSETS		7,011,714	-	7,011,714
CURRENT LIABILITIES				
Trade and other payables		168,913	-	168,913
Short-term provisions		5,365	-	5,365
TOTAL CURRENT LIABILITIES		174,278	-	174,278
TOTAL LIABILITIES		174,278	-	174,278
NET ASSETS		6,837,436	-	6,837,436
EQUITY				
Issued capital		7,983,804	-	7,983,804
Reserves	2(b)	-	92,407	92,407
Retained earnings	2(c)	(1,146,368)	(92,407)	(1,238,775)
TOTAL EQUITY		6,837,436	-	6,837,436

Comet Ridge Limited and Subsidiaries

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006

NOTE 2: First-time Adoption of Australian Equivalents to International Financial Reporting Standards (cont'd)

Company

Reconciliation of Equity at 1 July 2004

	Note	Previous GAAP at 1 July 2004 \$	Adjustments \$	Australian Equivalents to IFRS at 1 July 2004 \$
ASSETS				
CURRENT ASSETS				
Cash and cash equivalents		3,139,558	-	3,139,558
Other receivables		77,995	-	77,995
Other financial assets		12,260	-	12,260
TOTAL CURRENT ASSETS		3,229,813	-	3,229,813
NON-CURRENT ASSETS				
Exploration & evaluation expenditure		4,594,580	-	4,594,580
Property, plant and equipment		9,474	-	9,474
TOTAL NON-CURRENT ASSETS		4,604,054	-	4,604,054
TOTAL ASSETS		7,833,867	-	7,833,867
CURRENT LIABILITIES				
Trade and other payables		218,609	-	218,609
Short-term provisions		13,799	-	13,799
TOTAL CURRENT LIABILITIES		232,408	-	232,408
TOTAL LIABILITIES		232,408	-	232,408
NET ASSETS		7,601,459	-	7,601,459
EQUITY				
Issued capital		7,983,804	-	7,983,804
Reserves	2(b)	-	67,149	67,149
Retained earnings	2(c)	(382,345)	(67,149)	(449,494)
TOTAL EQUITY		7,601,459	-	7,601,459

Comet Ridge Limited and Subsidiaries

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006

NOTE 2: First-time Adoption of Australian Equivalents to International Financial Reporting Standards (cont'd)

Company

Reconciliation of Equity at 30 June 2005

	Note	Previous GAAP at 30 June 2005 \$	Adjustments \$	Australian Equivalents to IFRS at 30 June 2005 \$
ASSETS				
CURRENT ASSETS				
Cash and cash equivalents		1,318,195	-	1,318,195
Other receivables		23,797	-	23,797
Other financial assets		36,647	-	36,647
TOTAL CURRENT ASSETS		1,378,639	-	1,378,639
NON-CURRENT ASSETS				
Exploration & evaluation expenditure		5,475,054	-	5,475,054
Property, plant and equipment		80,029	-	80,029
Other financial assets		77,992	-	77,992
TOTAL NON-CURRENT ASSETS		5,633,075	-	5,633,075
TOTAL ASSETS		7,011,714	-	7,011,714
CURRENT LIABILITIES				
Trade and other payables		168,913	-	168,913
Short-term provisions		5,365	-	5,365
TOTAL CURRENT LIABILITIES		174,278	-	174,278
TOTAL LIABILITIES		174,278	-	174,278
NET ASSETS		6,837,436	-	6,837,436
EQUITY				
Issued capital		7,983,804	-	7,983,804
Reserves	2(b)	-	92,407	92,407
Retained earnings	2(c)	(1,146,368)	(92,407)	(1,238,775)
TOTAL EQUITY		6,837,436	-	6,837,436

Comet Ridge Limited and Subsidiaries

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006

NOTE 2: First-time Adoption of Australian Equivalents to International Financial Reporting Standards (cont'd)

Consolidated

Reconciliation of Loss for 2005

	Note	Previous GAAP	Effect of transition to Australian Equivalents to IFRS	Australian Equivalents to IFRS
Revenues from ordinary activities		284,782	-	284,782
Other revenue		(1,394)	-	(1,394)
		283,388	-	283,388
Employee benefits expense	2(a)	-	(25,258)	(25,258)
Other expenses from ordinary activities		(1,047,411)	-	(1,047,411)
Loss from ordinary activities before income tax expense		(764,023)	(25,258)	(789,281)
Income tax expense relating to ordinary activities		-	-	-
Loss from ordinary activities after related income tax expense		(764,023)	(25,258)	(789,281)
Loss for the year		(764,023)	(25,258)	(789,281)
Loss attributable to members of the parent entity		(764,023)	(25,258)	(789,281)

Company

Reconciliation of Loss for 2005

	Note	Previous GAAP	Effect of transition to Australian Equivalents to IFRS	Australian Equivalents to IFRS
Revenues from ordinary activities		284,782	-	284,782
Other revenue		(1,400)	-	(1,400)
		283,382	-	283,382
Employee benefits expense	2(a)	-	(25,258)	(25,258)
Other expenses from ordinary activities		(1,047,405)	-	(1,047,405)
Loss from ordinary activities before income tax expense		(764,023)	(25,258)	(789,281)
Income tax expense relating to ordinary activities		-	-	-
Loss from ordinary activities after related income tax expense		(764,023)	(25,258)	(789,281)
Loss attributable to members of the parent entity		(764,023)	(25,258)	(789,281)

