

**BOW ENERGY LIMITED  
AND CONTROLLED ENTITIES**

**A.B.N. 63 111 019 857**

**INTERIM FINANCIAL REPORT**

**FOR THE HALF-YEAR ENDED 31 DECEMBER 2006**

## **BOW ENERGY LIMITED**

### **CORPORATE DIRECTORY**

#### **DIRECTORS**

Nicholas Mather  
Stephen Bizzell  
Ronald Prefontaine

#### **AUSTRALIAN BUSINESS NUMBER**

63 111 019 857

#### **SECRETARY**

Duncan Cornish

#### **ADMINISTRATION AND REGISTERED OFFICE**

Level 5  
60 Edward Street  
Brisbane Qld 4000

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Facsimile: 07 3303 0651  
Email: [info@bowenergy.com.au](mailto:info@bowenergy.com.au)  
Website: [www.bowenergy.com.au](http://www.bowenergy.com.au)

#### **SHARE REGISTRY**

Link Market Services Limited  
Level 21, 300 Queen St  
Brisbane Qld 4000

Telephone: 07 3228 4244  
Facsimile: 07 3221 3149

#### **SOLICITORS**

Hopgood Ganim  
Level 8, Waterfront Place  
1 Eagle St  
Brisbane Qld 4000

#### **AUDITORS**

BDO Kendalls  
Level 18  
300 Queen St  
Brisbane Qld 4000

## **BOW ENERGY LIMITED AND CONTROLLED ENTITIES**

### **DIRECTOR'S REPORT**

Your directors submit the financial report of the consolidated entity for the half-year ended 31 December 2006.

#### **Directors**

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

Nicholas Mather  
Stephen Bizzell  
Ronald Prefontaine

#### **Review of Operations**

Bow Energy Limited's main activity is the exploration for oil and gas. Bow Energy's primary assets are oil exploration tenements within proven oil and gas basins in Australia in the vicinity of commercial oil and gas fields. Bow Energy has an extensive acreage portfolio in three of Australia's hydrocarbon basins, namely the Carnarvon Basin in WA, the Cooper-Eromanga Basin in Queensland and the Surat-Bowen Basin also in Queensland. In addition, Bow Energy has interests in the Clarence-Moreton Basin adjacent to Brisbane and extending into northern NSW.

Pursuant to an agreement entered into on 24 August 2006, on 8 November 2006, Bow Energy Limited acquired 100% of the equity in Sequoil Pty Limited in consideration for the issue of 11,500,000 ordinary Bow Energy shares and 11,500,000 unlisted options to purchase Bow Energy shares, exercisable at 50 cents per share on or before 7 November 2011. At the same time, Bow Energy Limited acquired Oilex NL's Queensland assets in consideration for the issue of 1,800,000 ordinary Bow Energy shares and 1,800,000 unlisted options to purchase Bow Energy shares, exercisable at 50 cents per share on or before 7 November 2011.

On 11 September 2006 Bow issued 6,647,000 fully paid ordinary shares to institutional and sophisticated investors, along with 3,323,500 listed options issued on 1 December 2006, raising \$1,462,340, before issue costs. The funds were used for ongoing exploration activities including the Banff-1 well in the Barcoo Block of ATP 794P located in the Cooper-Eromanga Basin.

Bow also completed a Share Purchase Plan (SPP) during the year, raising \$2,200,000, before issue costs, through the issue of 13,333,333 fully paid ordinary shares. The SPP was structured to encourage the Company's shareholders to increase their participation in Bow at a discount to the market price prior to Bow operating a multi-well oil exploration drilling program in Queensland.

Other significant activities which occurred during the half-year included:

- The Banff-1 well spudded on 26 September 2006 and was drilled to a depth of 1650 metres. The well was plugged and abandoned after failing to encounter any hydrocarbons.
- The Donga-4 appraisal well on the Donga Oil Field spudded on 4 December 2006 and was drilled to a total depth of 1603 metres. The well was cased and suspended as a future oil producer.
- Bow commenced a three well back-to-back oil exploration program in Wompi Block of ATP 752P Cooper-Eromanga Basin. The first well, Marracoodna-2 spudded on 11 January 2007 and encountered good oil shows. A test of the zone recovered 74 barrels of fluid consisting of 5% oil and oil emulsion, water and mud during a two hour flow period. Bow is fully carried on the oil drilling exploration program in this permit.
- Acquisition of 100 km 2D infill and 3D detailed seismic programs in the Barta Block of ATP 752P Cooper-Eromanga Basin were completed.
- The Rookwood Oil Field in ATP 608P produced 1063 barrels of oil since Bow took over the field in September 2006.

