



BOW ENERGY LTD

ANNUAL REPORT

FOR THE YEAR ENDED 30 JUNE 2007

CORPORATE INFORMATION

DIRECTORS

Ron Prefontaine
Nicholas Mather
Stephen Bizzell

COMPANY SECRETARY

Duncan Cornish

REGISTERED OFFICE AND PRINCIPAL BUSINESS OFFICE

Bow Energy Ltd
Level 5,
60 Edward Street
Brisbane QLD 4000
Phone: + 61 7 3303 0675
Fax: +61 7 3303 0651

SOLICITORS

Hopgood Ganim
Level 8, Waterfront Place
1 Eagle Street
Brisbane QLD 4000

SHARE REGISTER

Link Market Services
Level 12
300 Queen Street
Brisbane QLD 4000
Phone: 1300 554 474

AUDITORS

BDO Kendalls
Level 18, 300 Queen Street
Brisbane QLD 4000
Phone: +61 7 3237 5999

COUNTRY OF INCORPORATION

Australia

STOCK EXCHANGE LISTING

Australian Stock Exchange Ltd
ASX Code: BOW

INTERNET ADDRESS

www.bowenergy.com.au

AUSTRALIAN BUSINESS NUMBER

ABN 63 111 019 857

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LETTER TO SHAREHOLDERS

Dear Shareholder,

It is with great pleasure that I present, on behalf of the Board, the third Annual Report of Bow Energy Limited (Bow). To start off, I would like to thank the shareholders for their continued support during the year.

Early in the year, your Company purchased the majority of Oilex NL's onshore Queensland petroleum assets in exchange for escrowed Bow shares and Bow 50 cent exercise price options. Included in the purchase were interests in the Donga, Rookwood and Conloi Oil Fields in the Surat Basin as well high equities in several tenements in the Bowen-Surat and Cooper-Eromanga Basins.

Bow participated in a drilling of four petroleum wells during the year. Although three of the wells drilled intersected good oil shows, three wells were plugged and abandoned and the fourth, Donga-4, was cased and suspended as future oil producer.

Bow produced approximately 3,500 barrels of oil from the single producing oil well in the Rookwood Oil Field since purchasing the field. Currently there are three cased and shut in oil wells in the Donga and Rookwood Oil Fields and Bow is planning to complete and equip these wells this year with the target to substantially increase oil production from the fields.

In June, Bow announced its participation in the Don Juan Coal Seam Gas (CSG) joint venture located near Roma in Queensland. Planning for the initial exploration drilling program is in the advanced stages and assuming positive results in the initial exploration wells, the joint venture will commence the reserves certification process. Bow is also looking at expanding its CSG business.

In addition to expanding its petroleum portfolio, the Company has been building on its inventory of oil leads and prospects which now stands at 193. This diverse prospect inventory will form the foundation of Bow's future growth. Given Bow's high equities and large number of oil prospects in its core areas, Bow has commenced marketing programs with the goal of multi-well farm-outs in those areas. Farm-outs can not only substantially reduce exploration risk, they also decrease the need for shareholder capital to fund expensive oil exploration drilling programs while offering the potential for considerable shareholder wealth following commercial oil discoveries.

Recently Bow executed a letter of intent with Santos Ltd and Avery Resources (Australia) Pty Ltd to expand the current ATP 752P Barta and Wompi Blocks farm-in earning program from the currently planned three wells to seven wells, and an additional 300km² of 3D seismic data. Bow will be fully carried for the seven wells and 3D seismic programs under the staged farm-in arrangements with drilling scheduled to commence in the first quarter of 2008.

Once again, thank you for your continued support. With Bow now having both firm oil drilling and CSG exploration paths in place for potential wealth creation, I predict the next year to be an exciting and lucrative period for Bow shareholders. Lastly, I would like to thank my fellow directors as well as Bow's management and staff for their significant contributions during the year.

Best regards,

Ron Prefontaine
Managing Director

REVIEW OF OPERATIONS AND FUTURE DEVELOPMENTS

HIGHLIGHTS

OVERVIEW OF THE COMPANY'S BUSINESS

Bow's main activity is the exploration for oil, with the Company now diversifying into Coal Seam Gas (CSG). Bow has interests in three oil fields and numerous oil exploration tenements within proven oil and gas basins in Australia in the vicinity of commercial oil and gas fields.

Bow expanded its oil exploration portfolio in the Bowen-Surat and Cooper-Eromanga Basins by purchasing the majority of Oilex NL's Queensland assets with Bow shares and options. Oilex NL voluntarily escrowed the shares until September 2008 and the options have an exercise price of 50 cps.

Petroleum discoveries are built on the accumulation of data. Bow has undertaken very detailed technical work in its expanded oil exploration portfolio collating and evaluating all available geological information not just the area of its permits, but also the surrounding region. From this work Bow has identified a very large inventory of quality oil prospects and leads.

Unfortunately, the Company does not have the cash reserves required to test even a fraction of its oil prospect inventory. Therefore the Company has determined that instead of diluting shareholder value by raising the capital required to drill risky oil exploration wells, Bow's strategy is to actively farm-out areas where it has large equities to divest risk while still retaining sufficient equity to substantially reward shareholders following any exploration success.

Table 1. Summary of the current status of each of Bow's tenements

TENEMENT	BASIN	PERCENT INTEREST	AREA (SQ KM)	NOTES ON PERMIT STATUS, WORK DURING YEAR AND WORK IN PROGRESS AND/OR PLANNED
ATP 794P Barcoo	Cooper-Eromanga, QLD	65%	5,392	Banff-1 was drilled to 1,650m and plugged and abandoned as a dry hole. Several large oil prospects are mapped on the western side of the Barcoo Block where oil recoveries and/or oil shows have been encountered in all previous wells drilled in the area by past operators. Bow will be including this area in a Central Eromanga farm-out program.
ATP 794P Springfield/ Regleigh	Cooper-Eromanga QLD	16%	2,788	The blocks are considered gas prone and Bow does not plan any work in the immediate future.
ATP 794P Moonscape	Central Eromanga QLD	40% reducing to 16%	6,578	Coomooroo Explorations Co Pty Ltd has a staged farm-in option to earn equity in the Moonscape Block by contributing to the cost of an airborne survey, geochemical survey, 100km of new seismic acquisition and the drilling, testing and completion of three wells. An airborne survey was completed which had anomalies that could be indicators of oil accumulations. The anomalies are to be followed up with surface geochemical surveys.
ATP 752P	Cooper-Eromanga, QLD	30% - 50% reducing to 15%	2,554	Following the completion of a new fully carried seven well and 300km ² 3D seismic acquisition staged farm-in by Santos Ltd and Avery Resources (Australia) Pty Ltd, Bow will retain a 15% working interest in the tenement after all stages of the farm-in are completed. Two wells from a previous farm-in earning program were drilled with both wells plugged and abandoned. One 2D and two 3D seismic surveys were recorded in the permit along with the reprocessing of approximately 1,800km of seismic data. A total of 40 leads and prospects with commercial oil potential have been identified in the permit. The new farm-in drilling program is due to commence in early 2008, likely with the drilling of the 11 million barrel potential Hudson prospect.
ATP 736P	Cooper-Eromanga, QLD	20%	4,795	A 20% working interest is to be assigned to Ocellaris Oil Pty Ltd (100% Bow) on granting. An agreement with Native Title claimants is required prior to granting of the tenement.

TENEMENT	BASIN	PERCENT INTEREST	AREA (SQ KM)	NOTES ON PERMIT STATUS, WORK DURING YEAR AND WORK IN PROGRESS AND/OR PLANNED
ATP 737P	Cooper-Eromanga, QLD	20%	853	A 20% working interest is to be assigned to Ocellaris Oil Pty Ltd (100% Bow) on granting. An agreement with Native Title claimants is required prior to granting of the tenement.
ATP 738P	Cooper-Eromanga, QLD	20%	1,075	A 20% working interest is to be assigned to Ocellaris Oil Pty Ltd (100% Bow) on granting. An agreement with Native Title claimants is required prior to granting of the tenement.
ATP 809P	Central Eromanga QLD	100%	4,928	Ten leads and prospects have been identified in the permit. One large structural closure, located on the same structural trend as the Inland Oil Field, called the Evengy Prospect has the potential to contain 79 million barrels of recoverable oil. Bow has included this area in its Central Eromanga farm-out program.
ATP 545P	Central-Eromanga QLD	100%	1,563	One very large target called the Glenard Prospect has up to 42km ² of closure and 84 million barrels of recoverable oil potential. Bow has included this area in its Central Eromanga farm-out program.
ATP 677P	Central Eromanga QLD	50%	3,385	This area is interpreted to be located on the fringes of the Central Eromanga petroleum system. Recent mapping has identified several oil prospects and leads in the tenement. Bow has included this area in its Central Eromanga farm-out program.
ATP 805P	Surat-Bowen QLD	85.0%	937	Donga-4 was cased and suspended as a future oil producer. Bow plans to complete Donga-3 and 4 with all necessary equipment required for safe and efficient oil production subject to economics and/or farm-out. Bow has identified several other leads and prospects in the permit and has included this permit in the Surat farm-out program.
ATP 608P Rookwood	Surat-Bowen QLD	60.44%	391	The block contains the Rookwood Oil Field (producing about 10-12 BOPD) and surrounding oil prospects. Bow is planning to complete Rookwood North-1, which is located about 210m north of Rookwood South, as a pumping oil well. The well was drilled, cased and suspended in 2005 by the previous operator but never converted to an oil well. Bow has identified several other leads and prospects in the permit and has included this block and the field enhancement program as part of the Surat farm-out program.
ATP 608P Stratton	Surat-Bowen QLD	68.13%	2,128	Several leads and prospects have been identified in the permit including a closure updip of Stratton-1 which has up to 6.5 million barrels of recoverable oil potential. Other large oil prospects have been identified in the Stratton Block. The ATP 608P Stratton Block is included in the Surat farm-out program.
ATP 807P	Surat-Bowen QLD	100%	1,356	Seven leads and prospects have been identified in the permit. The primary target, the Showgrounds sandstone, has produced at commercial flow rates in oil fields located nearby to the south and west of the permit. One prospect is mapped immediately updip from a well which recovered oil from an excellent sandstone reservoir. This area is included in the Surat farm-out program.
ATP 664P/706P	Surat-Bowen QLD	100%	988 / 682	A total of 15 prospects and leads have been mapped in these permits. These areas are to be included in the Surat farm-out program.
PL 15	Surat-Bowen QLD	Earning 50%	259	Bow can earn a 50% interest in PL 15 in the Surat Basin from Mosaic Oil NL by funding a well in the tenement. Of the eight prospects and strong leads mapped in the Block, the Jawsone Oil Prospect has been selected as the farm-in well target. It has 1.5 to 6 million barrels of recoverable oil potential in the Showgrounds sandstone primary target within a structural and interpreted structural/stratigraphic trap respectively. Bow is seeking to divest a substantial portion of the funding of this farm-in well.
ATP 746P	Surat-Bowen QLD	100%	2,809	An agreement with Native Title claimants is required prior to granting of the tenement. The Walloon CSG potential is excluded from the tenement.
ATP 747P	Surat-Bowen QLD	100%	3,460	An agreement with Native Title claimants is required prior to granting of the tenement. The Walloon CSG potential is excluded from the tenement.

TENEMENT	BASIN	PERCENT INTEREST	AREA (SQ KM)	NOTES ON PERMIT STATUS, WORK DURING YEAR AND WORK IN PROGRESS AND/OR PLANNED
ATP 574P	Surat-Bowen QLD	12.5% to 70.0%	307	Previous wells drilled in the permit had oil shows and/or oil recoveries including the shut-in Conloi Oil Field (18,000 barrels of oil produced from Conloi-1 before being shut in). Bow is investigating the costs and economics of a work over and oil facilities upgrades required to bring the field into production.
ATP 593P	Surat-Bowen QLD	76%	1,157	Several oil prospects and leads have been identified on two structural trends mapped in the permit. Oil I shows were recorded in previously drilled well in the permit. Bow is considering an infill seismic program over the several leads and prospects identified.
WA 261P	Carnarvon, WA	10%	335	The permit contains the Chamois Oil field which is located on the western side of the permit. The operator maps 2.4 (mean) to 3.9 (P10) million barrels of recoverable oil potential. A very high resolution seismic survey is being considered.
TP19/EP421	Carnarvon, WA	10%	140 / 503	The Karratha 2D seismic survey was acquired over the Sharp Peak lead has been high graded it from a lead to a prospect with up to 147 million barrels of oil potential. The prospect has substantial risks with drilling conditional on a farm-out by the operator.
EP 325	Carnarvon, WA	11.213%	1,664	The 79km Rivoli 2D seismic program and 377km seismic reprocessing program was completed. A Front End Engineering Design (FEED) to investigate the feasibility of supplying gas from the Rivoli Gas Field to fuel power generation for the Defence Communication Station located nearby is in progress. If approved, the first gas sales would be anticipated some time in 2009. The gas price will be competitive with the current delivered price of diesel.
PEL 432	Clarence-Moreton NSW	87.5%	246	Three structural leads and prospects have been identified in the area with the same target reservoir which contained the residual oil show in Pickabooba South-1. An application to renew the permit with a minimal work program has been submitted. Bow has been attempting to farm-out the area.
PEL 445	Clarence-Moreton NSW	100%	9,204	No immediate work is planned in this area. Expenditure commitments in the permit are currently being met by Arrow Energy NL's coal seam gas exploration work. The CSG potential is excluded from the tenement.
ATP 644P	Clarence-Moreton QLD	100%	1,951	No immediate work is planned in this area. Expenditure commitments in the permit are currently being met by Arrow Energy NL's coal seam gas exploration work. The CSG potential is excluded from the tenement.

REVIEW OF OPERATIONS

Bow has an extensive acreage portfolio in three of Australia's premier hydrocarbon basins, namely the prolific Carnarvon Basin in WA, the Cooper-Eromanga Basin in Queensland and the Surat-Bowen Basin also in Queensland. Bow also has interests in the Clarence-Moreton Basin adjacent to Brisbane and extending into northern NSW with its satellite centres of population. Bow has also entered into its first Coal Seam Gas venture in the Surat Basin in Queensland with plans to expand this side of the business.

Since Bow's permits contain infrastructure, development costs could be relatively low when compared to less mature areas in the event of commercial discoveries.

Bow has now established a very large and diversified petroleum landholding position and identified in excess of 193 oil prospects and leads within its portfolio which it believes will be the future locus of new oil discoveries and an emerging coal seam gas business.

A more detailed review of operations follows.

Cooper-Eromanga Basin

ATP 794P Barcoo Block (Bow 65%)

The permit was granted for a 12 year period from 1 November 2005.