Comet Ridge Limited and Subsidiaries

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006

NOTE 2: First-time Adoption of Australian Equivalents to International Financial Reporting Standards (cont'd)

Notes to the reconciliations of equity and profit and loss at 1 July 2004 and 30 June 2005

		30 June 2005 \$	1 July 2004 \$
(a)	The adjustment to employee benefits expense is made up as follows:		
	Consolidated		
	Option expense (i)	25,258	67,149
	Company		
	Option expense (i)	25,258	67,149

- (i) An expense was recognised under Australian equivalents to IFRS relating to the bonus element of options issued to directors and employees of the consolidated entity amounting to \$25,258 for the year ended 30 June 2005.

		30 June 2005 \$	1 July 2004 \$
(b)	Adjustment to reserves comprise:		
	Consolidated		
	Option reserve of valuation of employee share options	92,407	67,149
	Company		
	Option reserve of valuation of employee share options	92,407	67,149
(c)	Adjustments to retained earnings comprise:		
	Consolidated		
	Expensing of employee share options	92,407	67,149
	Company		
	Expensing of employee share options	92,407	67,149

Note 3: Revenue

	Note	Consolidated		Company	
		2006 \$	2005 \$	2006 \$	2005 \$
Operating activities:					
— interest received	3(a)	143,168	135,112	267,268	135,112
— overhead recoveries		70,285	149,670	70,285	149,670
— other income	3(b)	996,181	(1,394)	915,922	(1,400)
Total Revenue		1,209,634	283,388	1,253,475	283,382

Comet Ridge Limited and Subsidiaries

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006

NOTE 3: Revenue (cont'd)

Note	Consolidated		Company	
	2006 \$	2005 \$	2006 \$	2005 \$
(a) Interest revenue from:				
— Third parties	143,168	135,112	128,982	135,112
— wholly-owned controlled entities	-	-	138,286	-
Total interest revenue	143,168	135,112	267,268	135,112
(b) Other Income:				
— foreign exchange gains/ (losses)	74,712	(1,394)	(5,547)	(1,400)
— gains on disposal of non-current investments	921,469	-	921,469	-
Total other income	996,181	(1,394)	915,922	(1,400)

Note 4: Loss from Ordinary Activities	Consolidated		Company	
	2006 \$	2005 \$	2006 \$	2005 \$
(a) Expenses				
Impairment in value of financial assets				
— Listed investments	146,104	-	146,104	-
— Investment in subsidiaries	-	-	470,439	155,511
	146,104	-	616,543	155,511
Rental expense on operating leases				
— minimum lease payments	57,359	30,000	17,496	30,000
Write-off of capitalised exploration expenditure	262,372	120,678	213,335	102,325

Comet Ridge Limited and Subsidiaries

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006

NOTE 5: Income Tax Expense

	Consolidated		Company	
	2006 \$	2005 \$	2006 \$	2005 \$
(a) The components of tax expense comprise:				
Current tax	766,414	228,673	784,839	182,020
Recoupment of prior year tax losses not previously brought to account	(766,414)	(228,673)	(784,839)	(182,020)
	-	-	-	-
(b) The prima facie tax benefit on loss from ordinary activities is reconciled to income tax as follows:				
Prima facie tax benefit on loss from ordinary activities before income tax at 30% (2005: 30%)	(198,534)	(236,784)	(180,109)	(236,784)
Add:				
Tax effect of:				
— other assessable income	1,465,434	-	1,465,434	-
— other non-allowable expenses	127,940	534	127,940	47,187
— share options expensed during year	65,045	7,577	65,045	7,577
	1,658,419	8,111	1,658,419	54,764
Less:				
Tax effect of:				
— other allowable expenses	693,471	-	693,471	-
	693,471	-	693,471	-
Recoupment of prior year tax losses not previously brought to account	(766,414)	(228,673)	(784,839)	(182,020)
Income tax attributable to parent entity	-	-	-	-

The Consolidated Entity has unconfirmed carried forward income tax losses of approximately \$2,007,818 (2005: \$5,094,408). The potential deferred tax benefit of these tax losses has not been recognised as an asset because recovery of the tax losses is not considered probable in the context of AASB 112. The Company tax rate is 30% in the 2005-2006 income tax year (30%, 2004-2005). The benefit of these tax losses will only be realised if:

Comet Ridge Limited and Subsidiaries

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006

NOTE 5: Income Tax Expense (cont'd)

- (a) The companies within the consolidated entity derive future assessable income of a nature and of an amount sufficient to enable the benefit from the deduction for the losses to be realised;
- (b) The companies within the Consolidated Entity comply with the conditions for deductibility imposed by the law; and
- (c) No changes in tax legislation adversely affect the companies within the Consolidated Entity in realising the benefit from the deduction for the loss.

