



ABN 38 112 566 499

Financial Statements
for the Half-year ended 31 December 2006

CORPORATE DIRECTORY

Directors

Dr. Peter Power (Chairman)
Richard Wood (Chief Executive Officer)
Robert Cook (Operations Director)
Glenda McLoughlin (Non Executive Director)

Company Secretaries

Tim Flavel
Joanne Bourke

Registered Office

Level 40, North Point
100 Miller Street
North Sydney, NSW 2060

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Facsimile: +61 2 9510 0003
Website: www.elkpet.com

Share Registry

Computershare Investor Services Pty Ltd
Level 2
45 St Georges Terrace
Perth WA 6000
Telephone: +61 8 9323 2000
Facsimile: +61 8 9323 2033

Auditors

Mack & Co
Chartered Accountants
Level 2, 35 Havelock Street
West Perth WA 6005

Stock Exchange

The Company's securities are quoted
on the official list of the Australian Securities
Exchange Limited, the home branch being Perth.
ASX Code: ELK

DIRECTORS' REPORT

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

DIRECTORS

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

Dr Peter Power	Chairman
Mr Richard Wood	Chief Executive Officer
Mr Robert Cook	Operations Director
Mr Matthew Wood	Non Executive Director (resigned 8 March 2007)
Ms Glenda McLoughlin	Non Executive Director

PRINCIPAL ACTIVITIES

During the half-year the principal activities of the consolidated entity consisted of the operation and redevelopment of the Grieve and Sand Draw South Oil Fields in Wyoming USA.

REVIEW OF OPERATIONS

The Company has had a successful six-month period with daily production increasing from approximately 80 barrels of oil per day (BOPD) at the commencement of the period to approximately 340 BOPD in early January, 2007. January average production was 276 BOPD (gross), slightly down on peak production due to a requirement to pull the pump in one of the wells because of a mechanical issue.

The increase in production was attributable to the successful completion of the Sand Draw South workover program that involved completing the workover of three new wells and enhancing production from the two existing wells.

Planning for the next workover programme at Sand Draw South has been completed and will commence in the Northern Hemisphere Spring. Results from re-processing of purchased 3-D seismic data over the Sand Draw South Oil Field are expected soon and will be incorporated into this year's Sand Draw South work programme.

At the Grieve Oil Field, the Company has engaged two leading consulting groups, Ryder Scott and the Enhanced Oil Recovery Institute (University of Wyoming), to confirm the impact on production and oil reserves from the Muddy Formation that would result from an Enhanced Oil Recovery (EOR) programme using carbon dioxide injection. EOR by carbon dioxide is a well established tertiary recovery technique. Inspection of other carbon dioxide injection projects, often in less suitable reservoir structures and older and more mature fields than Grieve, shows that a dramatic increase in production can be achieved in a relatively short response time after commencement of carbon dioxide injection.

The Company is in the process of negotiating the supply of carbon dioxide and is seeking interests from experienced operators to participate in the project as a joint venture partner.

In 2007, the Company plans to continue the investigation of the Upper Sand potential of the Grieve Oil Field, as identified by the 2006 MHA report, by drilling a shallow well. A location for the new well has been selected and drilling will commence following receipt of approval which is expected in April 2007.

The Company has identified a number of production and exploration opportunities that it is actively pursuing. The objective is to add to the current portfolio of properties and increase production through acquisition and exploration. The Company will only consider new project or acquisition opportunities where the cashflow profile is consistent with the objective of achieving profitability in the short term.

DIVIDENDS

The directors have not proposed or paid any dividends during the half-year period.

AUDITOR'S DECLARATION

The lead auditor's independence declaration under section 307c of the Corporations Act 2001 is set out on page 3 for the half-year ended 31 December 2006.

This report is made in accordance with a resolution of the directors.



Richard Wood
Chief Executive Officer

Dated this 13th day of March 2007.

**AUDITORS INDEPENDENCE DECLARATION UNDER SECTION 307C
OF THE CORPORATIONS ACT 2001
TO THE DIRECTORS OF ELK PETROLEUM LIMITED**

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

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

Mack & Co

Mack & Co
Chartered Accountants
2nd Floor, 35 Havelock Street
WEST PERTH WA 6005

N A Calder

N A Calder
Partner

Dated this 13th day of March 2007

**CONSOLIDATED INCOME STATEMENT
FOR HALF-YEAR ENDED 31 DECEMBER 2006**

	Notes	31 December 2006 \$	31 December 2005 \$
Continuing Operations			
Revenue from sale of oil and gas		796,052	518,279
Revenue from other activities	3	239,822	42,715
Cost of oil and gas sold		(587,071)	(530,566)
Gross profit		448,803	30,428
Foreign exchange (loss) / gain		(56,000)	163,998
Administration costs	3	(1,128,357)	(726,024)
Depreciation and amortisation		(304,769)	(150,309)
Loss from ordinary activities before income tax		(1,040,323)	(681,907)
Income tax expense		-	-
Net loss after tax		(1,040,323)	(681,907)
 Loss per share			
Basic loss per share (cents per share)		1.71	1.68
Diluted loss per share (cents per share)		1.71	1.68