## **BOW ENERGY LIMITED AND CONTROLLED ENTITIES**

### **DIRECTOR'S REPORT**

- Preparations for the 2007 Surat and Cooper Basin drilling program – ongoing geological appraisal of Bow's Surat and Cooper permits has identified over 90 oil leads and prospects.
- Bow continued ongoing seismic reprocessing and mapping programs in other areas for prospect generation and in preparation for drilling and/or farmout.

For the half-year ended 31 December 2006, the consolidated loss for the economic entity after providing for income tax was \$737,900 (2005: \$204,235).

#### **Events subsequent to reporting date**

In accordance with his employment contract, and after one year of satisfactory service, on 22 January 2007, 350,000 ordinary shares were issued to Mr Peter O'Neill, Operations Manger.

Also, on 22 January 2007, 225,000 unlisted options were issued to an employee under the following terms:

- 75,000 options to take up one ordinary share in Bow Energy Limited at an issue price of 30 cents. The options expire 20 May 2008 and vest 1/3 one year from listing, 1/3 two years from listing and 1/3 three years from listing.
- 75,000 options to take up one ordinary share in Bow Energy Limited at an issue price of 40 cents. The options expire 20 May 2009 and vest 1/3 one year from listing, 1/3 two years from listing and 1/3 three years from listing.
- 75,000 options to take up one ordinary share in Bow Energy Limited at an issue price of 50 cents. The options expire 20 May 2010 and vest 1/3 one year from listing, 1/3 two years from listing and 1/3 three years from listing.

There have been no other events since 31 December 2006 that impact upon the financial report as at 31 December 2006.

#### **Auditors Independence Declaration**

The auditor's independence declaration under section 307C of the Corporations Act 2001 is set out on page 5 for the half-year ended 31 December 2006.

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

**Ron Prefontaine**

**Brisbane**

**Date: 28 February 2007**

28 February 2007

The Directors  
Bow Energy Limited  
Level 5, 60 Edward Street  
Brisbane QLD 4000

Dear Sirs

**AUDITOR INDEPENDENCE DECLARATION TO BOW ENERGY LIMITED**

I declare that, to the best of my knowledge and belief, during the half-year ended 31 December 2006 there have been:

- a) No contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the review; and
- b) No contravention of any applicable code of professional conduct in relation to the review.

This declaration is in respect of Bow Energy Limited.

Yours faithfully  
**BDO Kendalls**

**Damian Wright**  
Partner

**BOW ENERGY LIMITED AND CONTROLLED ENTITIES**

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

	<b>Note</b>	<b>Economic Entity 31 December 2006 \$</b>	<b>31 December 2005 \$</b>
Revenue		427,262	110,869
Employee benefits expense		(259,489)	(97,556)
Depreciation and amortisation expenses		(17,354)	(11,707)
Legal expenses		(63,500)	(6,837)
Administration and consulting expenses		(201,823)	(134,219)
Write off of capitalised exploration expenditure	2	(526,774)	(1,846)
Other expenses		(96,222)	(62,939)
<b>Profit/(Loss) before income tax</b>		<b>(737,900)</b>	<b>(204,235)</b>
Income tax expense		-	-
<b>Net Profit/(Loss) attributable to members of the parent entity</b>		<b>(737,900)</b>	<b>(204,235)</b>
Basic earnings/(loss) per share (cents per share)		(0.88)	(0.58)
Diluted earnings/(loss) per share (cents per share)		(0.88)	(0.58)

The Condensed Income Statement should be read in conjunction with the notes to the financial statements.