NOTE 6: Key Management Personnel Compensation

The Company has transferred the detailed remuneration disclosures to the Director's Report in accordance with Corporations Amendment Regulations 2006 (No.4). These remuneration disclosures are provided in the Remuneration Report section of the Directors' Report under Details of Remuneration and are designated as audited.

- (a) Names and positions held of consolidated entity and company key management personnel in office at any time during the financial year are:

J W Schneider	Chairman
A J Lydyard	Managing Director
S M Ashton	Non-Executive Director
G Swaby	Non-Executive Director and Company Secretary
G J Mabie	Vice President - Operations (USA)
M E Cuba	Vice President - Land (USA)
J M Knox	Financial Controller (USA)
V S Palanyk	General Manager (Australia)

- (b) **Compensation Practices**

The Board's policy for determining the nature and amount of compensation of key management for the group is as follows:

The compensation structure for key management personnel is based on a number of factors, including length of service, particular experience of the individual concerned, and overall performance of the company. The contracts for service between the company and key management personnel are on a continuing basis, the terms of which are not expected to change in the immediate future.

- (c) **Key Management Personnel Compensation**

2006

	Salary, Fees & Commissions \$	Superannuation Contributions \$	Cash Bonus \$	Options \$	Total Remuneration \$
J W Schneider	35,000	-	-	-	35,000
A J Lydyard	254,507	16,509	50,000	166,046	487,063
S M Ashton	35,000	3,150	-	-	38,150
G Swaby	83,000	3,150	-	-	86,150
G J Mabie	45,106	-	-	11,490	56,596
M E Cuba	27,896	-	-	11,490	39,386
J M Knox	27,044	-	-	4,355	31,399
V S Palanyk	144,498	-	24,000	-	168,498
	652,051	22,809	74,000	193,381	942,242

Comet Ridge Limited and Subsidiaries

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006

NOTE 6: Key Management Personnel Compensation (cont'd)

2005

	Salary, Fees & Commissions \$	Superannuation Contributions \$	Cash Bonus \$	Options \$	Total Remuneration \$
J W Schneider	35,000	-	-	-	35,000
A J Lydyard	185,000	16,650	-	-	201,650
S M Ashton	35,000	3,150	-	-	38,150
G Swaby	83,000	3,150	-	-	86,150
G J Mabie	-	-	-	-	-
M E Cuba	-	-	-	-	-
J M Knox	-	-	-	-	-
V S Palanyk	152,313	-	-	25,258	177,571
	490,313	22,950	-	25,258	538,521

(d) Compensation Options

Options Granted As Remuneration:

	Number Vested	Number Granted	Grant Date	Value per Option at Grant Date	Exercise Price per Option
A J Lydyard	1,500,000	1,500,000	29 December 2005	11.6 cents	20 cents
G J Mabie	-	100,000	10 May 2006	18.7 cents	40 cents
M E Cuba	-	100,000	10 May 2006	18.7 cents	40 cents
J M Knox	-	250,000	10 May 2006	18.7 cents	40 cents
V S Palanyk	1,000,000	1,000,000	2 March 2005	2.5 cents	20 cents
	2,500,000	2,950,000			

Options vest over various time periods and all expire within three years of issue.

(e) Options and Rights Holdings

Number of options held by key management personnel:

	Balance 1 July 2005	Granted as Remuneration	Options Exercised	Balance 30 June 2006
J W Schneider	200,000	-	-	200,000
A J Lydyard	3,000,000	1,500,000	-	4,500,000
S M Ashton	200,000	-	-	200,000
G Swaby	100,000	-	-	100,000
G J Mabie	-	100,000	-	100,000
M E Cuba	-	100,000	-	100,000
J M Knox	-	250,000	-	250,000
V S Palanyk	1,000,000	-	-	1,000,000
Total	4,500,000	1,950,000		6,450,000

Comet Ridge Limited and Subsidiaries

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006

NOTE 6: Key Management Personnel Compensation (cont'd)

	Total Vested 30 June 2006	Total Exercisable 30 June 2006	Total Unexercisable 30 June 2006
J W Schneider	200,000	200,000	-
A J Lydyard	4,500,000	4,500,000	-
S M Ashton	200,000	200,000	-
G Swaby	100,000	100,000	-
G J Mabie	-	-	100,000
M E Cuba	-	-	100,000
J M Knox	-	-	250,000
V S Palanyk	1,000,000	1,000,000	-
Total	6,000,000	6,000,000	450,000

Number of shares held by key management personnel:

	Balance 1 July 2005	Received as Remuneration	Options Exercised	Net Change – Other ¹	Balance 30 June 2006
J W Schneider	704,563	-	-	618,492	1,323,055
A J Lydyard	1,075,000	-	-	-	1,075,000
S M Ashton	2,100,000	-	-	357,675	2,457,675
G Swaby	-	-	-	2,850,000	2,850,000
G J Mabie	-	-	-	-	-
M E Cuba	-	-	-	-	-
J M Knox	-	-	-	-	-
V S Palanyk	-	-	-	-	-
	3,879,563	-	-	3,826,167	7,705,730

¹ Net change – Other refers to shares purchased or sold during the financial year.