Seismic reprocessing and a geological and geophysical review of the permit were completed and Bow exercised its option to earn 25% working interest in the Barcoo Block by funding 60% of the Banff-1 oil exploration well. Bow also acquired a 40% additional interest in the Block, as part of the purchase of Oilex NL's Queensland assets, immediately prior to drilling Banff-1. Banff-1 was drilled to 1,650m in October 2006, and plugged and abandoned as a dry hole.

Recent mapping by Bow's technical team has identified several oil prospects on the deeper western side of the Barcoo Block where oil recoveries and/or oil shows have been encountered in all previous wells drilled in the area by past operators.

Bow will be including this area in a Central Eromanga farm-out program.

ATP 794P Springfield and Regleigh Blocks (16%)

This area contains the very large Springfield structure which has tested petroleum liquids rich gas at non-commercial flow rates. Methods of determining improved reservoir development in the area and over the Springfield structure need to be identified before any future drilling will is contemplated in the Blocks.

ATP 752P Barta and Wompi Blocks (Bow/Ocellaris to retain 15% after multi-well farm-in completed)

This permit was granted on 1 August 2006 for a 12 year period.

In August 2007 Bow executed a letter of intent with Santos Ltd (Santos) and Avery Resources (Australia) Pty Ltd which expanded the current ATP 752P Barta and Wompi Blocks farm-in earning program from the remaining three farm-in wells to seven farm-in wells plus an additional 300km² of 3D seismic data in the Blocks. Bow will be fully carried for the seven wells and 3D seismic programs under the staged farm-in arrangements.

Bow drilled two wells of the previous farm-in program in ATP 752P Cooper-Eromanga Basin during the year.

The first well, Marracoonda-2, spudded on 11 January 2007 and encountered good to excellent oil shows over the lower Birkhead/Hutton units described as 60-100% moderately bright pale green yellow spotted to solid fluorescence with moderately fast streaming milky cut. A bottom hole drill stem test over the interval 1,685 to 1,692.5m recovered 74 barrels of fluid consisting of about 5% oil and oil emulsion with the remainder of the fluid being mud and water in the lower Birkhead to top Hutton units. The oil recovery was interpreted as sub-commercial and the well was plugged abandoned.

The second well, Gamma-1, reached a total depth of 1,517m and penetrated the primary target reservoirs without encountering significant oil shows. The well was plugged and abandoned.

Two 3D seismic surveys and one 2D infill seismic were completed during the year. In addition, approximately 1,800km of seismic were reprocessed. Mapping to date using the new seismic data has identified 40 leads and prospects in ATP 752P.

The new ATP 752P farm-in drilling program is due to start in early 2008. Santos Ltd will take over as operator of ATP 752P and will drill the initial two firm farm-in wells (one in each block) commencing prior to the end of the first quarter of 2008 and has indicated that it would prefer two wells in each block (potential total of four fully carried oil exploration wells in the first half of 2008) while the drill rigs are in the area. Drilling of the extra two wells will be conditional on a Santos internal technical review of the current Joint Venture's recently acquired 2D, 3D and reprocessed seismic data in the permit.

ATP 736P, ATP 737P, ATP 738P (Bow 20% through Ocellaris Oil)

A 20% working interest in each of these permits is to be assigned to Ocellaris Oil Pty Ltd (100% Bow) on granting. An agreement with Native Title claimants is required prior to granting of the tenement.

Central Eromanga Basin

Bow's Central Eromanga Basin is an area of the Eromanga Basin partially underlain and adjacent to thermally mature Cooper Basin source rocks. Furthermore, Bow's Central Eromanga Basin areas have Jurassic source aged rocks with sufficient thermal maturing and to generate oil (the Central Eromanga Petroleum System). Bow believes that many prospects identified in its areas with the right structural timing, size and reservoir properties can contain sizeable commercial oil fields.

Bow has collated the available data in this area including analogue to digital scanning of seismic data not available in digital form, and completed initial detailed and regional mapping of Central Eromanga Basin using modern seismic work stations - work that has never been carried out in the Central Eromanga Basin.

The subsequent results generated a diversified portfolio of 83 prospects and leads within Bow Central Eromanga areas. Bow is planning to drill several quality drilling prospects subject to a successful farm-out program with the target to diversify exploration risk while still retaining sufficient equity to substantially increase shareholders wealth on discovery.

ATP 809P (Bow 100%)

The permit was granted for a 12 year period from 1 April 2006.

Ten leads and prospects have been identified in the permit. One large structural closure, located on the same structural trend as the Inland Oil Field, called the Evengy Prospect has the potential to contain up to 79 million barrels of recoverable oil. Bow has included this area in its Central Eromanga farm-out program.

ATP 794P Moonscape Block (40% reducing to 16% after the completion of a farm-out)

Coomooroo Explorations Co Pty Ltd has a staged farm-in option to earn equity in the Moonscape Block by contributing to the cost of an airborne survey, geochemical survey, 100km of new seismic acquisition and the drilling, testing and completion of three wells.

Several anomalies recognised from the airborne survey which could be indicators of oil accumulations are to be followed up with surface geochemical surveys.

ATP 545P (Bow 100%)

This permit was renewed for a four year period from 1 February 2005.

Recently completed detailed and regional mapping in the permit integrating surrounding areas and recognised five prospects and leads in the permit. One very large closure called the Glenard Prospect has up to 42km² of closure and up to 84 million barrels of recoverable oil potential.

Bow has included this area in its Central Eromanga farm-out program.

ATP 677P (Bow 50%)

This permit was granted from 1 November 2006 for a 12 year period.

This permit is interpreted to be located on the fringes of the Central Eromanga petroleum system. One well drilled in the permit by a previous operator had oil shows. Recent mapping has identified several oil prospects and leads in the tenement.

Bow has included this area in its Central Eromanga farm-out program

Surat-Bowen Basin

ATP 805P (Bow 85%)

The permit was granted from 1 September 2005 for a 12 year period.

Donga-4 was drilled as an appraisal well following the moderately successful Donga-3 well. Approximately 6m of permeable oil sandstones were encountered in Donga-4 with the top of the oil sands estimated to be about 18m above the interpreted oil-water contact of the field. A test over the upper part of the sandstone recovered a minor amount of light sweet crude oil and drilling mud with no formation water present. The well was cased and suspended as a future oil producer.

Bow plans to complete Donga-3 and 4 which includes all necessary equipment required for safe and efficient oil production.

Bow has identified several other leads and prospects in the permit and has included this permit and possibly the Donga field enhancement program in the Surat farm-out program.

ATP 608P Rookwood Block (Bow 60.44%)

Application has been made to renew ATP 608P for a 12 year period.

The block contains the Rookwood Oil Field (producing about 10-12 BOPD) and surrounding oil prospects. As part of its planned field enhancement program, Bow is to complete Rookwood North-1, which is located about 210m north of Rookwood South, as a pumping oil well. The well was drilled, cased and suspended in 2005 by the previous operator but never converted to an oil well.

The Rookwood Block and the Rookwood field enhancement program are included in the Surat farm-out program.

ATP 608P Stratton Block (Bow 68.13%)

Several leads and prospects have been identified in the permit including a closure updip of Stratton-1. The well encountered very good oil shows within the basal Evergreen sandstone which Bow interprets as not being effectively tested at the time. The prospect has up to 6.5 million barrels of recoverable oil potential.

The ATP 608P Stratton Block is included in the Surat farm-out program.

ATP 807P Wunger Block (Bow 100%)

ATP 807P was granted from 1 January 2005 for a period of four years

Seven leads and prospects have been identified in the permit. The primary target, the Showgrounds Sandstone, has produced at commercial flow rates in oil fields located nearby to the south and west of the permit. One prospect is mapped immediately updip from a well which recovered oil from an excellent sandstone reservoir. This area is included in the Surat farm-out program.

ATP 664P / 706P (Bow 100%)

These permits are currently being renewed for a 12 year period.

A total of 15 prospects and leads have been mapped in these permits. A seismic reprocessing program over high graded prospects and possibly infill seismic data acquisition is planned prior to selecting potential drilling locations. These areas are to be included in the Surat farm-out program.

PL 15 (Bow farming in to earn 50%)

Bow can earn a 50% interest in PL 15 from Mosaic Oil NL (Mosaic) by funding a well in the tenement. Eight prospects and strong leads in the Block with Jawsone-1 selected to test the oil potential of the Block as the farm-in earning well. The Jawsone Oil Prospect has 1.5 to 6 million barrels of recoverable oil potential in the Showgrounds sandstone primary target within a structural and interpreted structural/stratigraphic trap respectively. Subject to availability of a rig and the timing of other Mosaic drilling programs in the area, the well is currently planned for early in 2008 as part of a Mosaic Surat drilling program.

ATP 747P / 746P (Bow 100% of conventional petroleum rights)

An agreement with Native Title claimants is required prior to granting of these tenements. The Walloon CSG potential is excluded from the tenement.

ATP 574P - Conloi (70.0 % of conventional petroleum rights and 3.25% of CSG)

Application has been made to renew ATP 574P for a 12 year period.

Several wells drilled in the permit had oil shows and/or oil recoveries including the shut-in Conloi Oil Field (18,000 barrels of oil produced from Conloi-1 before being shut in). Bow will be investigating the costs and economics of a work over and oil facilities upgrades required to bring the field into production.

Bow also has a minor interest (3.25%) of the Walloon CSG rights in the permit which it may divest.

ATP 593P - Don Juan (Bow 45% to 76%)

This permit was renewed for a 12 year period from 1 October 2006.

Good oil shows which flowed water on testing were intersected in the Jurassic aged Hutton and Precipice sandstones in three previously drilled wells in the permit. One well drilled near the mapped high point in the permit had very good oil shows which were not tested adequately at the time. Several additional oil prospects and leads have been identified on two structural trends mapped in the permit.

Bow is considering an infill seismic program over the several oil leads and prospects identified or possibly a redrill of the well not tested properly.

The Walloon sedimentary section in ATP 593P was joined with the Walloon section in adjacent ATP 771P to form the Don Juan CSG Joint Venture.

Don Juan CSG (Coal Seam Gas) Joint Venture

ATP 771P / 593P (Bow earning 45% in ATP 771P and reducing to 45% in ATP 593P - Walloon section only)

The Walloon section permits in adjoining permits ATP 771P and ATP 593P have been combined into the Don Juan CSG joint venture where . Bow is earning a 45% interest in ATP 771P by contributing 55% of costs of the initial drilling and flow testing in ATP 771P and reducing to 45% in ATP 593P. ATP 771P is northwest of and adjoins the Sunshine Gas Lacerta Project areas. To the immediate north of ATP 771P, several Taringa wells reported gas flows up to 200 MCFD from the Walloon section. Walloon coals with gas shows were reported from several wells in ATP 593P.

Drilling in the Don Juan CSG Joint Venture is planned to commence in Sept/Oct 2007.

Carnarvon Basin

WA 261P (Bow 10%)

The permit contains the Chamois Oil field which is located on the western side of the permit. The operator maps 2.4 (mean) to 3.9 (P10) million barrels of recoverable oil potential. A specialised very high resolution 3D seismic survey designed to identify an onlap edge trap in the permit of the primary oil reservoir in the nearby Stag oil field is being investigated and may be acquired in the next 12 months.

TP 19, EP 421 (Bow 10%)

The 60km Karratha 2D seismic survey was acquired over the Sharp Peak lead which high graded it to a prospect with up to 147 million barrels of oil potential. The prospect is considered high risk with high seal, reservoir, oil migration and oil biodegradation risks as well as high drilling costs. Bow will be reviewing its options in these permits with any drilling conditional on a farm-out by the operator.

EP 325 (Bow 11.213%)

The 79km Rivoli 2D seismic program and 377km seismic reprocessing program was completed to detail the Rivoli Gas field and other prospects in the immediate area.

The Commonwealth of Australia, represented by the Department of Defence, has commissioned Strike Oil Limited (the operator of EP 325) to undertake Front End Engineering Design (FEED) to investigate the feasibility of supplying gas from the Rivoli Gas Field to fuel power generation for the Defence Communication Station located nearby. If approved, the first gas sales would be anticipated some time in 2009. The gas price will be competitive with the current delivered price of diesel.

Clarence-Moreton Basin

PEL 432 (Bow 87.5%)

A renewal program is being negotiated with the Department. Bow plans to farm-out the area if it is renewed with an acceptable work program.

Three structural leads and prospects have been identified in the area with the same target reservoir which contained the residual oil show in Pickabooba South-1.

PEL 445 (Bow 100% of conventional petroleum rights)

No work was carried out in this permit during the year. Expenditure commitments in the permit are currently being met by Arrow Energy NL's coal seam gas exploration work.

ATP 644P (Bow 100% of conventional petroleum rights)

No work was carried out in this permit during the year. Expenditure commitments in the permit are currently being met by Arrow Energy NL's coal seam gas exploration work.

MATERIAL TRANSACTIONS AFTER 1 JULY 2007

There have been no material transactions after 1 July 2007.

PERSONNEL

Peter Bubendorfer has been appointed Bow's exploration manager following the resignation of Keith Martens. Mr Martens will continue to be a senior technical consultant to Bow. Mr. Bubendorfer was previously Chief Geologist for Arrow Energy NL and has over 20 years exploration experience.

Peter O'Neill resigned as full time operations manager and will continue as a senior engineering consultant to Bow.

FUTURE DEVELOPMENTS

In addition to the active exploration programs in progress and to be undertaken in its existing tenements, Bow continues to assess exploration, appraisal and corporate opportunities in proven petroleum basins in Australia.

Bow also continues to market farm-outs of tenements where it has large equities with the target to diversify risk and minimise use of Bow capital.

DIRECTORS' REPORT

Your directors present their report on the consolidated entity consisting of Bow Energy Ltd and the entities it controlled at the end of, or during, the year ended 30 June 2007.

DIRECTORS

The following persons were directors of Bow Energy Ltd during the whole of the financial year and up to the date of this report:

Ron Prefontaine
BSc
(Managing Director)

Mr Prefontaine has been the Managing Director since the time of registration of the Company, 17 September 2004. He has over 28 years exploration and production experience in the petroleum industry.

Mr Prefontaine initially explored the Arctic and Western Canadian sedimentary basins before moving to Australia in 1981 where he carried out development and exploration work in the Cooper-Eromanga Basin and other areas for Santos Ltd (Santos). After leaving Santos in 1984 and until 1994 he held several senior positions including Chief Geophysicist for Oil Company of Australia NL.

Since 1994 he has consulted to the industry in technical and management positions, which included Chief Geophysicist for Mosaic Oil Limited and Executive Director for Arrow Energy NL (Arrow). At Arrow, Mr Prefontaine was in charge of their early successful coal seam gas exploration program.

Mr Prefontaine founded Australian CBM Pty Ltd (now owned by Arrow Energy NL), Permian Oil Pty Ltd (now owned by Roma Petroleum NL), SEQOil Pty Ltd (now owned by Bow Energy Ltd) and Ocellaris Oil Pty Ltd (now owned by Bow Energy Ltd).