**BOW ENERGY LIMITED AND CONTROLLED ENTITIES**

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

	Note	Economic Entity	
		31 December 2006	30 June 2006
		\$	\$
<b>ASSETS</b>			
<b>Current Assets</b>			
Cash and cash equivalents		3,009,463	2,659,932
Trade and other receivables		2,976,387	340,652
Inventories		352,147	-
Other current assets		43,548	59,361
<b>Total Current Assets</b>		<u>6,381,545</u>	<u>3,059,945</u>
<b>Non-Current Assets</b>			
Trade and other receivables		262,126	162,066
Financial assets		2,790	-
Plant and equipment		156,279	165,316
Exploration and evaluation expenditure		9,782,159	6,071,413
<b>Total Non-Current Assets</b>		<u>10,203,354</u>	<u>6,398,795</u>
<b>TOTAL ASSETS</b>		<u><b>16,584,899</b></u>	<u><b>9,458,740</b></u>
<b>LIABILITIES</b>			
<b>Current Liabilities</b>			
Trade and other payables		1,984,400	1,029,656
Short term borrowings		33,997	46,133
Short term provisions		125,000	-
<b>Total Current Liabilities</b>		<u>2,143,397</u>	<u>1,075,789</u>
<b>TOTAL LIABILITIES</b>		<u><b>2,143,397</b></u>	<u><b>1,075,789</b></u>
<b>NET ASSETS</b>		<u><b>14,441,502</b></u>	<u><b>8,382,951</b></u>
<b>EQUITY</b>			
Issued capital		14,023,546	8,704,234
Reserves		1,696,036	218,897
Accumulated losses		(1,278,080)	(540,180)
<b>TOTAL EQUITY</b>		<u><b>14,441,502</b></u>	<u><b>8,382,951</b></u>

The Condensed Balance Sheet should be read in conjunction with the notes to the financial statements.

**BOW ENERGY LIMITED AND CONTROLLED ENTITIES**

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

	<b>Issued Capital</b>	<b>Accumulated Losses</b>	<b>Reserves</b>	<b>Total</b>
	\$	\$	\$	\$
<b>At 1 July 2005</b>	8,040,172	(169,502)	-	7,870,670
Issue of share capital	588,750	-	-	588,750
Issue of options	-	-	15,695	15,695
Profit/(loss) for the period	-	(204,235)	-	(204,235)
<b>At 31 December 2005</b>	<b>8,628,922</b>	<b>(373,737)</b>	<b>15,695</b>	<b>8,270,880</b>
<b>At 1 July 2006</b>	8,704,234	(540,180)	218,897	8,382,951
Issue of share capital	5,519,378	-	-	5,519,378
Share issue costs	(200,066)	-	-	(200,066)
Issue of options	-	-	1,477,139	1,477,139
Profit/(loss) for the period	-	(737,900)	-	(737,900)
<b>At 31 December 2006</b>	<b>14,023,546</b>	<b>(1,278,080)</b>	<b>1,696,036</b>	<b>14,441,502</b>

The Condensed Statement of Changes in Equity should be read in conjunction with the notes to the financial statements.

**BOW ENERGY LIMITED AND CONTROLLED ENTITIES**

**CONDENSED STATEMENT OF CASH FLOWS  
FOR THE HALF-YEAR ENDED 31 DECEMBER 2006**

	<b>Economic Entity</b>	
<b>Note</b>	<b>31 December 2006</b>	<b>31 December 2005</b>
	\$	\$
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Receipts from customers	454,384	-
Payments to suppliers & employees	(699,458)	(268,050)
Interest received	77,971	114,613
<b>Net cash provided by (used in) operating activities</b>	<u>(167,103)</u>	<u>(153,437)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Payments for security deposits	(96,810)	(5,316)
Payments for plant and equipment	(26,493)	(103,665)
Payments for exploration & evaluation	(2,371,353)	(1,304,298)
Payments for joint ventures	(2,388,439)	-
Recovery from joint ventures	1,898,289	-
<b>Net cash provided by (used in) investing activities</b>	<u>(2,984,806)</u>	<u>(1,413,279)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from issue of shares	3,662,341	-
Payments for share issue expenses	(148,765)	(32,129)
Proceeds from borrowings	65,870	-
Repayment of borrowings	(78,006)	(47,715)
<b>Net cash provided by (used in) financing activities</b>	<u>3,501,440</u>	<u>(79,844)</u>
<b>NET INCREASE/(DECREASE) IN CASH HELD</b>	349,531	(1,646,560)
Cash at 1 July	2,659,932	5,355,656
<b>CASH AT 31 DECEMBER</b>	<u>3,009,463</u>	<u>3,709,096</u>

The Condensed Cash Flow Statement should be read in conjunction with the notes to the financial statements.