NOTE 7: Auditors' Remuneration

	2006 \$	2005 \$	2006 \$	2005 \$
Remuneration of the auditor of the company for:				
— auditing or reviewing the financial report	31,060	13,500	31,060	13,500
— taxation services	700	950	700	950
Remuneration of other auditors of subsidiaries for:				
— auditing or reviewing the financial report of subsidiaries	12,940	-	-	-
	44,700	14,450	31,760	14,450

Comet Ridge Limited and Subsidiaries

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006

NOTE 8: Earnings per Share

		Consolidated	
		2006	2005
		\$	\$
(a)	Earnings used to calculate basic and dilutive EPS	(661,781)	(789,281)
		No.	No.
(b)	Weighted average number of ordinary shares outstanding during the year used in calculating basic EPS	62,709,554	61,158,240
	Weighted average number of options outstanding considered to have a dilutive effect	124,861	-
	Weighted average number of ordinary shares outstanding during the year used in calculating dilutive EPS	62,834,415	61,158,240

		Consolidated		Company	
		2006	2005	2006	2005
		\$	\$	\$	\$
NOTE 9: Cash Assets					
	Cash at bank and in hand	1,780,985	91,219	56,613	90,978
	Short-term bank deposits	2,414,249	1,227,217	2,414,249	1,227,217
		4,195,234	1,318,436	2,470,862	1,318,195

The effective interest rate on short-term bank deposits was 4.58% (2005: 5.03%); these deposits are available at call.

Reconciliation of cash

Cash at the end of the financial year as shown in the cash flow statement is reconciled to items in the balance sheet as follows:

		Consolidated		Company	
		2006	2005	2006	2005
		\$	\$	\$	\$
	Cash and cash equivalents	4,195,234	1,318,436	2,470,862	1,318,195
		4,195,234	1,318,436	2,470,862	1,318,195

		Consolidated		Company	
		2006	2005	2006	2005
		\$	\$	\$	\$
NOTE 10: Receivables					
CURRENT					
	Receivables	602,362	23,797	30,998	23,797

Comet Ridge Limited and Subsidiaries

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006

NOTE 11: Other Financial Assets

	Consolidated		Company	
	2006 \$	2005 \$	2006 \$	2005 \$
CURRENT				
Prepayments	84,626	36,647	25,126	36,647
Security bond deposits	56,943	-	56,943	-
	141,569	36,647	82,069	36,647
NON-CURRENT				
Security bond deposits	87,158	35,963	-	35,963
Loan to subsidiary	-	-	2,910,756	197,540
Less: Impairment	-	-	(625,949)	(155,511)
Investment in subsidiaries	-	-	1,945,136	-
	87,158	35,963	4,229,943	77,992

NOTE 12: Subsidiaries

- (a) The consolidated financial statements of Comet Ridge Limited include the financial statements of the Company and the subsidiaries listed below:

	Country of Incorporation	Percentage Owned (%)	
		2006	2005
Company:			
Comet Ridge Limited	Australia	-	-
Subsidiaries of Company:			
Tipton CSG Pty Limited	Australia	100	-
Comet Ridge USA, Inc.	USA	100	100
St. Helens Energy LLC	USA	100	100

(b) Acquisition of Subsidiaries

On 1 August 2005 the company incorporated Tipton CSG Pty Limited, with an issued capital of \$1.00 represented by cash.

(c) Additional Investment in Subsidiaries

During the year, the Company converted a portion of its loans to Comet Ridge USA, Inc (\$1,945,136) to equity in that subsidiary.

NOTE 13: Joint Ventures

Interest in Joint Venture Operations

The group has the following interests in joint venture assets:

	2006 %	2005 %
Mahalo joint venture – Queensland, Australia	40	20
PEL 427 – New South Wales, Australia	25	100
PEL 428 – New South Wales, Australia	20	80
Tow Creek joint venture – Colorado, USA	37½	-
Bear River joint venture – Colorado, USA	33¾	-

Comet Ridge Limited and Subsidiaries

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006

NOTE 13: Joint Ventures (Cont'd)

	2006 %	2005 %
Interest in Joint Venture Operations		
Rocky Mountains joint venture – Colorado, USA	50	50
St Helen's joint venture – Washington, USA	40	40

	Consolidated		Company	
	2006 \$	2005 \$	2006 \$	2005 \$
The consolidated entity's share of assets employed in the joint ventures is:				
CURRENT ASSETS				
Receivables				
— Other receivables	571,363	14	55,047	14
Other financial assets	59,500	-	-	-
Total current assets	630,863	14	55,047	14
NON-CURRENT ASSETS				
Exploration development expenditure	2,154,090	5,221,975	115,060	5,221,975
Total non-current assets	2,154,090	5,221,975	115,060	5,221,975
Interest in Joint Venture Operations				
Share of total assets of joint venture	2,784,953	5,221,989	170,107	5,221,989
Net interest in joint venture	2,784,953	5,221,989	170,107	5,221,989

The recoverability of the carrying amount of the exploration and evaluation assets is dependent on successful development and commercial exploitation, or alternatively, sale of the respective areas of interest.