Mr Prefontaine is past President of the Petroleum Exploration Society of Australia (Queensland) and the Queensland Petroleum Exploration Society.

During the past three years Mr Prefontaine has also served as a Director of the following listed companies:

- Arrow Energy NL (from 9 August 2001 to 18 November 2005)

Nicholas Mather
BSc (Hons, Geol)
(Non-Executive Director)

Mr Mather has been a Non-Executive Director since the time of registration of the Company, 17 September 2004. He has over 26 years technical and corporate experience and is also the Managing Director of D'Aguilar Gold Ltd, a listed gold exploration company. Mr Mather has focused his attention on the identification of, and investment in, large resource exploration projects.

During his tenure as an Executive Director of Arrow Energy NL from 2000 to 2004, Mr Mather drove the acquisition and business development of Arrow's large coal seam gas projects in south east Queensland.

Mr Mather was Managing Director of BeMaX Resources NL from 1997 until 2000 and was instrumental in the discovery of the world class Gingko mineral sand deposit in the Murray Basin in 1998.

Mr Mather is a member of the Audit and Risk Management Committee.

During the past three years Mr Mather has also served as a Director of the following listed companies:

- Arrow Energy NL (from 13 May 1998 to 20 October 2004)
- D'Aguilar Gold Ltd * (since 26 October 2001)

* denotes current directorship.

Stephen Bizzell
BCom, ACA
(Non-Executive Director)

Mr Bizzell has been a Non-Executive Director since the time of registration of the Company, 17 September 2004. He is a Chartered Accountant and early in his career was employed in the Corporate Finance division of Ernst & Young and the Corporate Taxation division of Coopers & Lybrand. He has had considerable experience and success in the fields of corporate restructuring, debt and equity financing and mergers and acquisitions and has over 14 years corporate finance and public company management experience in the resources sector in Australia and Canada with various public companies.

Mr Bizzell is currently the Chairman of Renison Consolidated Mines NL and of boutique investment banking and funds management group Bizzell Capital Partners Pty Ltd. He is also an Executive Director of Arrow Energy NL.

Mr Bizzell is a member of the Audit & Risk Management Committee.

During the past three years Mr Bizzell has also served as a Director of the following listed companies:

- Arrow Energy NL * (since 16 June 1999)
- Renison Consolidated Mines NL * (since 28 June 1996)
- CH4 Gas Limited * (since 24 July 2006)

* denotes current directorship.

SECRETARY

Mr Duncan Cornish was the Secretary of the Company during the period and until the date of this report.

Duncan Cornish
BBus (Acctcy), ACA
(Company Secretary and Chief Financial Officer)

Mr Cornish has been the Company Secretary since the time of registration of the Company, 17 September 2004. He has more than 15 years experience in the accountancy profession both in England and Australia, mainly with the accountancy firms Ernst & Young and PriceWaterhouseCoopers. He has extensive experience in all aspects of company financial reporting, corporate regulatory and governance areas, business acquisition and disposal due diligence, capital raising and company listings and company secretarial responsibilities.

Mr Cornish holds a Bachelor of Business (Accounting) and is a member of the Australian Institute of Chartered Accountants. He is also Company Secretary of several other listed companies.

INTERESTS IN THE SHARES AND OPTIONS OF THE COMPANY

As at the date of this report, the interests of the Directors in the shares and options of Bow Energy Ltd are shown in the table below:

	Ordinary Shares	\$0.20 options exercisable on or before 31 March 2008
Ron Prefontaine	6,259,121	833,566
Nicholas Mather	600,583	272,791
Stephen Bizzell	1,869,457	676,774

PRINCIPAL ACTIVITIES

The principal activities of the Company during the financial period were oil and gas exploration. There were no significant changes in the nature of the Company's principal activities during the financial period.

OPERATING RESULTS

For the year ended 30 June 2007, the consolidated loss for the economic entity after providing for income tax was \$859,096 (2006: \$370,678).

DIVIDENDS PAID OR RECOMMENDED

There were no dividends paid or recommended during the financial year.

REVIEW OF OPERATIONS

Detailed comments on operations and exploration programs up to the date of this report are included separately in the Annual Report under Review of Operations and Future Developments.

REVIEW OF FINANCIAL CONDITION

Capital structure

On 11 September 2006, a capital raising of \$1,462,340 was completed through the placement of 6,647,000 ordinary shares and 3,323,500 listed options to institutional and sophisticated investors. The options were issued on 1 December 2006.

On 7 November 2006 the Company issued 13,300,000 shares and 13,300,000 unlisted options to Oilex NL in consideration for the issued capital in Sequil Pty Ltd and its other Queensland assets.

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

On 22 January 2007, 350,000 ordinary shares were issued to an executive of the Company as remuneration.

At 30 June 2007 the Company had 107,747,770 ordinary shares, 18,321,064 listed options and 20,575,000 unlisted options on issue.

At the date of this report the Company had 107,747,770 ordinary shares, 18,321,064 listed options and 18,450,001 unlisted options on issue.

Financial position

The net assets of the economic entity have increased by \$6,016,429 from \$8,382,951 at 30 June 2006 to \$14,399,380 at 30 June 2007. This increase has largely resulted from the following factors:

- Capitalisation of exploration expenditure

The group's working capital, being current assets less current liabilities has increased from \$1,984,156 in 2006 to \$2,174,943 in 2007.

During the past year the group has invested in increasing its interests in oil and gas exploration tenements.

Treasury policy

The Company does not have a formally established treasury function. The Board is responsible for managing the Company's finance facilities. The Company does not currently undertake hedging of any kind and is not directly exposed to currency risks.

Liquidity and funding

The Company has sufficient funds to finance its operations and exploration activities, and to allow the Company to take advantage of favourable business opportunities, not specifically budgeted for, or to fund unforeseen expenditure.

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

The following significant changes in the state of affairs of the Company occurred in the financial year:

On 11 September 2006, a capital raising of \$1,462,340 was completed through the placement of 6,647,000 ordinary shares and 3,323,500 listed options to institutional and sophisticated investors. The options were issued on 1 December 2006.

On 7 November 2006 the Company issued 13,300,000 shares and 13,300,000 unlisted options to Oilex NL in consideration for the issued capital in Seqoil Pty Ltd and its other Queensland assets.

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

On 22 January 2007, 350,000 ordinary shares were issued to an executive of the Company as remuneration.

AFTER BALANCE DATE EVENTS

On 24 July 2007, 2,124,999 unlisted options to take up one ordinary share in Bow Energy Ltd were cancelled as a result of employee resignations.

There have been no other events since 30 June 2007 that impact upon the financial report as at 30 June 2007.

FUTURE DEVELOPMENTS, PROSPECTS AND BUSINESS STRATEGIES

Likely developments in the operations of the Company and the expected results of those operations in subsequent financial years have been discussed where appropriate in the Annual Report under Review of Operations and Future Developments.

There are no further developments of which the Directors are aware which could be expected to affect the results of the Company's operations in subsequent financial years other than information which the Directors believe comment on or disclosure of, would prejudice the interests of the Company.

ENVIRONMENTAL ISSUES

The Company is subject to environmental regulation in relation to its exploration activities. There are no matters that have arisen in relation to environmental issues up to the date of this report.

REMUNERATION REPORT

This report details the nature and amount of remuneration for each Director of Bow Energy Ltd, and for the key management personnel.

Remuneration policy

The performance of the Company depends upon the quality of its Directors and Executives. To prosper, the Company must attract, motivate and retain highly skilled Directors and Executives.

The Board does not presently have a Remuneration and Nomination Committee. The Directors consider that the Company is not of a size, nor are its affairs of such complexity, as to justify the formation of a separate committee. All matters which might be dealt with by such a committee are reviewed by the Directors meeting as a Board. The Board, in carrying out the functions of the Remuneration and Nomination Committee, are responsible for determining and reviewing compensation arrangements for the Directors and the Executive team.

The Board, in carrying out the functions of the Remuneration and Nomination Committee, assess the appropriateness of the nature and amount of emoluments of such officers on a periodic basis by reference to relevant employment market conditions with the overall objective of ensuring maximum stakeholder benefit from the retention of a high quality Board and Executive team. Such officers are given the opportunity to receive their base emolument in a variety of forms including cash and fringe benefits. It is intended that the manner of payments chosen will be optimal for the recipient without creating undue cost for the Company.

The Company aims to reward the Executive Director and Senior Management with a level and mix of remuneration commensurate with their position and responsibilities within the Company. The Board's policy is to align Director and Executive objectives with shareholder and business objectives by providing a fixed remuneration component and offering long-term incentives.

In accordance with best practice corporate governance, the structure of Non-Executive Director and Executive Director and Senior Management remuneration is separate and distinct.

Non-Executive Director remuneration

The Board seeks to set aggregate remuneration at a level which provides the Company with the ability to attract and retain directors of the highest calibre, whilst incurring a cost which is acceptable to shareholders.

The Constitution of the Company and the ASX Listing Rules specify that the Non-Executive Directors are entitled to remuneration as determined by the Company in General Meeting to be apportioned among them in such manner as the Directors agree and, in default of agreement, equally. The aggregate remuneration currently determined by the Company is \$250,000 per annum. Additionally, Non-Executive Directors will be entitled to be reimbursed for properly incurred expenses.

If a Non-Executive Director performs extra services, which in the opinion of the Directors are outside the scope of the ordinary duties of the Director, the Company may remunerate that Director by payment of a fixed sum determined by the Directors in addition to or instead of the remuneration referred to above. However, no payment can be made if the effect would be to exceed the maximum aggregate amount payable to Non-Executive Directors. A Non-Executive Director is entitled to be paid travel and other expenses properly incurred by them in attending Director's or General Meetings of the Company or otherwise in connection with the business of the Company.

The remuneration of Non-Executive Directors for the year ending 30 June 2007 is detailed in this Remuneration Report.

Executive Director and Senior Management remuneration

The Company aims to reward the Executive Director and Senior Management with a level and mix of remuneration commensurate with their position and responsibilities within the Company and so as to:

- reward Executives for company and individual performance against targets set by reference to appropriate benchmarks;
- align the interests of Executives with those of shareholders;
- link reward with the strategic goals and performance of the Company; and
- ensure total remuneration is competitive by market standards.

The remuneration of the Executive Director and Senior Management may from time to time be fixed by the Board. As noted above, the Board's policy is to align Director and Executive objectives with shareholder and business objectives by providing a fixed remuneration component and offering long-term incentives.

The level of fixed remuneration is set so as to provide a base level of remuneration which is both appropriate to the position and is competitive in the market. Fixed remuneration is reviewed annually by the Board, in carrying out the functions of the Remuneration and Nomination Committee, and the process consists of a review of Company-wide and individual performance, relevant comparative remuneration in the market and internal, and where appropriate, external advice on policies and practices. Senior Management are given the opportunity to receive their fixed remuneration in a variety of forms including cash and fringe benefits such as motor vehicles and expense payment plans. It is intended that the manner of payment chosen will be optimal for the recipient without creating undue cost for the Company.

Long-term incentives are provided in the form of options and/or the issue of shares following the completion of satisfactory time periods of service. The Company uses employee continuity of service and the future share price to align comparative shareholder return and reward for executives.

The remuneration of the Executive Director and Senior Management for the year ending 30 June 2007 is detailed in this Remuneration Report.

Employment contracts

It is the Board's policy that employment agreements are entered into with all Executive Directors, Executives and employees.

The current employment agreements with the Managing Director and the Company Secretary have three month notice periods. All other employment agreements have one month (or less) notice periods. No current employment contracts contain early termination clauses. All Non-Executive Directors have contracts of employment.

Managing Director

The Managing Director, Mr Ron Prefontaine is employed under an Executive Service Contract with Prefontaine Consulting Pty Ltd.

Under the terms of the present contract:

- Both Bow Energy Ltd and Prefontaine Consulting Pty Ltd are entitled to terminate the contract upon giving three (3) months written notice.
- Bow Energy Ltd is entitled to terminate the agreement upon the happening of various events in respect of Prefontaine Consulting Pty Ltd's solvency or other conduct or if Ron Prefontaine ceases to be a Director of Bow Energy Ltd.
- The contract provides for a six monthly review of performance by Bow Energy Ltd.

Senior Management

The Exploration Manager, Mr Keith Martens, was employed under an employment agreement between 20 May 2005 and 18 May 2007 at which time the Company entered into a consultancy agreement with Martens Petroleum Consulting Pty Ltd who will provide the services of Mr Martens as an Exploration Manager.

The Operations Manager, Mr Peter O'Neill, was employed under an employment agreement between 23 January 2006 and 29 June 2007 at which time the Company entered into a consultancy agreement with Infinity Energy Consultants Pty Ltd who will provide the services of Mr O'Neill as an Operations Manager.

(a) Details of Directors and Key Management Personnel

(i) Directors

Ron Prefontaine	Managing Director
Nicholas Mather	Non-Executive Director
Stephen Bizzell	Non-Executive Director

(ii) Key Management Personnel

Keith Martens	Exploration Manager (became a consultant on 18 May 2007)
Peter O'Neill	Operations Manager (became a consultant on 29 June 2007)
Duncan Cornish	Company Secretary and Chief Financial Officer

(b) Remuneration of Directors and Key Management Personnel

The Key Management Personnel are also the five most highly paid Executive Officers of the Company for the year ended 30 June 2007.

2007	Salary & Fees	Primary Cash Bonus	Non-cash benefits	Post-Employment Superannuation	Retirement benefits	Equity Shares & Options	Other	Total
Directors								
Ron Prefontaine	162,000	-	-	-	-	-	6,081	168,081
Nicholas Mather	40,000	-	-	-	-	-	6,081	46,081
Stephen Bizzell	40,000	-	-	-	-	-	6,081	46,081
Total	242,000	-	-	-	-	-	18,243	260,243
Key Management Personnel								
Keith Martens *	218,042	-	-	15,923	-	21,200	6,081	261,246
Peter O'Neill *	205,976	-	-	18,000	-	128,345	6,081	358,402
Duncan Cornish	44,350	-	-	-	-	27,853	6,081	78,284
Total	468,368	-	-	33,923	-	177,398	18,243	697,932

* Keith Martens resigned on 18 May 2007

* Peter O'Neill resigned on 29 June 2007

2006	Salary & Fees	Primary Cash Bonus	Non-cash benefits	Post-Employment Superannuation	Retirement benefits	Equity Shares & Options	Other	Total
Directors								
Ron Prefontaine	180,000	-	-	-	-	-	6,906	186,906
Nicholas Mather	40,000	-	-	-	-	-	6,906	46,906
Stephen Bizzell	40,000	-	-	-	-	-	6,906	46,906
Total	260,000	-	-	-	-	-	20,718	280,718
Key Management Personnel								
Keith Martens	175,512	-	-	15,796	-	165,322	24,125	380,755
Peter O'Neill	88,462	-	-	7,962	-	92,833	13,711	202,968
Duncan Cornish	41,600	-	-	-	-	23,208	6,906	71,714
Total	305,574	-	-	23,758	-	281,363	44,742	655,437

(c) Options issued as part of remuneration for the year ended 30 June 2007

There were no options granted during the year as equity compensation benefits to Directors or Key Management Personnel.