The accompanying notes form part of these financial statements

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

	Note	31 December 2006 \$	30 June 2006 \$
CURRENT ASSETS			
Cash and cash equivalents		5,773,770	10,282,519
Trade and other receivables		564,196	451,112
Inventories		<u>34,170</u>	<u>32,289</u>
TOTAL CURRENT ASSETS		<u>6,372,136</u>	<u>10,765,920</u>
NON-CURRENT ASSETS			
Plant and equipment		525,710	377,565
Oil properties		<u>11,266,868</u>	<u>8,333,321</u>
TOTAL NON-CURRENT ASSETS		<u>11,792,578</u>	<u>8,710,886</u>
TOTAL ASSETS		<u>18,164,714</u>	<u>19,476,806</u>
CURRENT LIABILITIES			
Trade and other payables		616,407	456,263
Borrowings		215,597	287,093
Provisions		<u>30,687</u>	<u>2,416</u>
TOTAL CURRENT LIABILITIES		<u>862,691</u>	<u>745,772</u>
NON-CURRENT LIABILITIES			
Borrowings		217,194	243,423
Provisions		<u>3,004,699</u>	<u>2,985,497</u>
TOTAL NON-CURRENT LIABILITIES		<u>3,221,893</u>	<u>3,228,920</u>
TOTAL LIABILITIES		<u>4,084,584</u>	<u>3,974,692</u>
NET ASSETS		<u>14,080,130</u>	<u>15,502,114</u>
EQUITY			
Contributed equity	4	17,450,397	17,450,397
Reserves		166,244	547,905
Accumulated losses		<u>(3,536,511)</u>	<u>(2,496,188)</u>
TOTAL EQUITY		<u>14,080,130</u>	<u>15,502,114</u>

The accompanying notes form part of these financial statements

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

	31 December 2006 \$	31 December 2005 \$
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	651,256	452,882
Field operating costs	(416,058)	(450,729)
Administration payments	(1,005,714)	(721,024)
Interest received	<u>239,822</u>	<u>42,715</u>
NET CASH USED IN OPERATING ACTIVITIES	<u>(530,694)</u>	<u>(676,156)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of oil field	-	(1,067,385)
Acquisition of property, plant and equipment	(874,713)	(427,031)
Oil field development	(2,885,857)	(1,736,102)
Redemption of short-term deposits	<u>-</u>	<u>(5,294)</u>
NET CASH USED IN INVESTING ACTIVITIES	<u>(3,760,570)</u>	<u>(3,235,812)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issue of shares	-	1,999,500
Share issue costs	-	(119,647)
Lease repayments	<u>(161,485)</u>	<u>(22,365)</u>
NET CASH FROM FINANCING ACTIVITIES	<u>(161,485)</u>	<u>1,857,488</u>
Net decrease in cash held	(4,452,749)	(2,054,480)
Cash at beginning of the financial year	10,282,519	3,341,468
Effect of exchange rate changes	<u>(56,000)</u>	<u>163,998</u>
CASH AT END OF THE FINANCIAL YEAR	<u><u>5,773,770</u></u>	<u><u>1,450,986</u></u>

The accompanying notes form part of these financial statements

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

	Issued Capital	Foreign Currency Translation Reserve	Equity Benefits Reserve	Retained Losses	Total
	\$	\$	\$	\$	\$
Balance at 1 July 2005	4,639,511	(2,579)	385,120	(738,629)	4,283,423
Loss for the period	-	-	-	(681,907)	(681,907)
Currency translation differences	-	(22,585)	-	-	(22,585)
Total income and expense for the period recognised directly in equity	4,639,511	(25,164)	385,120	(1,420,536)	3,578,931
Issue of share capital	1,999,500	-	-	-	1,999,500
Share issue costs	(119,647)	-	-	-	(119,647)
Cost of share based payments	-	-	9,763	-	9,763
Balance at 31 December 2005	<u>6,519,364</u>	<u>(25,164)</u>	<u>394,883</u>	<u>(1,420,536)</u>	<u>5,468,547</u>

	Issued Capital	Foreign Currency Translation Reserve	Equity Benefits Reserve	Retained Losses	Total
	\$	\$	\$	\$	\$
Balance at 1 July 2006	17,450,397	150,020	397,885	(2,496,188)	15,502,114
Loss for the period	-	-	-	(1,040,323)	(1,040,323)
Currency translation differences	-	(519,711)	-	-	(519,711)
Total income and expense for the period recognised directly in equity	17,450,397	(369,691)	397,885	(3,536,511)	13,942,080
Issue of share capital	-	-	-	-	-
Share issue costs	-	-	-	-	-
Cost of share based payments	-	-	138,050	-	138,050
Balance at 31 December 2006	<u>17,450,397</u>	<u>(369,691)</u>	<u>535,935</u>	<u>(3,536,511)</u>	<u>14,080,130</u>

The accompanying notes form part of these financial statements

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

NOTE 1: CORPORATE INFORMATION

The financial report of Elk Petroleum Limited (the Company) for the half-year ended 31 December 2006 was authorised for issue in accordance with a resolution of the directors on 13th March 2007.