NOTE 14: Exploration and Evaluation Expenditure

	Consolidated		Company	
	2006 \$	2005 \$	2006 \$	2006 \$
Exploration expenditure capitalised:				
— exploration and evaluation phases	4,211,673	5,516,842	2,226,944	5,475,054
Total exploration expenditure	4,211,673	5,516,842	2,226,944	5,475,054

The recoverability of the carrying amount of the exploration and evaluation assets is dependent on successful development and commercial exploitation, or alternatively, sale of the respective areas of interest.

Comet Ridge Limited and Subsidiaries

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006

NOTE 15: Property, Plant And Equipment

	Consolidated		Company	
	2006 \$	2005 \$	2006 \$	2005 \$
PLANT AND EQUIPMENT				
Furniture and Fittings:				
At cost	26,372	1,306	1,306	1,306
Accumulated depreciation	(584)	(122)	(286)	(122)
	25,788	1,184	1,020	1,184
Computer Equipment				
At cost	187,718	98,896	99,220	98,896
Accumulated amortisation	(58,881)	(20,051)	(53,103)	(20,051)
	128,837	78,845	46,117	78,845
Total Property, Plant and Equipment	154,625	80,029	47,137	80,029

(a) Movements in Carrying Amounts

Movement in the carrying amounts for each class of property, plant and equipment between the beginning and the end of the current financial year

	Furniture & Fittings \$	Computer Equipment \$	Total \$
2006			
Consolidated			
Balance at the beginning of year	1,184	78,845	80,029
Additions	25,066	88,822	113,888
Depreciation expense	(462)	(38,830)	(39,292)
Carrying amount at the end of year	25,788	128,837	154,625
Company			
Balance at the beginning of year	1,184	78,845	80,029
Additions	-	324	324
Depreciation expense	(164)	(33,052)	(33,216)
Carrying amount at the end of year	1,020	46,117	47,137
2005			
Consolidated			
Balance at the beginning of year	-	9,474	9,474
Additions	1,306	87,750	89,056
Depreciation expense	(122)	(18,379)	(18,501)
Carrying amount at the end of year	1,184	78,845	80,029

Comet Ridge Limited and Subsidiaries

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006

NOTE 15: Property, Plant And Equipment (cont'd)

	Furniture & Fittings \$	Computer Equipment \$	Total \$
Company			
Balance at the beginning of year	-	9,474	9,474
Additions	1,306	87,750	89,056
Depreciation expense	(122)	(18,379)	(18,501)
Carrying amount at the end of year	1,184	78,845	80,029

	Consolidated		Company	
	2006 \$	2005 \$	2006 \$	2005 \$
Note 16: Trade and Other Payables				
CURRENT				
Trade payables	203,974	33,868	69,477	33,868
Sundry payables and accrued expenses	189,514	135,045	30,371	135,045
	393,488	168,913	99,848	168,913

	Consolidated		Company	
	2006 \$	2005 \$	2006 \$	2005 \$
Note 17: Provisions				
Current – employee entitlements	11,028	5,365	-	5,365
	11,028	5,365	-	5,365

Provision for Employee Entitlements

A provision has been recognised for employee entitlements relating to annual leave. The measurement and recognition criteria relating to employee benefits have been included in Note 1 to this report.

Analysis of Total Provisions

	Employee Entitlements \$	Total \$
Consolidated		
Opening balance at 1 July 2005	5,365	5,365
Additions	5,663	5,663
Balance at 30 June 2006	11,028	11,028
Company		
Opening balance at 1 July 2005	5,365	5,365
Amounts transferred	(5,365)	(5,365)
Balance at 30 June 2006	-	-

Comet Ridge Limited and Subsidiaries

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006

NOTE 18: Issued Capital

	Consolidated		Company	
	2006 \$	2005 \$	2006 \$	2005 \$
70,728,240 (2005: 61,158,240) fully paid ordinary shares	10,518,019	7,983,804	10,518,019	7,983,804

(a) Ordinary Shares	No.	\$
Balance at 1 July 2004	61,158,240	7,983,804
Balance at 30 June 2005	61,158,240	7,983,804
At the beginning of reporting period	61,158,240	7,983,804
Shares issued during the year		
— 24 February 2006 (option conversions at 20 cents)	200,000	40,000
— 2 May 2006 (share placement at 28 cents)	9,170,000	2,567,600
— Share issue costs	-	(113,385)
— 30 June 2006 (option conversions at 20cents)	200,000	40,000
At reporting date	70,728,240	10,518,019

Ordinary shares participate in any declared dividends and the proceeds on winding up of the company in proportion to the number of shares held.

At shareholders' meetings, each ordinary share is entitled to one vote when a poll is called; otherwise each shareholder has one vote on a show of hands.

(b) Options

- (i) For information relating to the Comet Ridge Limited employee option plan, including details of options issued, exercised and lapsed during the financial year and the options outstanding at year-end, refer to Note 24.
- (ii) For information relating to share options issued to executive directors during the financial year, refer to Note 6.

NOTE 19: Reserves

Foreign Currency Translation Reserve

The foreign currency translation reserve records exchange differences arising on translation of a foreign controlled subsidiary.