(d) Shares issued on exercise of remuneration options

There were no shares issued during the year on exercise of remuneration options.

(e) Share holdings of Directors and Key Management Personnel

	Balance 1 July 2006	Granted as Remuneration	On Exercise of Options	Net Change Other	Balance 30 June 2007
Directors					
Ron Prefontaine	5,050,606	-	-	1,108,515	6,159,121
Nicholas Mather	600,583	-	-	-	600,583
Stephen Bizzell	1,778,548	-	-	90,909	1,869,457
Key Management Personnel					
Keith Martens	350,000	-	-	-	350,000
Peter O'Neill	25,000	-	-	-	350,000
Duncan Cornish	133,000	-	-	47,163	180,163
Total	7,937,737	-	-	1,246,587	9,509,324

(f) Option holdings of Directors and Key Management Personnel

Listed options (\$0.20 @ 31/03/08)

	Balance 1 July 2006	Granted as Remuneration	On Exercise of Options	Net Change Other	Balance 30 June 2007
Directors					
Ron Prefontaine	428,566	-	-	405,000	833,566
Nicholas Mather	272,791	-	-	-	272,791
Stephen Bizzell	676,774	-	-	-	676,774
Key Management Personnel					
Keith Martens	-	-	-	-	-
Peter O'Neill	-	-	-	-	-
Duncan Cornish	6,500	-	-	-	6,500
Total	1,384,631	-	-	405,000	1,789,631

Unlisted options (\$0.30 @ 20/5/08)

	Balance 1 July 2006	Granted as Remuneration	On Exercise of Options	Net Change Other	Balance 30 June 2007
Directors	No options have been issued to directors				
Ron Prefontaine					
Nicholas Mather					
Stephen Bizzell					
Key Management Personnel					
Keith Martens	1,000,000	-	-	-	1,000,000
Peter O'Neill	1,000,000	-	-	-	1,000,000
Duncan Cornish	250,000	-	-	-	250,000
Total	2,250,000	-	-	-	2,250,000

Unlisted options (\$0.40 @ 20/5/09)

	Balance 1 July 2006	Granted as Remuneration	On Exercise of Options	Net Change Other	Balance 30 June 2007
Directors Ron Prefontaine Nicholas Mather Stephen Bizzell	No options have been issued to directors				
Key Management Personnel					
Keith Martens	1,000,000	-	-	-	1,000,000
Peter O'Neill	1,000,000	-	-	-	1,000,000
Duncan Cornish	250,000	-	-	-	250,000
Total	2,250,000	-	-	-	2,250,000

Unlisted options (\$0.50 @ 20/5/10)

	Balance 1 July 2006	Granted as Remuneration	On Exercise of Options	Net Change Other	Balance 30 June 2007
Directors Ron Prefontaine Nicholas Mather Stephen Bizzell	No options have been issued to directors				
Key Management Personnel					
Keith Martens	1,000,000	-	-	-	1,000,000
Peter O'Neill	1,000,000	-	-	-	1,000,000
Duncan Cornish	250,000	-	-	-	250,000
Total	2,250,000	-	-	-	2,250,000

(g) Loans to Directors and Key Management Personnel

There were no loans to Directors or Key Management Personnel during the year.

(h) Other transactions to Directors and Key Management Personnel

Other transactions with Directors are set out in Note 29. There were no other transactions or balances with Key Management Personnel during the year.

DIRECTORS' MEETINGS

The number of meetings of Directors (including meetings of committees of directors) held during the year and the number of meetings attended by each Director was as follows:

	Directors' Meetings	Audit & Risk Management Committee Meetings
Number of meetings held:	6	2
Number of meetings attended:		
Ron Prefontaine	6	n/a (not a member)
Nicholas Mather	6	2
Stephen Bizzell	6	2

INDEMNIFICATION AND INSURANCE OF DIRECTORS, OFFICERS AND AUDITOR

Each of the Directors and the Secretary of the Company have entered into a Deed with the Company whereby the Company has provided certain contractual rights of access to books and records of the Company to those Directors and Secretary.

The Company has insured all of the Directors of Bow Energy Ltd. The contract of insurance prohibits the disclosure of the nature of the liabilities covered and amount of the premium paid. The Corporations Act does not require disclosure of the information in these circumstances.

The Company has not indemnified its auditor.

OPTIONS

At balance date there were 38,895,064 unissued ordinary shares under options as follows:

- 18,320,064 listed options to take up one ordinary share in Bow Energy Ltd at an issue price of 20 cents. The options expire 31 March 2008.
- 20,575,000 unlisted options to take up one ordinary share in Bow Energy Ltd as follows:
 - 2,425,000 options to take up one ordinary share in Bow Energy Ltd 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.
 - 2,425,000 options to take up one ordinary share in Bow Energy Ltd 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.
 - 2,425,000 options to take up one ordinary share in Bow Energy Ltd 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.
 - 13,300,000 options to take up one ordinary share in Bow Energy Ltd at an issue price of 50 cents. The options expire 7 November 2011.

As at the date of this report there were 36,770,065 unissued ordinary shares under options as follows:

- 18,320,064 listed options to take up one ordinary share in Bow Energy Ltd at an issue price of 20 cents. The options expire 31 March 2008.
- 18,450,001 unlisted options to take up one ordinary share in Bow Energy Ltd as follows:
 - 1,716,667 options to take up one ordinary share in Bow Energy Ltd 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.
 - 1,716,667 options to take up one ordinary share in Bow Energy Ltd 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.
 - 1,716,667 options to take up one ordinary share in Bow Energy Ltd 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.
 - 13,300,000 options to take up one ordinary share in Bow Energy Ltd at an issue price of 50 cents. The options expire 7 November 2011.

During the year ended 30 June 2007, and as at the date of this report, no ordinary shares had been issued as a result of the exercise of an option over unissued shares.

PROCEEDINGS ON BEHALF OF THE COMPANY

No person has applied for leave of Court to bring proceedings on behalf of the Company or intervene in any proceedings to which the Company is a party for the purposes 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

The following non-audit services were provided by the entity's auditor BDO Kendalls. The Directors are satisfied that the provision of non-audit services is compatible with the general standard of independence for auditors imposed by the Corporations Act. The nature and scope of each type of non-audit service provided means that auditor independence was not compromised.

BDO Kendalls received the following amounts for the provision of non-audit services:

Tax services	\$3,760
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AUDITOR'S INDEPENDENCE DECLARATION

The Auditor's Independence Declaration forms part of the Directors' Report and can be found on page 25.

CORPORATE GOVERNANCE

In recognising the need for the highest standards of corporate behaviour and accountability, the directors of Bow Energy Ltd support and have adhered to the principles of corporate governance. The Company's Corporate Governance Statement is contained can be found on page 30.

Signed in accordance with a resolution of the directors.

Ron Prefontaine
Director

Brisbane
Date: 13 September 2007

12 September 2007

The Directors
Bow Energy Ltd
GPO Box 5263
BRISBANE QLD 4001

Dear Directors

AUDITOR'S INDEPENDENCE DECLARATION

In relation to our audit of the Financial Report of Bow Energy Ltd for the year ended 30 June 2007, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the Corporations Act 2001 or any applicable code of professional conduct.

Yours faithfully
BDO Kendalls

Damian Wright
Partner

SHAREHOLDER INFORMATION

Additional information required by the Australian Securities Exchange Ltd and not shown elsewhere in this report is as follows. The information is current as at 11 September 2007.

(a) Distribution of equity securities

The number of holders, by size of holding, in each class of security are:

	Ordinary shares		\$0.20 listed options exercisable on or before 31 March 2008	
	Number of holders	Number of shares	Number of holders	Number of options
1 - 1,000	256	143,251	0	0
1,001 - 5,000	604	1,721,066	0	0
5,001 - 10,000	379	3,307,532	0	0
10,001 - 100,000	886	33,464,046	3	133,333
100,001 and over	156	69,111,875	3	1,583,334
Total	2,281	107,747,770	6	1,716,667

	Unlisted options (\$0.30 @ 20/5/08)		Unlisted options (\$0.40 @ 20/5/09)		Unlisted options (\$0.50 @ 20/5/10)		Unlisted options (\$0.50 @ 7/11/11)	
	Number of holders	Number of options	Number of holders	Number of options	Number of holders	Number of options	Number of holders	Number of options
1 - 1,000	0	0	0	0	0	0	0	0
1,001 - 5,000	0	0	0	0	0	0	0	0
5,001 - 10,000	0	0	0	0	0	0	0	0
10,001 - 100,000	3	133,333	3	133,333	3	133,333	0	0
100,001 and over	3	1,583,334	3	1,583,334	3	1,583,334	1	13,300,000
Total	6	1,716,667	6	1,716,667	6	1,716,667	1	13,300,000

The number of shareholders holding less than a marketable parcel of shares is 678 (3,334 ordinary shares).

(b) Twenty largest holders

The names of the twenty largest holders, in each class of quoted security are:

Ordinary shares:

1	Perpetual Corporate Trust Limited	13,300,000	12.34%
2	ANZ Nominees Limited	4,024,247	3.73%
3	Tranco Pty Ltd *	4,000,000	3.71%
4	Prepet Pty Ltd *	3,661,873	3.40%
5	Arrow Energy NL	2,240,104	2.08%
6	Mr Ronald Prefontaine & Mrs Annabel Frances Prefontaine	1,765,000	1.64%
7	Tenstar Trading Limited *	1,707,500	1.58%
8	Brownward Pty Ltd	1,520,000	1.41%
9	Tricom Nominees Pty Ltd	1,206,212	1.12%
10	Flotek Consultants Limited	1,173,178	1.09%
11	Mr Andrew Trott Hopkins & Mrs Adrienne Janet Hopkins	900,000	0.84%
12	TSN Pty Ltd	840,000	0.78%
13	Mr Guy Lance Jones & Mrs Ann Lyndal Bayly & Mrs Fiona Winten	754,546	0.70%
14	Constellation Energy Pty Ltd	750,000	0.70%
15	Mr Brian Lesleigh Williams & Mrs Valerie Ruby Dawn Williams	739,782	0.69%
16	Forty Traders Limited	730,303	0.68%
17	Andrew Fischer Pty Ltd	716,589	0.67%
18	Mr Donald Broadley Wright & Mrs Robyn Ruth Wright	700,000	0.65%
19	Angar Investments Pty Ltd	630,303	0.58%
20	Loncode Pty Ltd	600,000	0.56%
	Top 20	41,959,637	38.94%
	Total	107,747,770	100.00%

* merged

\$0.20 listed options exercisable on or before 31 March 2008:

1	Tricom Nominees Pty Ltd	1,307,997	7.14%
2	Arrow Energy NL	1,120,145	6.11%
3	Mr David Campbell	927,827	5.06%
4	Richard Seville & Associates Pty Ltd	715,807	3.91%
5	Mr Brian Lesleigh Williams & Mrs Valerie Ruby Dawn Williams	500,000	2.73%
6	Mr Ronald Prefontaine & Mrs Annabel Frances Prefontaine	405,000	2.21%
7	Tenstar Trading Limited	400,000	2.18%
8	Mr Janakan Krishnarajah	250,000	1.36%
9	Sixth Erra Pty Ltd	250,000	1.36%
10	Mr James Bishop & Mrs Jennifer Bishop	205,621	1.12%
11	Tranco Pty Ltd	205,000	1.12%
12	ANZ Nominees Limited	203,618	1.11%
13	Blackwidow Securities Ltd	200,000	1.09%
14	Blueys Hotels Pty Ltd	200,000	1.09%
15	I D Engineering Pty Limited	200,000	1.09%
16	Flotek Consultants Limited	191,375	1.04%
17	Mundiwindi Properties Pty Ltd	170,000	0.93%
18	Mr Guy Lance Jones & Mrs Ann Lyndal Bayly & Mrs Fiona Winten	159,837	0.87%
19	Mr Andrew Phillips	158,755	0.87%
20	Bedford Banner Pty Ltd	148,468	0.81%
	Top 20	<u>7,919,450</u>	<u>43.23%</u>
	Total	<u>18,321,064</u>	<u>100.00%</u>

(c) Substantial shareholders

Substantial shareholders as shown in substantial shareholder notices received by the Company at 11 September 2007 are:

Name of Shareholder:	Ordinary Shares:
Ronald Prefontaine	<u>4,657,133</u>

(d) Voting rights

All ordinary shares carry one vote per share without restriction.

(e) Restricted securities

There are no restricted securities (held in escrow) on issue.

(f) Business objectives

The Company has used its cash and assets that are readily convertible to cash in a way consistent with its business objectives.

INTERESTS IN PETROLEUM TENEMENTS

Bow Energy Ltd held the following interests in mining and exploration tenements as at 11 September 2007.