## **BOW ENERGY LIMITED AND CONTROLLED ENTITIES**

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

#### **1. BASIS OF PREPARATION**

The half-year interim financial report is a general purpose financial report prepared in accordance with the requirements of the Corporations Act 2001, Australian Equivalent to International Reporting Standard AASB 134: Interim Financial Reporting, Urgent Issues Group Interpretations and other authoritative pronouncements of the Australian Accounting Standards Board.

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

The accounting policies have been consistently applied by the entities in the economic entity and are consistent with those applied in the 30 June 2006 annual report.

The half-year interim financial report does not include all notes of the type normally included in an annual financial report.

#### **Going concern**

The financial statements have been prepared on a going concern basis which contemplates the continuity of normal business activities and the realisation of assets and discharge of liabilities in the ordinary course of business. The ability of the Economic Entity to continue to adopt the going concern assumption will depend upon a number of matters including the successful raising in the future of necessary funding or the successful exploration and subsequent exploitation of the Company's tenements.

#### **Comparatives**

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

**BOW ENERGY LIMITED AND CONTROLLED ENTITIES**

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

	<b>Economic Entity</b>	
	<b>31 December 2006</b>	<b>31 December 2005</b>
	<b>\$</b>	<b>\$</b>

**2. LOSS AFTER INCOME TAX EXPENSE**

The following revenue and expense items are relevant in explaining the financial performance of the interim period:

Write off of capitalised exploration expenditure on areas of interest abandoned during the period	526,774	1,846
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	<b>Economic Entity</b>	
	<b>2006</b>	<b>2005</b>
	<b>No.</b>	<b>No.</b>

**3. ISSUED CAPITAL**

**(a) Ordinary shares**

At 1 July	74,117,437	70,000,001
Shares issued during the year		
- 26 October 2005	-	750,000
- 29 December 2005	-	3,000,000
- 11 September 2006 (1)	6,647,000	-
- 7 November 2007 (2)	13,300,000	-
- 30 November 2007 (3)	13,333,333	-
At 31 December	107,397,770	73,750,001

(1) On 11 September 2006 the Company issued 6,647,000 shares to institutional and sophisticated investors.

(2) On 7 November 2006 the Company issued 13,300,000 shares to Oilex NL in consideration for the issued capital in Sequil Pty Limited and its other Queensland assets.

(3) On 30 November 2006 the Company issued 13,333,333 to shareholders and underwriters who subscribed for shares under a Share Purchase Plan.

**(b) Options**

During the half-year ended 31 December 2006, the Company issued the following options:

- 13,300,000 unlisted options to take up one ordinary share in Bow Energy Limited at an issue price of 50 cents. The options expire 7 November 2011.
- 3,323,500 listed options to take up one ordinary share in Bow Energy Limited at an issue price of 20 cents. The options expire 31 March 2008

**BOW ENERGY LIMITED AND CONTROLLED ENTITIES**

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

**4. ACQUISITIONS OF SUBSIDIARIES**

Pursuant to an agreement entered into on 24 August 2006, on 8 November 2006, Bow Energy Limited acquired 100% of the equity in SEQOil Pty Limited in consideration for the issue of 11,500,000 ordinary Bow Energy shares and 11,500,000 unlisted options to purchase Bow Energy shares, exercisable at 50 cents per share on or before 7<sup>th</sup> November 2011.

The ordinary shares were issued at 16.5 cents each, and the options were valued at 7.7 cents giving at total consideration of \$2,785,437.

The purchase price was allocated as follows:

	<b>Economic Entity</b>	
	<b>31 December 2006</b>	<b>31 December 2005</b>
	<b>\$</b>	<b>\$</b>
Purchase consideration	2,785,437	-
Cash consideration	-	-
Assets and liabilities acquired at acquisition date:		
Cash and cash equivalents	2	-
Trade and other receivables	74,577	-
Exploration expenditure	1,778,539	-
Trade and other payables	(30,902)	-
Provisions	(125,000)	-
	<u>1,697,216</u>	-
Exploration expenditure on consolidation	1,088,221	-
Total	<u>2,785,437</u>	-

The assets and liabilities arising from the acquisition are recognised at fair value which are equal to their carrying value at acquisition date.

Profit relating to Seqoil Pty Limited amounting to \$0 is included in the consolidated income statement for the half-year ended 31 December 2006. Had the results relating to Seqoil Pty Limited been consolidated from 1 July 2006, consolidated revenue would have been \$0 and consolidated profit \$0 for the half-year ended 31 December 2006.