Options Reserve

The options reserve records items recognised as expenses on valuation of employee share options.

Comet Ridge Limited and Subsidiaries

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006

NOTE 20: Capital And Leasing Commitments

	Consolidated		Company	
	2006 \$	2005 \$	2006 \$	2005 \$
(a) Operating Lease Commitments				
Property lease – minimum lease commitments:				
— not later than twelve months	41,531	-	-	-
— Between twelve months and five years	162,663	-	-	-
	204,194	-	-	-

The property lease is a non-cancellable lease with a five-year term, with rent payable monthly in advance. An option exists to renew the lease at the end of the five-year term for an additional term of five-years. The lease allows for subletting of all lease areas.

	Consolidated		Company	
	2006 \$	2005 \$	2006 \$	2005 \$
(b) Joint Ventures				
Expenditure commitments arising from interest in joint venture operations:				
Land leasing – minimum lease commitments:				
— not later than twelve months	5,502	-	-	-
— Between twelve months and five years	368	-	-	-
	5,870	-	-	-

Comet Ridge Limited and Subsidiaries

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006

NOTE 21: Segment Reporting

Geographical Segments

	Australia		USA		Eliminations		Total	
	2006 \$	2005 \$	2006 \$	2005 \$	2006 \$	2005 \$	2006 \$	2005 \$
Segment Revenue								
Interest received	267,268	135,112	14,186	-	(138,286)	-	143,168	135,112
Overhead recoveries	70,285	149,670	-	-	-	-	70,285	149,670
Other income	915,922	(1,400)	80,259	6	-	-	996,181	(1,394)
	1,253,475	283,382	94,445	6	(138,286)	-	1,209,634	283,388
Segment Results								
(Loss) after income tax	(231,664)	(789,281)	(568,403)	(155,510)	138,286	155,510	(661,781)	(789,281)
Segment Assets	9,884,013	6,969,684	4,533,863	42,030	(5,025,255)	-	9,392,621	7,011,714
Segment Liabilities	269,958	174,278	3,214,676	197,540	(3,080,118)	(197,540)	404,516	174,278
Other								
Acquisitions of non-current segment assets	1,220,733	1,051,598	2,239,751	-	-	-	3,460,484	1,051,598
Depreciation of segment assets	33,215	18,501	6,077	-	-	-	39,292	18,501
Other non-cash segment expenses	1,202,204	336,026	49,037	18,353	(625,949)	(155,510)	625,292	198,869

Comet Ridge Limited and Subsidiaries

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006

NOTE 21: Segment Reporting (cont'd)

Geographical Segments

Accounting Policies

Segment revenues and expenses are those directly attributable to the segments and include any joint revenue and expenses where a reasonable basis of allocation exists. Segment assets include all assets used by a segment and consist principally of cash, receivables and property, plant and equipment, net of accumulated depreciation. Segment liabilities consist principally of payables, employee benefits, accrued expenses and provisions.

Intersegment Transfers

Segment revenues, expenses and results include transfers between segments. The prices charged on intersegment transactions are the same as those charged for similar goods to parties outside of the group at an arm's length. These transfers are eliminated on consolidation.

Geographical Segments

The consolidated entity's business segments are located in Australia and USA.

Business Segments

The group operates in one business segment, being oil and gas exploration.

	Consolidated		Company	
	2006	2005	2006	2005
	\$	\$	\$	\$
Note 22: Cash Flow Information				
(a) Reconciliation of Cash Flow from Operations with Profit from Ordinary Activities after Income Tax				
(Loss) from ordinary activities after income tax	(661,781)	(775,065)	(600,362)	(775,065)
Non-cash flows in loss from ordinary activities:				
Depreciation	39,292	18,501	33,215	18,501
Write-off of capitalised expenditure	262,372	120,678	213,335	102,325
Net gain on disposal of investments	(631,469)	-	(631,469)	-
Net gain on disposal of other financial assets	(286,810)	-	(286,810)	-
Impairment - listed investments	146,104	-	146,104	-
Impairment - loan to subsidiary	-	-	470,439	-
Share options expensed	216,816	25,258	216,816	25,258
Changes in assets and liabilities:				
(Increase)/decrease in receivables	4,459	59,741	4,459	17,713
(Increase)/decrease in prepayments	(47,979)	(24,387)	11,521	(24,387)
Increase/(decrease) in trade payables and accruals	212,915	(41,044)	(80,724)	(41,044)
Increase/(decrease) in provisions	5,663	(8,434)	(5,365)	(8,434)
Cash flow from operations	(740,418)	(624,752)	(508,841)	(685,133)

Comet Ridge Limited and Subsidiaries

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006

NOTE 23: Share-based Payments

Employee Share Option Plan

Options are granted under the Company Employee Share Option Plan for no consideration. Options are granted for a three year period and entitlements to the options are vested on a time basis and do not reflect the performance conditions.