Queensland Tenements

Tenure Type, Name and Number	Operator	Date of Expiry	Current % Interest of Bow	Notes
ATP 545P	Bow Energy Ltd	31/01/2009	100%	
ATP 574P	Sequoil Pty Ltd	30/04/2006	3.25% - 70%	Conventional petroleum interests with minor CSG interests
ATP 593P	Sequoil Pty Ltd	30/09/2018	45% - 76%	Walloon section forms part of Don Juan CSG
ATP 608P Rookwood Block	Sequoil Pty Ltd	30/11/2006	60.4%	
ATP 608P Remainder Block (Stratton)	Sequoil Pty Ltd	30/11/2006	68.1%	
ATP 644P	Arrow Energy NL	31/10/2007	100%	Conventional petroleum interests only
ATP 664P	Bow Energy Ltd	31/08/2007	100%	Being renewed
ATP 677P	Sequoil Pty Ltd	31/10/2018	50%	
ATP 706P	Bow Energy Ltd	30/09/2007	100%	Being renewed
ATP 736P (application)	Victoria Petroleum NL	-	20%	Ocellaris Oil Pty Ltd to be assigned 20% interest on grant of tenement.
ATP 737P (application)	Victoria Petroleum NL	-	20%	Ocellaris Oil Pty Ltd to be assigned 20% interest on grant of tenement.
ATP 738P (application)	Victoria Petroleum NL	-	20%	Ocellaris Oil Pty Ltd to be assigned 20% interest on grant of tenement.
ATP 746P (application)	Arrow Energy NL	-	100%	Conventional petroleum interests only
ATP 747P (application)	Arrow Energy NL	-	100%	Conventional petroleum interests only
ATP 752P	Bow Energy Ltd	31/07/2018	15%	Farmed out Santos Ltd to operate
ATP 794P Barcoo Block	Victoria Petroleum NL	31/10/2017	65%	
ATP 794P Barcoo Junction	Victoria Petroleum NL	31/10/2017	88%	
ATP 794P Regleigh Block	Victoria Petroleum NL	31/10/2017	16%	
ATP 794P Springfield Block	Victoria Petroleum NL	31/10/2017	16%	
ATP 794P Bright Spot	Victoria Petroleum NL	31/10/2017	10%	
ATP 794P Part 1 (Moonscape)	Victoria Petroleum NL	31/10/2017	16%	
ATP 794P Part 2	Victoria Petroleum NL	31/10/2017	40%	Farmed out
ATP 805P	Bow Energy Ltd	31/08/2017	85%	
ATP 807P	Bow Energy Ltd	31/12/2008	100%	
ATP 809P	Bow Energy Ltd	31/03/2018	100%	

New South Wales Tenements

Tenure Type, Name and Number	Operator	Date of Expiry	% Interest of Bow	Notes
PEL 432	Bow Energy Ltd	21/12/2006	87.5%	Renewal being negotiated
PEL 445	Arrow Energy NL	18/04/2010	100%	Conventional petroleum interests only

Western Australia Tenements

Tenure Type, Name and Number	Operator	Date of Expiry	% Interest of Bow	Notes
TP 19	Strike Oil Ltd	20/03/2008	10%	
WA 261P	Apache Energy Ltd	11/07/2007	10%	Being renewed
EP 325	Strike Oil Ltd	28/03/2011	11.1%	
EP 421	Strike Oil Ltd	20/03/2008	10%	

CORPORATE GOVERNANCE STATEMENT

The board of directors of Bow Energy Ltd is responsible for the corporate governance of the Company. The Board guides and monitors the business and affairs of Bow Energy Ltd on behalf of the shareholders by whom they are elected and to whom they are accountable.

Bow Energy Ltd's Corporate Governance Statement is structured with reference to the Australian Stock Exchange ("ASX") Corporate Governance Council's (the "Council") "Principles of Good Corporate Governance and Best Practice Recommendations", which are as follows:

Principle 1	Lay solid foundations for management and oversight
Principle 2	Structure the board to add value
Principle 3	Promote ethical and responsible decision making
Principle 4	Safeguard integrity in financial reporting
Principle 5	Make timely and balanced disclosure
Principle 6	Respect the rights of shareholders
Principle 7	Recognise and manage risk
Principle 8	Encourage enhanced performance
Principle 9	Remunerate fairly and responsibly
Principle 10	Recognise the legitimate interests of stakeholders

A copy of the Ten Essential Corporate Governance Principles and the Best Practice Recommendations can be found on the ASX's website at www.asx.com.au.

Any departures to the Council's best practice recommendations as at the date of this report, or throughout the year ended 30 June 2007, are set out below.

Board Composition

The skills, experience and expertise relevant to the position of Director held by each Director on office at the date of the Annual Report is included in the Director's Report. Corporate Governance Council Recommendation 2.1 requires a majority of the Board to be independent Directors. The Corporate Governance Council defines independence as being free from any business or other relationship that could materially interfere with - or could reasonably be perceived to materially interfere with - the exercise of their unfettered and independent judgement.

In the context of Director independence, "materiality" is considered from both the Company and the individual Director perspective. The determination of materiality requires consideration of both quantitative and qualitative elements. An item is presumed to be quantitatively immaterial if it is equal or less than 10% of the appropriate base amount. It is presumed to be material (unless there is qualitative evidence to the contrary) if it is equal to or greater than 10% of the appropriate base amount. Qualitative factors considered included whether a relationship is strategically important, the competitive landscape, the nature of the relationship and the contractual or other arrangements governing it and other factors which point to the actual ability of the Director in question to shape the direction of the Company's loyalty.

At the date of this report:

In accordance with the Council's definition of independence above, and the materiality thresholds set, the following Directors are considered to be independent at the date of this report:

Name	Position
Nicholas Mather	Non-Executive Director
Stephen Bizzell	Non-Executive Director

In accordance with the Council's definition of independence above, and the materiality thresholds set, the following Directors are not considered to be independent:

Name	Position	Reason for non-compliance
Ron Prefontaine	Managing Director	Mr Prefontaine is employed by the Company in an executive capacity and is a substantial holder of the Company.

Bow Energy Ltd considers industry experience and specific expertise, as well as general corporate experience, to be important attributes of its Board members. The Directors noted above have been appointed to the Board of Bow Energy Ltd due to their considerable industry and corporate experience.

There are procedures in place, agreed by the board, to enable Directors, in furtherance of their duties, to seek independent professional advice at the Company's expense.

The term in office held by each Director in office at the date of this report is as follows:

Name	Term in office
Ron Prefontaine	3 years
Nicholas Mather	3 years
Stephen Bizzell	3 years

Trading Policy

The Board has adopted a policy and procedure on dealing in the Company's securities by Directors, officers and employees which prohibits dealing in the Company's securities when those persons possess inside information and during certain pre-determined windows.

Remuneration and Nomination Committee

Recommendations 9.2 and 2.4 require listed entities to establish a Remuneration and Nomination Committee. During the year ended 30 June 2007, Bow Energy Ltd did not have a separately established Remuneration or Nomination Committee. The full Board carried out the functions of a Remuneration and Nomination Committee during the reporting period.

Audit and Risk Management Committee

The Board has established an Audit and Risk Management Committee, which operates under a charter approved by the Board. It is the Board's responsibility to ensure that an effective internal control framework exists within the Company. This includes internal controls to deal with both the effectiveness and efficiency of significant business processes, the safeguarding of assets, the maintenance of proper accounting records, and the reliability of financial information as well as non-financial considerations such as the benchmarking of operational key performance indicators. The Board has delegated the responsibility for the establishment and maintenance of a framework of internal control and ethical standards for the management of the Company to the Audit and Risk Management Committee.

The Committee also provides the Board with additional assurance regarding the reliability of financial information for inclusion in the financial reports. All members of the Audit and Risk Management Committee are Non-Executive Directors.

The members of the Audit and Risk Management Committee at the date of this report are:

- Nicholas Mather
- Stephen Bizzell

Recommendation 4.3 requires that the composition of Audit Committee comprises a majority of independent Directors and that the committee have at least three members. During the year ended 30 June 2007, Bow Energy Ltd did not satisfy these requirements, due to having only two members.

For additional details of directors' attendance at Audit and Risk Management Committee meetings and to review the qualifications of the members of the Audit and Risk Management Committee, please refer to the Directors' Report.

Performance

The full Board, in carrying out the functions of the Remuneration and Nomination Committee, considers remuneration and nomination issues annually and otherwise as required in conjunction with the regular meetings of the Board.

The performance of the individual members of the Board is reviewed annually and otherwise as required in conjunction with the regular meetings of the Board by the other Directors against both measurable and qualitative indicators. The performance criteria against which Directors and Executives are assessed is aligned with the financial and non-financial objectives of Bow Energy Ltd.

Remuneration

It is the Company's objective to provide maximum stakeholder benefit from the retention of a high quality Board and Executive team by remunerating Directors and key Executives fairly and appropriately with reference to relevant and employment market conditions. To assist in achieving this objective, the Board links the nature and amount of Executive Director's and Officer's emoluments to the Company's financial and operations performance. The expected outcomes of the remuneration structure are:

- retention and motivation of key Executives
- attraction of quality management to the Company
- performance incentives which allow Executives to share the rewards of the success of Bow Energy Ltd

For details on the amount of remuneration and all monetary and non-monetary components for each of the five highest paid (Non-Director) Executives during the period, and for all Directors, please refer to the Remuneration Report within the Directors' Report. In relation to the payment of bonuses, options and other incentive payments, discretion is exercised by the Board, having regard to the overall performance of Bow Energy Ltd and the performance of the individual during the period.

There is no scheme to provide retirement benefits, other than statutory superannuation, to Non-Executive Directors.

The Board is responsible for determining and reviewing compensation arrangements for the Directors themselves, subject to the Company's constitution and prior shareholder approvals, and the Executive team.

Other Information

Further information relating to the Company's corporate governance practices and policies has been made publicly available on the Company's web site at:

http://www.bowenergy.com.au/corporate_gov/index.shtml

Bow Energy Ltd and Controlled Entities

Income Statement

For the year ended 30 June 2007

	Note	Economic Entity		Parent Entity	
		2007	2006	2007	2006
		\$	\$	\$	\$
Other income	2	818,913	462,633	213,066	264,450
Employee benefits expenses		(472,157)	(331,232)	(197,911)	(222,462)
Depreciation and amortisation expenses		(36,874)	(28,566)	(36,874)	(28,566)
Legal expenses		(65,817)	(19,449)	(65,817)	(18,799)
Administration and consulting expenses		(910,711)	(313,314)	(897,360)	(288,446)
Finance costs		-	-	-	-
Other expenses		(192,450)	(140,750)	(152,168)	(105,454)
Profit/(loss) before income tax	3	<u>(859,096)</u>	<u>(370,678)</u>	<u>(1,137,064)</u>	<u>(399,277)</u>
Income tax expense	4	-	-	-	-
Profit/(loss) after income tax expense		<u>(859,096)</u>	<u>(370,678)</u>	<u>(1,137,064)</u>	<u>(399,277)</u>
		Cents	Cents		
Overall Operations					
Basic earnings per share	8	(0.89)	(0.51)		
Diluted earnings per share	8	(0.89)	(0.51)		

The Income Statement should be read in conjunction with the Notes to the Financial Statements.

Bow Energy Ltd and Controlled Entities

Balance Sheet
As at 30 June 2007

	Note	Economic Entity		Parent Entity	
		2007	2006	2007	2006
		\$	\$	\$	\$
CURRENT ASSETS					
Cash and cash equivalents	9	1,867,305	2,659,932	1,536,911	2,614,012
Trade and other receivables	10	173,546	340,652	172,545	65,718
Inventories	11	353,057	-	353,057	-
Other current assets	16	39,222	59,361	39,222	59,361
TOTAL CURRENT ASSETS		2,433,130	3,059,945	2,101,735	2,739,091
NON-CURRENT ASSETS					
Trade and other receivables	10	-	-	1,261,365	291,245
Financial assets	13	2,790	-	3,253,237	467,800
Plant and equipment	15	149,619	162,066	149,619	162,066
Other non-current assets	16	311,083	165,316	230,505	165,316
Exploration and evaluation expenditure	17	11,885,945	6,071,413	7,354,539	5,604,623
TOTAL NON-CURRENT ASSETS		12,349,437	6,398,795	12,249,265	6,691,050
TOTAL ASSETS		14,782,567	9,458,740	14,351,000	9,430,141
CURRENT LIABILITIES					
Trade and other payables	18	258,187	1,029,656	258,187	1,029,656
Short-term borrowings	19	-	46,133	-	46,133
TOTAL CURRENT LIABILITIES		258,187	1,075,789	258,187	1,075,789
NON-CURRENT LIABILITIES					
Provisions	20	125,000	-	-	-
TOTAL NON-CURRENT LIABILITIES		125,000	-	-	-
TOTAL LIABILITIES		383,187	1,075,789	258,187	1,075,789
NET ASSETS		14,399,380	8,382,951	14,092,813	8,354,352
EQUITY					
Issued capital	21	14,084,061	8,704,234	14,084,061	8,704,234
Reserves	22	1,714,595	218,897	1,714,595	218,897
Accumulated losses	23	(1,399,276)	(540,180)	(1,705,843)	(568,779)
TOTAL EQUITY		14,399,380	8,382,951	14,092,813	8,354,352

The Balance Sheet should be read in conjunction with the Notes to the Financial Statements.

Bow Energy Ltd and Controlled Entities

Statement of Changes in Equity For the year ended 30 June 2007

Economic Entity

	Issued Capital	Accumulated Losses	Reserves	Total
	\$	\$	\$	\$
Balance at 1 July 2005	8,040,172	(169,502)	-	7,870,670
Issue of share capital	664,062	-	-	664,062
Issue of executive options	-	-	218,897	218,897
Profit/(loss) for the year	-	(370,678)	-	(370,678)
Balance at 30 June 2006	8,704,234	(540,180)	218,897	8,382,951
Issue of share capital	5,580,628	-	-	5,580,628
Share issue costs	(200,801)	-	-	(200,801)
Issue of executive options	-	-	131,316	131,316
Issue of bonus options	-	-	337,463	337,463
Issue of Oilex NL options	-	-	1,026,919	1,026,919
Profit/(loss) for the year	-	(859,096)	-	(859,096)
Balance at 30 June 2007	14,084,061	(1,399,276)	1,714,595	14,399,380

Parent Entity

	Issued Capital	Accumulated Losses	Reserves	Total
	\$	\$	\$	\$
Balance at 1 July 2005	8,040,172	(169,502)	-	7,870,670
Issue of share capital	664,062	-	-	664,062
Issue of executive options	-	-	218,897	218,897
Profit/(loss) for the year	-	(399,277)	-	(399,277)
Balance at 30 June 2006	8,704,234	(568,779)	218,897	8,354,352
Issue of share capital	5,580,628	-	-	5,580,628
Share issue costs	(200,801)	-	-	(200,801)
Issue of executive options	-	-	131,316	131,316
Issue of bonus options	-	-	337,463	337,463
Issue of Oilex NL options	-	-	1,026,919	1,026,919
Profit/(loss) for the year	-	(1,137,064)	-	(1,137,064)
Balance at 30 June 2007	14,084,061	(1,705,843)	1,714,595	14,092,813

The Statement of Changes in Equity should be read in conjunction with the Notes to the Financial Statements.

Bow Energy Ltd and Controlled Entities

Cash Flow Statement For the year ended 30 June 2007

	Note	Economic Entity		Parent Entity	
		2007	2006	2007	2006
		\$	\$	\$	\$
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts		1,500,338	238,824	899,740	40,794
Payments to suppliers and employees		(1,214,822)	(753,299)	(876,664)	(582,716)
Interest received		133,077	198,394	128,828	198,241
Net cash used in operating activities	27a	418,593	(316,081)	151,904	(343,681)
CASH FLOWS FROM INVESTING ACTIVITIES					
Security deposit (payments) / refunds		(144,743)	(61,316)	(64,165)	(61,316)
Payments for property, plant and equipment		(22,869)	(167,737)	(22,869)	(167,737)
Proceeds from the sale of property, plant and equipment		2,780	-	2,780	-
Payments for exploration and evaluation		(4,434,349)	(2,098,366)	(4,539,523)	(2,116,686)
Payments for joint ventures		(8,073,781)	-	(183,088)	-
Recovery from joint ventures		8,011,035	-	127,153	-
Net cash used in investing activities		(4,661,927)	(2,327,419)	(4,679,712)	(2,345,739)
CASH FLOWS FROM FINANCING ACTIVITIES					
Proceeds from issue of shares		3,662,341	487	3,662,341	487
Capital raising expenses		(165,501)	(51,129)	(165,501)	(51,129)
Proceeds from borrowings		65,870	76,928	65,870	76,928
Repayment of borrowings		(112,003)	(78,510)	(112,003)	(78,510)
Net cash provided by financing activities		3,450,707	(52,224)	3,450,707	(52,224)
Net increase/(decrease) in cash held		(792,627)	(2,695,724)	(1,077,101)	(2,741,644)
Cash at the beginning of the financial year		2,659,932	5,355,656	2,614,012	5,355,656
Cash at the end of the financial year	9	1,867,305	2,659,932	1,536,911	2,614,012

The Cash Flow Statement should be read in conjunction with the Notes to the Financial Statements.