**5. SEGMENT INFORMATION**

The Company operates predominantly in one business and geographical segment being in the petroleum industry in Australia. No revenue from this activity has been earned to date as the Company is still in the exploration and evaluation stage.

## BOW ENERGY LIMITED AND CONTROLLED ENTITIES

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

#### 6. CONTINGENT LIABILITIES AND CONTINGENT ASSETS

(a) Contingent liabilities

*Native Title*

In the Annual Report for 30 June 2006, it was noted that certain tenements (ATP's 736P, 737P, 738P) to which Bow Energy Limited has an interest still had unresolved native title claims. The position regarding the likely success and impact on Bow energy's operations of these tenements is unknown at balance date. It is management's intention to continue to work through these matters.

(b) The directors are not aware of any other significant contingent liabilities or contingent assets at the date of this report.

#### 7. EVENTS SUBSEQUENT TO REPORTING DATE

In accordance with his employment contract, and after one year of satisfactory service, on 22 January 2007, 350,000 ordinary shares were issued to Mr Peter O'Neill, Operations Manger.

Also, on 22 January 2007, 225,000 unlisted options were issued to an employee under the following terms:

- 75,000 options to take up one ordinary share in Bow Energy Limited at an issue price of 30 cents. The options expire 20 May 2008 and vest 1/3 one year from listing, 1/3 two years from listing and 1/3 three years from listing.
- 75,000 options to take up one ordinary share in Bow Energy Limited at an issue price of 40 cents. The options expire 20 May 2009 and vest 1/3 one year from listing, 1/3 two years from listing and 1/3 three years from listing.
- 75,000 options to take up one ordinary share in Bow Energy Limited at an issue price of 50 cents. The options expire 20 May 2010 and vest 1/3 one year from listing, 1/3 two years from listing and 1/3 three years from listing.

There have been no other events since 31 December 2006 that impact upon the financial report as at 31 December 2006.

**BOW ENERGY LIMITED AND CONTROLLED ENTITIES**

**DECLARATION BY DIRECTORS**

The directors of the Company declare that:

1. The financial statements and notes, as set out on pages 6 to 13:
  - (a) comply with Australian Equivalents to International Reporting Standard AASB 134: Interim Financial Reporting and the Corporations Regulations; and
  - (b) give a true and fair view of the economic entity's financial position as at 31 December 2006 and of its performance for the half-year ended on that date.
2. In the directors' opinion, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

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

**Ron Prefontaine**

**Brisbane**

**Date: 28 February 2007**

## **INDEPENDENT REVIEW REPORT TO THE MEMBERS OF BOW ENERGY LIMITED**

### **Report on the Half-Year Interim Financial Report**

We have reviewed the accompanying half-year interim financial report of Bow Energy Limited, which comprises the condensed balance sheet as at 31 December 2006, and the condensed income statement, condensed statement of changes in equity and condensed cash flow statement for the half-year ended on that date, other selected explanatory notes and the directors' declaration of the consolidated entity comprising the disclosing entity and the entities it controlled at the half-year end or from time to time during the half-year in order for the disclosing entity to lodge the half-year interim financial report with the Australian Securities and Investments Commission and Australian Securities Exchange.

### **Directors' Responsibility for the Half-Year Interim Financial Report**

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

### **Auditor's Responsibility**

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

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

### **Independence**

We are independent of the company, and have met the independence requirements of Australian professional ethical pronouncements and the Corporations Act 2001. We confirm the independence declaration required by the Corporations Act 2001, provided to the directors of Bow Energy Limited on 28 February 2007, would be in the same terms if provided to the directors as at the date of this review report.

### **Statement**

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

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

**Emphasis of Matter Regarding Going Concern**

Without qualification to the statement expressed above attention is drawn to the following matter. As set out in Note 1, the financial statements have been prepared on a going concern basis. The ability of the company to maintain continuity of normal business activities and to pay its debts and when they fall due is dependent upon the success of continued capital raising and exploitation of its tenements.

No adjustments have been made to the carrying value of assets or recorded amount of liabilities should the company's plans not eventuate.

**BDO Kendalls  
Chartered Accountants**

**D P Wright  
Partner**

**Brisbane  
Dated: 28 February 2007**