The expense recognised in the income statement in relation to share based payments amounts to \$216,816 (2005: \$25,258). The amount assessed at fair value at grant date of the options is allocated equally over the period from grant date to vesting date. Fair values at grant date are independently determined using the Black and Scholes method of valuation that takes into account the exercise price, the terms of the option, the vesting and market related criteria, the impact of dilution, the non-tradeable nature of the option, the share price at grant date and the risk of the underlying share and the risk free interest rate for the term of the option.

The following table illustrates the number and weighted average exercise price of, and movements in, share options issued during the year:

	2006 No.	2006 Weighted average exercise price (cents)	2005 No.	2005 Weighted average exercise price (cents)
Outstanding at the beginning of the year	6,350,000	20	5,350,000	20
Granted during the year	2,525,000	22	1,000,000	20
Exercised during the year	(400,000)	20	-	-
Outstanding at the end of the year	8,475,000		6,350,000	

The outstanding balance as at 30 June 2006 is represented by:

- 4,950,000 options over ordinary shares with an exercise price of 20 cents each, which have vested and are exercisable by 1 December 2006;
- 1,000,000 options over ordinary shares with an exercise price of 20 cents each, which have vested at 30 June 2006, exercisable by 2 March 2008;
- 500,000 options over ordinary shares with an exercise price of 20 cents each, which have vested at 30 June 2006, exercisable by 18 August 2008;
- 1,500,000 options over ordinary shares with an exercise price of 20 cents each, which have vested at 30 June 2006, exercisable by 31 December 2008;
- 450,000 options over ordinary shares with an exercise price of 40 cents each, none of which had vested at 30 June 2006, exercisable by 11 May 2009; and
- 75,000 options over ordinary shares with an exercise price of 45 cents each, none of which had vested at 30 June 2006, exercisable by 26 June 2009.

Comet Ridge Limited and Subsidiaries

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006

NOTE 23: Share-based Payments (cont'd)

The following table lists the inputs to the model used for the years ended 30 June 2005 and 30 June 2006:

	2006	2005
Volatility (%)	76.81%-85%	77.1%
Risk-free interest rate (%)	5.08%-5.69%	5.08%
Expected life of option (years)	3 years	3 years
Exercise price (cents)	20-45 cents	20 cents
Weighted average share price at grant date (cents)	22 cents	10 cents

NOTE 24: Related Party Transactions

	Consolidated		Company	
	2006 \$	2005 \$	2006 \$	2005 \$
Transactions with related parties:				
(a) Other Related Parties				
Fees for administration services paid to a related party of A J Lydyard, Managing Director.	7,280	-	-	-
Fees for administration services paid to a related party of G J Mabie, Vice President – Operations (USA).	1,507	-	-	-
	8,787	-	-	-

Transactions between related parties are on normal commercial terms and conditions no more favourable than those available to other parties.

NOTE 25: Financial Instruments

(a) Financial Risk Management Objectives

The group does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes. The use of financial derivatives is governed by the group's policies approved by the board of directors, which provide written principles on the use of financial derivatives.

The group's activities expose it primarily to the financial risks of changes in foreign currency exchange rates and interest rates.

(b) Significant Accounting Policies

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed in note 1 to the financial statements.

(c) Foreign Currency Risk Management

The group undertakes certain transactions denominated in foreign currencies, hence exposure to exchange rate fluctuations arise. Exchange rate exposures are monitored by the board of directors to ensure they are within approved parameters.

(d) Interest Rate Risk Management

The group is exposed to interest rate risk as it may borrow funds at both fixed and floating interest rates. The risk is managed by maintaining an appropriate mix between fixed and floating rate borrowings, which is monitored by the board of directors.

Comet Ridge Limited and Subsidiaries

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006

NOTE 25: Financial Instruments (cont'd)

Monitoring profile of financial instruments

The following table details the group's exposure to interest rate risk as at 30 June 2006.

	Weighted Average Effective Interest Rate		Variable Interest Rate		Non Interest Bearing		Total	
	2006	2005	2006	2005	2006	2005	2006	2005
	%	%	\$	\$	\$	\$	\$	\$
Financial Assets:								
Cash	4.58	5.03	4,195,234	1,318,436	-	-	4,195,234	1,318,436
Receivables	-	-	-	-	602,362	23,797	602,362	23,797
Other financial assets	-	-	-	-	228,727	72,610	228,727	72,610
			4,195,234	1,318,436	831,089	96,407	5,026,323	1,414,843
Financial Liabilities:								
Payables	-	-	-	-	393,488	168,913	393,488	168,913
Provisions	-	-	-	-	11,027	5,365	11,027	5,365
			-	-	404,515	174,278	404,515	174,278

(e) Credit Risk Management

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the group. The group has adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral where appropriate, as a means of mitigating the risk of financial loss from defaults. The group exposure and the credit ratings of its counterparties are continuously monitored by the board of directors.

The group does not have any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics.

(f) Fair Value of Financial Instruments

The directors consider that the carrying amount of financial assets and financial liabilities recorded in the financial statements approximates their fair values (2005: net fair value).