Bow Energy Ltd and Controlled Entities

Notes to the Financial Statements For the year ended 30 June 2007

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

This financial report covers the economic entity of Bow Energy Ltd and controlled entities, and Bow Energy Ltd as an individual parent entity. Bow Energy Ltd is a listed public company, incorporated and domiciled in Australia.

The financial report of Bow Energy Ltd and controlled entities, and Bow Energy Ltd as an individual parent entity comply with all Australian Equivalents to International Financial Reporting Standards (IFRS) in their entirety.

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

Basis of preparation

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 through debt, equity or farm-out, or the successful exploration and subsequent exploitation of the Company's tenements.

Compliance with IFRS

Australian Accounting Standards include Australian Equivalents to International Financial Reporting Standards (AIFRS). Compliance with AIFRS ensures that the consolidated financial statements and notes of Bow Energy Ltd and controlled entities comply with International Financial Reporting Standards (IFRS).

By virtue of the financial report complying with Australian Accounting Standards (including Australian Accounting Interpretations), the financial report complies with all International Financial Reporting Standards.

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.

Accounting policies

(a) Principles of consolidation

A controlled entity is any entity Bow Energy Ltd has the power to control the financial and operating policies so as to obtain benefits from its activities.

A list of controlled entities is contained in Note 14 to the financial statements. All controlled entities have a 30 June financial year-end.

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

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

Bow Energy Ltd and Controlled Entities

Notes to the Financial Statements For the year ended 30 June 2007

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) Income Tax

The charge for current income tax expense is based on the profit 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 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 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 economic 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.

Bow Energy Ltd and its wholly-owned Australian subsidiaries have formed an income tax consolidated group under the Tax Consolidation Regime. Bow Energy Ltd will be responsible for recognising the current and deferred tax assets and liabilities for the tax consolidation group. The tax consolidated group have entered a tax sharing agreement whereby each company in the group contributes to the income tax payable in proportion to their contribution to the net profit before tax of the consolidated group.

(c) Plant and Equipment

Plant and equipment

Plant and equipment are measured on the cost basis less depreciation and impairment losses.

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 which 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 economic entity includes the cost of materials, direct labour, borrowing costs and an appropriate portion of fixed and variable costs.

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.

Depreciation

The depreciable amount of all fixed assets is depreciated over their useful life to the Company commencing from the time the asset is held ready for use. Leasehold improvements are depreciated over the shorter of either the unexpired period of the lease or the estimated useful lives of the improvements.

The depreciation rates used for each class of assets are:

<i>Class of Fixed Assets</i>	<i>Depreciation Rate</i>
Plant and equipment	10% Prime Cost
Computers and Office Equipment	20% - 34% Prime Cost
Furniture and Fittings	5% - 20% Prime Cost

Bow Energy Ltd and Controlled Entities

Notes to the Financial Statements For the year ended 30 June 2007

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Plant and Equipment (continued)

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 assets carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposal are determined by comparing proceeds with the carrying amount. These gains or losses are included in the income statement. When revalued assets are sold, amounts included in the revaluation reserve related to that asset are transferred to retained earnings.

(d) Exploration and development expenditure

Exploration, evaluation and development expenditure incurred is accumulated in respect of each identifiable area of interest. Such expenditures comprise net direct costs and an appropriate portion of related overhead expenditure but does not include overheads or administration expenditure not having a specific nexus with a particular 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 which permits reasonable assessment of the existence of economically recoverable reserves and active or significant operations in relation to the area are continuing.

A provision is raised against exploration and evaluation expenditure where the Directors are of the opinion that the carried forward net cost may not be recoverable or the right of tenure in the area lapses. The increase in the provision is charged against the results for the year. Accumulated costs in relation to an abandoned area are written off in full against profit in the year in which the decision to abandon the area is made.

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

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

Costs of site restoration are provided over the life of the facility from when exploration commences and are included in the costs of that stage. Site restoration costs include the dismantling and removal of mining plant, equipment and building structure, waste removal, and rehabilitation of the site in accordance with clauses of mining 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 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.

Lease incentives under operating leases are recognised as a liability and amortised on a straight-line basis over the life of the lease term.

(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 trade and other receivables and trade and other payables are measured at amortised cost.

Bow Energy Ltd and Controlled Entities

Notes to the Financial Statements For the year ended 30 June 2007

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) Impairment of assets

At each reporting date, the group reviews the carrying values of its 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.

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 economic entity's share of the assets, liabilities, revenue and expenses of joint venture assets are included in the appropriate items of the consolidated financial statements. Details of the economic entity's interests are shown in Note 12.

(i) Employee benefits

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

Equity settled compensation

The group operates a number of share-based compensation plans. These include both a share option arrangement and an employee share scheme. The bonus element over the exercise price of the employee services rendered in exchange for the grant of shares and options is recognised as an expense in the income statement. The total amount to be expensed over the vesting period is determined by reference to the fair value of the shares and options granted.

(j) 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.

(j) Cash and cash equivalents

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

(k) Revenue

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

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

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

(l) Goods & Services Tax

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 Taxation Office. In these circumstances GST is recognised as part of the 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.

Bow Energy Ltd and Controlled Entities

Notes to the Financial Statements For the year ended 30 June 2007

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(l) Goods & Services Tax (continued)

Cash flows are presented in the cash flow statement on a gross basis, except for the GST component of financing and investing activities, which are disclosed as operating cash flows.

(m) Comparative figures

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

(n) Approval of financial statements

The Financial Statements were approved by the Board of Directors of Bow Energy Ltd on 13 September 2007.

Critical accounting estimates and judgments

The directors evaluate estimates and judgments incorporated into the financial report based on historical knowledge and best available current information. Estimates assume a reasonable expectation of future events and are based on current trends and economic data, obtained both externally and within the group.

Key estimates - impairment

The group assesses impairment at each reporting date by evaluating conditions specific to the group that may lead to impairment of assets. Where an impairment trigger exists, the recoverable amount of the asset is determined. Value-in-use calculations performed in assessing recoverable amounts incorporate a number of key estimates.

Key judgements - exploration & evaluation expenditure

The group performs regular reviews on each area of interest to determine the appropriateness of continuing to carry forward costs in relation to that area of interest.

These reviews are based on detailed surveys and analysis of drilling results performed to balance date.

	Economic Entity		Parent Entity	
	2007	2006	2007	2006
	\$	\$	\$	\$
NOTE 2 REVENUE				
Operating activities				
- interest received	2a 133,063	191,848	128,814	191,695
- other revenue	685,850	270,785	84,252	72,755
Total revenue	<u>818,913</u>	<u>462,633</u>	<u>213,066</u>	<u>264,450</u>
(a) Interest revenue from:				
- other persons	133,063	191,848	128,814	191,695
Total interest revenue	<u>133,063</u>	<u>191,848</u>	<u>128,814</u>	<u>191,695</u>

NOTE 3 PROFIT/(LOSS)

(a) Expenses

Rental expense on operating leases				
- minimum lease payments	84,744	67,549	49,981	38,939
Write-off of capitalised exploration expenditure	531,706	1,847	531,706	1,847
Share based payments (options)	1,495,698	27,850	1,495,698	27,850

Bow Energy Ltd and Controlled Entities

Notes to the Financial Statements
For the year ended 30 June 2007

	Economic Entity		Parent Entity	
	2007	2006	2007	2006
	\$	\$	\$	\$
NOTE 4 INCOME TAX EXPENSE				
The prima facie income tax on the loss is reconciled to the income tax provided in the financial statements as follows:				
Prima facie tax benefit (30%) on loss for before income tax	(257,729)	(111,203)	(341,119)	(119,783)
Tax effect of permanent differences	958	1,198	958	1,198
Other non-allowable items	-	-	-	8,580
Deferred tax liability not recognised	(1,211,634)	(1,082,164)	(1,128,244)	(1,082,164)
Deferred tax asset not brought to account				
- temporary differences	119,807	(25,923)	119,807	(25,923)
- tax losses	1,348,598	1,218,092	1,348,598	1,218,092
Income tax expense	-	-	-	-
Deferred tax asset reconciliation:				
Temporary differences	(172,331)	(126,560)	(172,331)	(126,560)
Tax losses	3,124,679	2,512,367	3,124,679	2,512,367
Total	2,952,348	2,385,807	2,952,348	2,385,807
Accumulated tax losses not recognised due to lack of high probability	3,124,679	2,512,367	3,124,679	2,512,367
Deferred tax liability not recognised due to lack of high probability	2,604,452	1,392,817	2,604,452	1,392,817

There are no franking credits available to shareholders of the Company.

NOTE 5 DIRECTORS' AND EXECUTIVES' REMUNERATION

Information about the remuneration of Directors and Executives which is currently required under Section 300A of the Corporations Act and under Accounting Standard AASB 124: Related Party Disclosures is included in the Remuneration Report within the Director's Report.

	Economic Entity		Parent Entity	
	2007	2006	2007	2006
	\$	\$	\$	\$
NOTE 6 AUDITORS' REMUNERATION				
Remuneration for the auditor of the parent entity for:				
- auditing or reviewing the financial report	46,620	23,500	46,620	23,500
- taxation services	3,760	4,240	3,760	4,240
	50,380	27,740	50,380	27,740

NOTE 7 DIVIDENDS & FRANKING CREDITS

There were no dividends paid or recommended during the financial year.

There were no franking credits available to the shareholders of the Company.

Bow Energy Ltd and Controlled Entities

Notes to the Financial Statements
For the year ended 30 June 2007

NOTE 8 EARNINGS PER SHARE

	Economic Entity	
	2007	2006
	\$	\$
(a) Reconciliation of Earnings to Profit or Loss		
Loss	(859,096)	(370,678)
Earnings used to calculate basic and dilutive EPS	(859,096)	(370,678)
	2007	2006
	Number	Number
(b) Weighted average number of ordinary shares outstanding during the year	96,025,485	72,050,692
Weighted average number of options outstanding	-	-
Weighted average number of ordinary shares outstanding during the year used in calculating dilutive EPS	96,025,485	72,050,692

	Economic Entity		Parent Entity	
	2007	2006	2007	2006
	\$	\$	\$	\$
Cash on hand and at bank	788,287	266,627	457,893	220,707
Cash on deposit	1,079,018	2,393,305	1,079,018	2,393,305
	1,867,305	2,659,932	1,536,911	2,614,012

NOTE 9 CASH & CASH EQUIVALENTS

The effective interest rate on short-term bank deposits was 5% (2006: 5%); these deposits have an average maturity of 30 days.

Reconciliation of cash

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

Cash and cash equivalents	1,867,305	2,659,932	1,536,911	2,614,012
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NOTE 10 TRADE & OTHER RECEIVABLES

CURRENT

Trade receivables	16,752	31,961	16,752	31,961
GST receivable	23,830	29,587	23,830	29,587
Other receivables	132,964	279,104	131,963	4,170
	173,546	340,652	172,545	65,718

NON-CURRENT

Amounts receivable from:

- wholly-owned subsidiaries	-	-	1,261,365	291,245
	-	-	1,261,365	291,245

Bow Energy Ltd and Controlled Entities

Notes to the Financial Statements For the year ended 30 June 2007

Economic Entity		Parent Entity	
2007	2006	2007	2006
\$	\$	\$	\$

NOTE 11 INVENTORIES

CURRENT

At cost	353,057	-	353,057	-
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NOTE 12 JOINT VENTURES

The economic entity has a 10% interest in a joint venture arrangement for TP 19. The other party to the joint venture is Strike Oil Ltd (90%). The expenditure commitment for this joint venture over the next 5 years is nil.

The economic entity has a 10% interest in a joint venture arrangement for WA 261P. The other parties to the joint venture are Apache Energy Ltd (45.1283%), Strike Oil Ltd (16.2179%), Sun Resources (6.1538%), Victoria Petroleum NL (12.5%) and Tap Oil (10%). The expenditure commitment for this joint venture over the next 5 years is nil.

The economic entity has an 11.1% interest in a joint venture arrangement for EP 325. The other parties to the joint venture are Black Rock Petroleum (7.5%), Strike Oil Ltd (40%), Sun Resources (10%) and Victoria Petroleum NL (31.4%). The expenditure commitment for this joint venture over the next 5 years is \$3,500,000, the economic entity's share of which has been appropriately recognised in Note 24 Capital and Leasing Commitments.

The economic entity has a 10% interest in a joint venture arrangement for EP 421. The other party to the joint venture is Strike Oil Ltd (90%). The expenditure commitment for this joint venture over the next 5 years is \$200,000, the economic entity's share of which has been appropriately recognised in Note 24 Capital and Leasing Commitments.

The economic entity has a 70% interest in a joint venture arrangement for ATP 574P. The other party to the joint venture is Victoria Petroleum NL (30%). The expenditure commitment for this joint venture over the next 5 years is \$950,000, the economic entity's share of which has been appropriately recognised in Note 24 Capital and Leasing Commitments.

The economic entity has a 76% interest in a joint venture arrangement for ATP 593P. The other party to the joint venture is Victoria Petroleum NL (24%). The expenditure commitment for this joint venture over the next 5 years is \$1,552,632, the economic entity's share of which has been appropriately recognised in Note 24 Capital and Leasing Commitments.

The economic entity has a 60.44% interest in a joint venture arrangement for ATP 608P (Rookwood Block). The other parties to the joint venture are Victoria Petroleum NL (29.69%), Selectium Trust (2.88%), FIL Resources Ltd (2.5%), Kingston Petroleum NL (2%), Biotec International Ltd (1.5%), T. McKenzie Don (1%). The expenditure commitment for this joint venture over the next 5 years is \$899,927, the economic entity's share of which has been appropriately recognised in Note 24 Capital and Leasing Commitments.

The economic entity has a 50% interest in a joint venture arrangement for ATP 677P. The other party to the joint venture is Challenge Resources Pty Ltd (50%). The expenditure commitment for this joint venture over the next 5 years is \$1,200,000, the economic entity's share of which has been appropriately recognised in Note 24 Capital and Leasing Commitments.

The economic entity has a 20% interest in a joint venture arrangement for ATP 736P. The other party to the joint venture is Victoria Petroleum NL (80%). This tenement is under application and at 30 June 2007 and at the date of this report had not been granted. Therefore there is currently no expenditure commitment for this joint venture.

The economic entity has a 20% interest in a joint venture arrangement for ATP 737P. The other party to the joint venture is Victoria Petroleum NL (80%). This tenement is under application and at 30 June 2007 and at the date of this report had not been granted. Therefore there is currently no expenditure commitment for this joint venture.

Bow Energy Ltd and Controlled Entities

Notes to the Financial Statements For the year ended 30 June 2007

NOTE 12 JOINT VENTURES (continued)

The economic entity has a 20% interest in a joint venture arrangement for ATP 738P. The other party to the joint venture is Victoria Petroleum NL (80%). This tenement is under application and at 30 June 2007 and at the date of this report had not been granted. Therefore there is currently no expenditure commitment for this joint venture.

The economic entity has a 25% interest in a joint venture arrangement for ATP 752P. The other parties to the joint venture are Victoria Petroleum NL (25%) and Avery Resources (Australia) Pty Ltd (50%). The economic entity's share of the expenditure commitment for this joint venture over the next 5 years is being met through farm-out.

The economic entity has a 65% interest in a joint venture arrangement for ATP 794P. The other party to the joint venture is Victoria Petroleum NL (35%). The expenditure commitment for this joint venture over the next 5 years is \$1,800,000, the economic entity's share of which has been appropriately recognised in Note 24 Capital and Leasing Commitments. Bow's share of the expenditure commitment however, is conditional on farm-out.

The economic entity has an 85% interest in a joint venture arrangement for ATP 805P. The other party to the joint venture is Victoria Petroleum NL (15%). The expenditure commitment for this joint venture over the next 5 years has already been met.

Economic Entity		Parent Entity	
2007	2006	2007	2006
\$	\$	\$	\$

NOTE 13 FINANCIAL ASSETS

Available-for-sale financial assets
comprise:

Unlisted investments, at cost

- shares in controlled entities

Total available for sale financial assets

2,790	-	3,253,237	467,800
<u>2,790</u>	<u>-</u>	<u>3,253,237</u>	<u>467,800</u>

Available for sale financial assets comprise investments in the ordinary share capital of various investments. There are no fixed returns or fixed maturity date attached to these investments.

The fair value of unlisted available-for-sale financial assets cannot be reliably measured as variability in the range of reasonable fair value estimates is significant. As a result, all unlisted investments are reflected at cost.

NOTE 14 CONTROLLED ENTITIES

	Country of Incorporation	Percentage Owned (%) [*]	
		2007	2006
(a) Controlled entities consolidated			
Parent entity:			
Bow Energy Ltd	Australia		
Subsidiaries of Bow Energy Ltd:			
Bow Operations Pty Ltd	Australia	100%	100%
Ocellaris Oil Pty Ltd	Australia	100%	100%
Sequoil Pty Ltd	Australia	100%	0%

* percentage of voting power is in proportion to ownership

(b) Acquisition of controlled entities

On 7 November 2006, Bow Energy Ltd acquired 100% of the equity in Sequoil Pty Ltd 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. The ordinary shares were issued at 16.5 cents each, and the options were valued at 7.7 cents giving a total consideration of \$2,785,437.

Bow Energy Ltd and Controlled Entities

Notes to the Financial Statements
For the year ended 30 June 2007

	Economic Entity		Parent Entity	
	2007	2006	2007	2006
	\$	\$	\$	\$
NOTE 15 PLANT & EQUIPMENT				
Plant and equipment				
At cost	47,634	46,892	47,634	46,892
Accumulated depreciation	(3,677)	(788)	(3,677)	(788)
	<u>43,957</u>	<u>46,104</u>	<u>43,957</u>	<u>46,104</u>
Computers and office equipment				
At cost	157,389	131,164	157,389	131,164
Accumulated depreciation	(52,748)	(26,899)	(52,748)	(26,899)
	<u>104,641</u>	<u>104,265</u>	<u>104,641</u>	<u>104,265</u>
Furniture and fittings				
At cost	1,035	12,935	1,035	12,935
Accumulated depreciation	(14)	(1,238)	(14)	(1,238)
	<u>1,021</u>	<u>11,697</u>	<u>1,021</u>	<u>11,697</u>
Total plant and equipment	<u>149,619</u>	<u>162,066</u>	<u>149,619</u>	<u>162,066</u>

(a) Movements in carrying amounts

	Plant and equipment	Computers and office equipment	Furniture and fittings	Total
	\$	\$	\$	\$
Economic Entity:				
Balance at the beginning of the year	46,104	104,265	11,697	162,066
Additions	742	64,963	4,143	69,848
Disposals	-	(31,912)	(13,509)	(45,421)
Depreciation expense	(2,889)	(32,675)	(1,310)	(36,874)
Carrying amount at the end of the year	<u>43,957</u>	<u>104,641</u>	<u>1,021</u>	<u>149,619</u>
Parent Entity:				
Balance at the beginning of the year	46,104	104,265	11,697	162,066
Additions	742	64,963	4,143	69,848
Disposals	-	(31,912)	(13,509)	(45,421)
Depreciation expense	(2,889)	(32,675)	(1,310)	(36,874)
Carrying amount at the end of the year	<u>43,957</u>	<u>104,641</u>	<u>1,021</u>	<u>149,619</u>

	Economic Entity		Parent Entity	
	2007	2006	2007	2006
	\$	\$	\$	\$
NOTE 16 OTHER ASSETS				
CURRENT				
Prepayments	<u>39,222</u>	<u>59,361</u>	<u>39,222</u>	<u>59,361</u>
NON-CURRENT				
Security deposits	<u>311,083</u>	<u>165,316</u>	<u>230,505</u>	<u>165,316</u>

Bow Energy Ltd and Controlled Entities

Notes to the Financial Statements For the year ended 30 June 2007

	Economic Entity		Parent Entity	
	2007	2006	2007	2006
	\$	\$	\$	\$
NOTE 17 EXPLORATION AND EVALUATION EXPENDITURE				
NON-CURRENT				
Exploration and evaluation expenditure capitalised				
- exploration and evaluation phases	11,885,945	6,071,413	7,354,539	5,604,623

Recoverability of the carrying amount of exploration assets is dependent on the successful exploration and extraction of oil and/or gas.

NOTE 18 TRADE & OTHER PAYABLES

CURRENT				
Trade payables	116,165	917,770	116,165	917,770
Sundry payables and accrued expenses	142,022	88,016	142,022	88,016
Employee benefits	-	23,870	-	23,870
	<u>258,187</u>	<u>1,029,656</u>	<u>258,187</u>	<u>1,029,656</u>

	Employee Benefits	Total
Economic Entity:		
Opening balance at 1 July 2006	23,870	23,870
Additional provisions	40,242	40,242
Amounts used	(22,812)	(22,812)
Unused amounts reversed	(41,300)	(41,300)
Balance at 30 June 2007	<u>-</u>	<u>-</u>

Parent Entity:		
Opening balance at 1 July 2006	23,870	23,870
Additional provisions	40,242	40,242
Amounts used	(22,812)	(22,812)
Unused amounts reversed	(41,300)	(41,300)
Balance at 30 June 2007	<u>-</u>	<u>-</u>

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

	Economic Entity		Parent Entity	
	2007	2006	2007	2006
	\$	\$	\$	\$
NOTE 19 SHORT-TERM BORROWINGS				
Insurance funding - unsecured	-	46,133	-	46,133

NOTE 20 PROVISIONS

Provision for restoration	<u>125,000</u>	<u>-</u>	<u>-</u>	<u>-</u>
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Bow Energy Ltd and Controlled Entities

Notes to the Financial Statements For the year ended 30 June 2007

	Economic Entity		Parent Entity	
	2007	2006	2007	2006
	\$	\$	\$	\$
NOTE 21 ISSUED CAPITAL				
107,747,770 fully paid ordinary shares (2006: 74,117,437)	14,920,592	9,339,964	14,920,592	9,339,964
Share issue costs	(836,531)	(635,730)	(836,531)	(635,730)
	<u>14,084,061</u>	<u>8,704,234</u>	<u>14,084,061</u>	<u>8,704,234</u>

	Economic Entity		Parent Entity	
	2007	2006	2007	2006
	Number	Number	Number	Number
(a) Ordinary shares				
At the beginning of the year	74,117,437	70,000,001	74,117,437	70,000,001
Shares issued during the year				
- 26 October 2005 (1)	-	750,000	-	750,000
- 29 December 2005 (2)	-	3,000,000	-	3,000,000
- 22 May 2006 (3)	-	365,000	-	365,000
- 23 June 2006 (4)	-	2,436	-	2,436
- 11 September 2006 (5)	6,647,000	-	6,647,000	-
- 7 November 2006 (6)	13,333,333	-	13,333,333	-
- 29 November 2006 (7)	13,300,000	-	13,300,000	-
- 22 January 2007 (8)	350,000	-	350,000	-
At reporting date	<u>107,747,770</u>	<u>74,117,437</u>	<u>107,747,770</u>	<u>74,117,437</u>

(1) On 26 October 2005 the Company issued 750,000 shares to Constellation Energy Pty Ltd as part consideration for performing certain drilling activities on one of Bow's tenements.

(2) On 29 December 2005 the Company issued 3,000,000 shares to Prepet Pty Ltd as trustee for the Jarat Trust to acquire all of the issued shares in Ocellaris Oil Pty Ltd.

(3) On 22 May 2006 the Company issued:

- 350,000 shares to an executive of the Company as remuneration
- 15,000 shares as compensation to landowners

(4) On 23 June 2006 2,436 ordinary shares were issued as result of exercise of options over unissued shares.

(5) On 11 September 2006, a capital raising of \$1,462,340 was completed through the placement of 6,647,000 ordinary shares and 3,323,500 listed options to institutional and sophisticated investors. The options were issued on 1 December 2006.

(6) On 7 November 2006 the Company issued 13,300,000 shares and 13,300,000 unlisted options to Oilex NL in consideration for the issued capital in Seqoil Pty Ltd and its other Queensland assets.

(7) On 29 November 2006 the Company issued 13,333,333 to shareholders and underwriters who subscribed for shares under a Share Purchase Plan.

(8) On 22 January 2007, 350,000 ordinary shares were issued to an executive of the Company as remuneration.

Ordinary shares participate in 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 Bow Energy Ltd 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 28.

Bow Energy Ltd and Controlled Entities

Notes to the Financial Statements For the year ended 30 June 2007

NOTE 22 RESERVES

(a) Option reserve

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

	Economic Entity		Parent Entity	
	2007 \$	2006 \$	2007 \$	2006 \$
NOTE 23 ACCUMULATED LOSSES				
Accumulated losses attributable to members of Bow Energy Ltd at beginning of the financial period	(540,180)	(169,502)	(568,779)	(169,502)
Losses from ordinary activities after income tax	(859,096)	(370,678)	(1,137,064)	(399,277)
Accumulated losses attributable to members of Bow Energy Ltd at the end of the financial period	(1,399,276)	(540,180)	(1,705,843)	(568,779)

NOTE 24 CAPITAL AND LEASING COMMITMENTS

(a) Operating lease commitments

Non-cancellable operating leases contracted for but not capitalised in the financial statements.

Payable - minimum lease payments				
- not later than 12 months	-	25,825	-	25,825
- between 12 months and 5 years	-	-	-	-
- greater than 5 years	-	-	-	-
	-	25,825	-	25,825

(b) Future Exploration

The Company has certain obligations to expend minimum amounts on exploration in tenement areas. These obligations may be varied from time to time and are expected to be fulfilled in the normal course of operations of the Company.

The commitments to be undertaken are as follows:

Payable				
- not later than 12 months	1,430,068	815,250	1,399,850	815,250
- between 12 months and 5 years	8,962,348	3,771,450	6,668,650	3,771,450
- greater than 5 years	600,000	-	600,000	-
	10,992,416	4,586,700	8,668,500	4,586,700

To keep tenements in good standing, work programs should meet certain minimum expenditure requirements. If the minimum expenditure requirements are not met, the Company has the option to negotiate new terms or relinquish the tenements. The Company also has the ability to meet expenditure requirements by joint venture or farm-in agreements.

(c) Joint ventures

Commitments arising from interest in joint ventures are included in future exploration.

Bow Energy Ltd and Controlled Entities

Notes to the Financial Statements For the year ended 30 June 2007

NOTE 25 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 and 738P) to which Bow Energy Ltd has an interest in had received native title claims. The position regarding the likely success, and impact on Bow Energy's operations, of these tenements are 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.

NOTE 26 SEGMENT REPORTING

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.

	Economic Entity		Parent Entity	
	2007	2006	2007	2006
	\$	\$	\$	\$

NOTE 27 CASH FLOW INFORMATION

(a) Reconciliation of cash flow from operations with profit/(loss) after income tax

Profit/(loss) after income tax	(859,096)	(370,677)	(1,137,064)	(399,277)
Non-cash flows in profit after income tax:				
Depreciation	36,874	28,566	36,874	28,566
Write back of capitalised expenditure	531,706	1,847	531,706	1,847
Share options expensed	33,423	27,850	33,423	27,850
Changes in assets and liabilities net of the effects of purchase and disposal of subsidiaries:				
- (Increase)/Decrease in trade and term receivables	641,156	(21,960)	652,435	(20,960)
- (Increase)/Decrease in other assets	20,139	(5,678)	20,139	(5,678)
- Increase/(Decrease) in trade payables and accruals	14,391	23,971	14,391	23,971
Cash flow from operations	418,593	(316,081)	151,904	(343,681)

Bow Energy Ltd and Controlled Entities

Notes to the Financial Statements For the year ended 30 June 2007

	Economic Entity		Parent Entity	
	2007	2006	2007	2006
	\$	\$	\$	\$

NOTE 27 CASH FLOW INFORMATION (continued)

(b) Acquisition of entities

During the year 100% of the controlled entity Sequoia Pty Ltd was acquired. Details of this transaction are:

Purchase consideration	2,785,437	465,000	2,785,437	465,000
Cash consideration	-	-	-	-
Assets and liabilities held at acquisition date:				
Cash and cash equivalents	2	-	2	-
Trade and other receivables	1,853,116	1,000	1,853,116	1,000
Provisions	(125,000)	-	(125,000)	-
	1,728,118	1,000	1,728,118	1,000
Exploration expenditure on acquisition	1,057,319	464,000	1,057,319	464,000
	<u>2,785,437</u>	<u>465,000</u>	<u>2,785,437</u>	<u>465,000</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 Sequoia Pty Ltd amounting to \$0 is included in the income statement for the year ended 30 June 2007. Had the results relating to Sequoia Pty Ltd been consolidated from 1 July 2006, consolidated revenue would have been \$0 and consolidated profit \$0 for the year ended 30 June 2007.