(g) Liquidity Risk Management

The group manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

Comet Ridge Limited and Subsidiaries

DIRECTORS' DECLARATION

The directors of the company declare that:

1. the financial statements and notes, as set out on 35 to 63, are in accordance with the Corporations Act 2001 and:
 - (a) comply with Accounting Standards and the Corporations Regulations 2001; and
 - (b) give a true and fair view of the financial position as at 30 June 2006 and of the performance for the year ended on that date of the company and consolidated entity;

2. the Managing Director has declared that:
 - (a) the financial records of the company for the financial year have been properly maintained in accordance with section 286 of the *Corporations Act 2001*;
 - (b) the financial statements and notes for the financial year comply with the Accounting Standards; and
 - (c) the financial statements and notes for the financial year give a true and fair view.

3. 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 made on behalf of and in accordance with a resolution of the Board of Directors.



A J Lydyard
Managing Director

Dated this 29 day of September 2006

INDEPENDENT AUDIT REPORT

To the members of
Comet Ridge Limited

Scope

The Financial Report and Directors' Responsibility

The financial report comprises the balance sheet as at 30 June 2006, and the income statement, statement of changes in equity, cash flow statement, accompanying notes to the financial statements and the directors' declaration for the year then ended for both Comet Ridge Limited ('the company') and the consolidated entity. The consolidated entity comprises both the company and the entities it controlled during that year.

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

Audit Approach

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

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

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

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

When determining the nature and extent of our procedures we considered the effectiveness of management's internal controls over financial reporting. Our audit was not designed to provide assurance in relation to internal controls.

Independence

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

The Directors' Report attached to the financial statements includes a copy of the Independence Declaration given to the Directors by the lead auditor for the audit. That Declaration would be on the same terms if it had been given to the Directors at the time this audit report was made.

Audit Opinion

In our opinion, the financial report of Comet Ridge Limited is in accordance with:

- (a) the Corporations Act 2001, including:
 - (i) giving a true and fair view of the company's and consolidated entity's financial position at 30 June 2006 and of their performance for the year then ended; and
 - (ii) complying with Accounting Standards in Australia and the Corporations Regulations 2001; and
- (b) other mandatory financial reporting requirements in Australia.

HLB Mann Judd

HLB MANN JUDD
Chartered Accountants

L Di Giallonardo

L DI GIALLONARDO
Partner

Perth, Western Australia
29 September 2006

SHAREHOLDER INFORMATION

The shareholder information set out below was applicable at 29 September 2006.

1. Number of Equity Holders

Ordinary Share Capital

70,728,240 fully paid ordinary shares are held by 594 individual shareholders.

2. Voting Rights

In accordance with company's constitution, on a show of hands every shareholder present in person or by a proxy, attorney or representative of a shareholder has one vote and on a poll every shareholder present in person or by a proxy, attorney or representative has in respect of fully paid shares, one vote for every share held. No class of option holder has a right to vote, however the shares issued upon exercise of options will rank pari passu with the then existing issued fully paid ordinary shares.

3. Distribution of Shareholdings

Holdings	No of Shareholders
1-1,000	2
1,001-5,000	33
5,001,10,000	113
10,001,100,000	336
100,001-Over	110
	594

3 shareholders hold less than a marketable parcel of shares

4. Substantial Shareholders

The following information is extracted from the Company's Register of Substantial Shareholders:

Name	Number of Shares Held	Percentage Interest
Strike Oil Limited	6,250,000	8.84%

The above shareholdings are disclosed pursuant to section 671 B(3) of the Corporations Act 2001 but the relevant interests shown do not necessarily represent the beneficial interest in the share capital of the company or parties concerned.

5. The 20 Largest Holders of Ordinary Shares

Rank	Name	Number of Shares	% Held
1	Strike Oil Ltd	6,250,000	8.84
2	ANZ Nominees Limited	4,474,734	6.33
3	Ms Gillian Swaby	2,638,492	3.73
4	JP Morgan Nominees Australia Limited	2,429,834	3.44
5	Pontia Pty Ltd <Durrant Family Account>	2,000,000	2.83
6	S&Y Ashton Nominees Pty Ltd <Simon Ashton Family Account>	2,000,000	2.83
7	Martin Place Securities Nominees Pty Ltd	1,866,884	2.64
8	Calm Holdings Pty Ltd	1,412,640	2.00
9	UURO Pty Ltd	1,321,883	1.87
10	Mr Jeffrey Warrington Schneider	1,153,492	1.63

SHAREHOLDER INFORMATION

5. The 20 Largest Holders of Ordinary Shares ((cont'd))

Rank	Name	Number of Shares	% Held
11	Mr Andrew John Lydyard & Ms Cheryl Lee Lydyard <Indian Hills Trust>	1,050,000	1.48
12	Alcardo Investments Limited	1,000,000	1.41
13	Parmelia Pty Ltd	970,000	1.37
14	Piat Corp Pty Ltd	900,000	1.27
15	Potentate Holdings Pty Ltd	900,000	1.27
16	Dr John Larking <Larking Family funds Account>	850,000	1.20
17	Mrs Myong Sun Campbell	800,000	1.30
18	Matalot Pty Ltd	602,000	0.85
19	Lippo Securities Nominees (BVI) Ltd	600,000	0.85
20	Hillridge Pty Ltd	580,000	0.82
Total		33,799,959	47.79