(c) Non-cash financing and investing activities

(i) Share issues

13,300,000 shares and 13,300,000 unlisted options issued to Oilex NL in consideration for the issued capital in Sequoia Pty Ltd and its other Queensland assets.

350,000 ordinary shares issued to an executive of the Company as remuneration.

Bow Energy Ltd and Controlled Entities

Notes to the Financial Statements For the year ended 30 June 2007

NOTE 28 SHARE-BASED PAYMENTS

The following share based payment arrangements existed at 30 June 2007.

During the year 225,000 share options were granted to employees in accordance with each individual employment contract. The options were granted in three series as follows:

- 75,000 options to take up one ordinary share in Bow Energy Ltd 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 Ltd 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 Ltd 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.

	Economic Entity				Parent Entity			
	2007		2006		2007		2006	
	No. of options	Weighted average exercise price \$	No. of options	Weighted average exercise price \$	No. of options	Weighted average exercise price \$	No. of options	Weighted average exercise price \$
Outstanding at beginning of year	7,050,000	0.40	-	-	7,050,000	0.40	-	-
Granted	225,000	0.40	7,050,000	0.40	225,000	0.40	7,050,000	0.40
Forfeited	-	-	-	-	-	-	-	-
Exercised	-	-	-	-	-	-	-	-
Expired	-	-	-	-	-	-	-	-
Outstanding at year-end	<u>7,275,000</u>	<u>0.40</u>	<u>7,050,000</u>	<u>0.40</u>	<u>7,275,000</u>	<u>0.40</u>	<u>7,050,000</u>	<u>0.40</u>
Exercisable at year-end	<u>4,850,000</u>	<u>0.40</u>	<u>2,350,000</u>	<u>0.40</u>	<u>4,850,000</u>	<u>0.40</u>	<u>2,350,000</u>	<u>0.40</u>

No options were exercised during the year ended 30 June 2007.

The options outstanding at 30 June 2007 had a weighted average exercise price of \$0.40 and average remained actual life of 1.9 years. Exercise prices range from \$0.30 to \$0.50 in respect of options outstanding at 30 June 2007.

The weighted average fair value of the options granted during the year was \$0.04.

This price was calculated by using a Black Scholes options pricing model applying the following inputs:

Weighted average exercise price	\$0.40
Weighted average life of the option	2.3 years
Underlying share price	\$0.18
Expected share price volatility	73.18%
Risk free interest rate	6.10%

Historical volatility has been the basis for determining expected share price volatility as it assumed that this is indicative of future tender, which may not eventuate. The life of the options is based on the historical exercise patterns, which may not eventuate in the future.

Included under Employee Benefits Expense in the Income Statement is \$33,423 (2006: \$27,850), and relates, in full, to equity-settled share-based payment transactions.

Included under Exploration Expenditure in the Balance Sheet is \$97,893 (2006: \$191,047), and relates, in full, to equity-settled share-based payment transactions.

Bow Energy Ltd and Controlled Entities

Notes to the Financial Statements For the year ended 30 June 2007

NOTE 28 SHARE-BASED PAYMENTS (continued)

In addition to the above mentioned employee options, during the year 13,300,000 options were issued as part of the consideration to purchase the issued capital in Sequoia Pty Ltd and other Queensland assets from Oilex NL. Each option entitles the holder to take up one ordinary share in Bow Energy Ltd at an issue price of 50 cents. The options expire 7 November 2011. These options have been valued at \$1,026,919.

Also during the year 3,323,500 listed options were issued to institutional and sophisticated investors who participated in an earlier share placement. Each option entitles the holder to take up one ordinary share in Bow Energy Ltd at an issue price of 20 cents. The options expire 31 March 2008. These options have been valued at \$337,463.

Total share based payments for the year was \$1,495,698.

NOTE 29 EVENTS AFTER BALANCE DATE

There have been no events since 30 June 2007 that impact upon the financial report as at 30 June 2007.

NOTE 30 RELATED PARTY TRANSACTIONS

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

(a) Parent and ultimate controlling entity

The parent entity and ultimate controlling entity is Bow Energy Ltd which is incorporated in Australia.

(b) Subsidiaries

Interests in subsidiaries are set out in Note 14.

(c) Key management personnel

Disclosures relating to key management personnel are set out in the Remuneration Report contained in the Directors' Report.

(d) Transactions with related parties

(i) Bow Energy Ltd has an Executive Services Contract with Prefontaine Consulting Pty Ltd, an entity associated with Ron Prefontaine (a Director), under which Prefontaine Consulting Pty Ltd provides certain consultancy services to the Company and provides Ron Prefontaine as the Managing Director of the Company.

Prefontaine Consulting Pty Ltd receives a base fee of \$180,000 per annum, with provision for adjustment based on semi-annual review by the Board on the basis of an average minimum 12 days per month, plus \$150 per hour for services provided in excess of 12 days per month. These amounts are included in the Remuneration Report contained in the Directors Report. Bow Energy Ltd is obliged to reimburse Prefontaine Consulting for all reasonable and necessary expenses incurred by it in the performance of its duties.

Both Bow Energy Ltd and Prefontaine Consulting Pty Ltd are entitled to terminate the contract upon giving three (3) months written notice. Further, Bow Energy Ltd is entitled to terminate the Agreement upon the happening of various events in respect of Prefontaine Consulting Pty Ltd's solvency or other conduct or if Ron Prefontaine ceases to be a Director of Bow Energy Ltd.

The contract provides for a six monthly review of performance by Bow Energy Ltd.

Bow Energy Ltd and Controlled Entities

Notes to the Financial Statements For the year ended 30 June 2007

NOTE 30 RELATED PARTY TRANSACTIONS (continued)

(ii) Bow Energy Ltd has a Conventional Rights Agreement with Arrow Energy NL and BNG Pty Ltd, under which Arrow Energy NL and BNG Pty Ltd have assigned 100% of the rights to conventional rights in the "Arrow Tenements" (ATP 746P (Application), ATP 747P (Application)) and the "BNG Tenements" (ATP 644P and PEL 445). Stephen Bizzell (a Director) is a director of Arrow Energy NL and Ron Prefontaine (a Director) was a director of Arrow Energy NL until his resignation on 18 November 2005. The agreement is conditional upon the grant of each of ATP 746P and ATP 747P to the extent the agreement relates to those tenements and conditional upon the Minister consenting to or approving the agreement, if required.

Whilst Arrow Energy NL and BNG Pty Ltd agree to maintain and keep the tenements in good standing, Arrow Energy NL and BNG Pty Ltd have granted Bow Energy Ltd the right to explore for conventional petroleum in accordance with the terms of the agreement. Bow Energy Ltd is solely responsible for the costs associated with the activities conducted by it.

In the event that Arrow Energy NL or BNG Pty Ltd decide to voluntarily relinquish any part of a tenement in which Bow Energy Ltd has rights pursuant to this agreement, Bow Energy Ltd has a first right of refusal to those areas. If Arrow Energy NL or BNG Pty Ltd are required to relinquish any part of the tenements pursuant to legislation, the parties will consult on the areas to be relinquished. If the parties cannot agree to the areas to be relinquished, each party shall nominate 50% of the area to be relinquished.

Bow Energy Ltd is responsible for costs, rehabilitation and environmental compliance for the areas on which it conducts activities. Bow will contribute toward the Approved Work Program, securities and rental payments of the tenements. In the event of a commercial petroleum discovery by Bow Energy Ltd, Bow Energy Ltd will be entitled to make an application for a petroleum lease (either solely with the consent of the holder or jointly with the holder). Bow Energy Ltd may be required to enter a deed of assumption pursuant to the royalty agreement in place in relation to ATP 644P.

The holders of the tenements will provide Bow Energy Ltd access to information relevant to Bow Energy Ltd's operations. No assignment is able to take place by any of the parties without the consent of the other holders of the relevant tenement.

Bow Energy Ltd must maintain insurances and indemnify the tenement holders for any damage as a result of the activities conducted by Bow Energy Ltd or a breach of this agreement. The tenement holders also indemnify Bow Energy Ltd for any breach by the tenement holders of the agreement.

The agreement continues in force until the earlier of the termination pursuant to the terms of the agreement; by mutual agreement between the parties or 50 years from the commencement of the agreement. If any party fails to perform its obligations under the agreement, another party may issue a default notice specifying the default and the remedy required. If the default is not remedied within the time specified, the non-defaulting party may issue a termination notice. Failure to remedy the default after receipt of a termination notice will then give the non-defaulting party the right to terminate without prejudice to any other right of action or remedy. If Bow Energy Ltd is the defaulting party, all of Bow Energy Ltd's interest will immediately vest in Arrow Energy NL or BNG Pty Ltd, as the case may be, and Bow Energy Ltd will not be entitled to any compensation.

(b) Share and Option transactions of Directors and Director-Related Entities are shown in the Remuneration Report contained in the Directors' Report.

Bow Energy Ltd and Controlled Entities

Notes to the Financial Statements For the year ended 30 June 2007

NOTE 31 FINANCIAL INSTRUMENTS

(a) Financial risk management

The group's financial instruments consist mainly of deposits with banks, accounts receivable and payable, and loans to subsidiaries.

(i) Treasury risk management

The company does not have a formally established treasury function. The Board is responsible for managing the economic entity's currency and interest rate exposure and for evaluating treasury management strategies in the context of the most recent economic conditions and forecasts.

(ii) Financial risks

The main risks the group is exposed to through its financial instruments are interest rate risk, liquidity risk and credit risk.

Interest rate risk

Interest rate risk is managed with a mixture of fixed and floating rate debt. For further details on interest rate risk refer to Note 30(b).

Liquidity risk

The group manages liquidity risk by monitoring forecast cash flows.

Credit Risk

The maximum exposure to credit risk, excluding the value of any collateral or other security, at balance date to recognised financial assets is the carrying amount, net of any provisions, as disclosed in the balance sheet and notes to the financial statements.

The economic entity does not have any material credit risk exposure to any single debtor or group of debtors under financial instruments entered into by the economic entity.

Bow Energy Ltd and Controlled Entities

Notes to the Financial Statements For the year ended 30 June 2007

NOTE 31 FINANCIAL INSTRUMENTS (continued)

(b) Financial instruments

(i) Interest rate risk

The economic entity's exposure to interest rate risk, which is the risk that a financial instruments value will fluctuate as a result of changes in market interest rates and the effective weighted average interest rates on classes of financial assets and liabilities is as follows:

	Weighted average effective interest rate		Floating interest rate		Fixed interest rate maturing						Non-interest bearing		Total		
	2007	2006	2007	2006	Within year		1 to 5 years		Over 5 years		2007	2006	2007	2006	
					2007	2006	2007	2006	2007	2006					2007
			\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	
Financial assets:															
Cash & cash equivalents	5.00%	5.00%	788,287	266,619	1,079,018	2,393,305	-	-	-	-	-	8	1,867,305	2,659,932	
Trade and other receivables	-	-	-	-	-	-	-	-	-	-	173,546	165,316	173,546	165,316	
Total financial assets			788,287	266,619	1,079,018	2,393,305	-	-	-	-	173,546	165,324	2,040,851	2,825,248	
Financial liabilities:															
Trade and other payables	-	-	-	-	-	-	-	-	-	-	258,187	1,029,656	258,187	1,029,656	
Short term borrowings	-	3.89%	-	-	-	46,133	-	-	-	-	-	-	-	46,133	
Total financial liabilities			-	-	-	46,133	-	-	-	-	258,187	1,029,656	258,187	1,075,789	

(ii) Net Fair Values

The net fair values for all assets and liabilities approximate their carrying value.

(iii) Terms and Conditions relating to financial assets and liabilities:

Receivables - Trade debtors are non-interest bearing and are normally settled on 30 day terms.

Payables - Trade creditors are non-interest bearing and normally settled on 30 day terms.

DIRECTORS' DECLARATION

The Directors of the Company declare that:

- (1) the financial statements and notes as set out on pages 33 to 56, are in accordance with the *Corporations Act 2001* and:
 - (a) comply with Australian Accounting Standards and the Corporations Regulations 2001; and
 - (b) give a true and fair view of the financial position as at 30 June 2007 and of the performance for the year ended on that date of the Company and Economic Entity;
- (2) the Chief Executive Officer and Chief Financial Officer have each 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 Australian 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 in accordance with a resolution of the Board of Directors.

Ronald Prefontaine
Director

Brisbane
Date: 13 September 2007



INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF BOW ENERGY LIMITED

Report on the Financial Report and AASB 124 Remuneration Disclosures Contained in the Directors' Report

We have audited the financial report of Bow Energy Limited, which comprises the balance sheet as at 30 June 2007, the income statement, statement of changes in equity and cash flow statement for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

We have also audited the remuneration disclosures contained in the directors' report. As permitted by the Corporations Regulations 2001, the consolidated entity has disclosed information about the remuneration of directors and executives ("remuneration disclosures"), required by Australian Accounting Standard AASB 124 Related Party Disclosures, under the heading "Remuneration Report" in the directors' report and not in the financial report.

Directors' Responsibility for the Financial Report and the AASB 124 Remuneration Disclosures Contained in the Directors' Report

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Act 2001. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the 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.

The directors of the company are also responsible for the remuneration disclosures contained in the directors' report.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement. Our responsibility is to also express an opinion on the remuneration disclosures contained in the directors' report based on our audit.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report and the remuneration disclosures contained in the directors' report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report and the remuneration disclosures contained in the directors' report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report and the remuneration disclosures contained in the directors' report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report and the remuneration disclosures contained in the directors' report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Independence

In conducting our audit, we have complied with the independence requirements of the Corporations Act 2001. We confirm that the independence declaration required by the Corporations Act 2001, provided to the directors of Bow Energy Limited on 12 September 2007, would be in the same terms if provided to the directors as at the date of this auditor's report.

Auditor's Opinion on the Financial Report

In our opinion the financial report of Bow Energy Limited is in accordance with the Corporations Act 2001, including:

- (a) giving a true and fair view of the company's and consolidated entity's financial position as at 30 June 2007 and of their performance for the year ended on that date; and
- (b) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001.

Auditor's Opinion on the AASB 124 Remuneration Disclosures Contained in the Directors' Report

In our opinion the remuneration disclosures that are contained in the directors' report comply with Australian Accounting Standard AASB 124.

Emphasis of Matter Regarding Going Concern

Without qualification to the opinion 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 consolidated entity to continue to adopt the going concern basis of accounting, to maintain continuity of normal business activities, and to pay its debts as and when they fall due is dependent upon the continued ability of the consolidated entity to raise capital, and or successfully explore and subsequently exploit the consolidated entity's petroleum tenements.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

No adjustments have been made to the carrying value of assets, in particular the carrying value of capitalised exploration and evaluation expenditure, and tenement deposits, or recorded amount of liabilities should the consolidated entity's plans not eventuate.

BDO Kendalls (QLD)

D P Wright
Partner

Brisbane
13 September 2007