Elk Petroleum Limited is a company limited by shares incorporated in Australia.

The nature of the operations and principal activities of the Company are described in the Directors report.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The half-year financial report does not include all notes of the type normally included within the annual financial report and therefore cannot be expected to provide as full an understanding of the financial performance, financial position and financing and investing activities of the consolidated entity as the full financial report.

The half-year financial report should be read in conjunction with the annual Financial Report of Elk Petroleum Limited as at 30 June 2006.

It is also recommended that the half-year financial report be considered together with any public announcements made by Elk Petroleum Limited and its controlled entity during the half-year ended 31 December 2006 in accordance with the continuous disclosure obligations arising under the *Corporations Act 2001*.

(a) Basis of Preparation

The half-year financial report is a general-purpose financial report, which has been prepared in accordance with the requirements of the *Corporations Act 2001* and Australian Accounting Standards. The half-year report has been prepared on a historical cost basis.

The presentation and functional currency is Australian dollars.

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

(b) Significant accounting policies

The half-year consolidated financial statements have been prepared using the same accounting policies as used in the annual financial statements for the year ended 30 June 2006, except for the adoption of amending standards mandatory for annual periods beginning on or after 1 January 2006, as described in Note 2(d).

(c) Basis of Consolidation

The half-year consolidated financial statements comprise the financial statements of Elk Petroleum Limited and its subsidiary as at 31 December 2006 ('the Group').

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

(d) Changes in accounting policies

Australian Accounting Standards that have recently been issued or amended but are not yet effective have not been adopted for the annual reporting period ended 31 December 2006:

AASB Amendment	Affected Standard (s)	Nature of change to accounting policy	Application date of standard	Application date for Company
2005-1	AASB 139 <i>Financial Instruments: Recognition and Measurement</i>	No change to accounting policy required. Therefore no impact.	1 January 2006	1 July 2006

2005-5	AASB 1 <i>First-time adoption of AIFRS</i> and AASB 139 <i>Financial Instruments: Recognition and Measurement</i>	No change to accounting policy required. Therefore no impact.	1 January 2006	1 July 2006
2005-6	AASB 3 <i>Business Combinations</i>	No change to accounting policy required. Therefore no impact.	1 January 2006	1 July 2006
	UIG 4 <i>Determining whether an Arrangement contains a Lease</i>	No change to accounting policy required. Therefore no impact.	1 January 2006	1 January 2006

The following amendments and new Standards are not applicable to the Company and therefore have no impact:

2005-4	AASB 139 <i>Financial Instruments: Recognition and Measurement</i> , AASB 132 <i>Financial Instruments: Disclosure and Presentation</i> , AASB 1 <i>First-time adoption of AIFRS</i> , AASB 1023 <i>General insurance Contracts</i> and AASB 1038 <i>Life Insurance Contracts</i>
2005-9	AASB 4 <i>Insurance Contracts</i> , AASB 1023 <i>General insurance Contracts</i> , AASB 139 <i>Financial Instruments: Recognition and Measurement</i> and AASB 132 <i>Financial Instruments: Disclosure and Presentation</i>
2006-1	AASB 121 <i>The Effects of Change in Foreign Currency Rates</i>
	UIG 6 <i>Liabilities Arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment</i>
	UIG 7 <i>Applying the Restatement Approach under AASB 129 Financial Reporting in Hyperinflationary Economies</i>
	UIG 9 <i>Reassessment of Embedded Derivatives</i>

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

	31 December 2006 \$	31 December 2005 \$
NOTE 3: LOSS FROM ORDINARY ACTIVITIES		
The following revenue and expense items are relevant in explaining the financial performance for the half-year:		
Revenue from other activities		
Interest received – external	239,822	42,715
Total revenue from other activities	239,822	42,715
Administration Expenses		
Consultants	104,986	136,000
Employee benefits	377,206	150,617
Office occupation	48,000	48,000
Directors fees	64,444	45,000
Travel and accommodation	33,536	72,248
Insurance	68,490	65,581
Prospect expenses	6,026	40,770
Legal expenses	3,734	13,455
Share based payments	138,049	9,763
Share registry fees	26,212	19,871
Accounting and audit fees	53,902	10,099
Borrowing costs – rehabilitation	68,417	-
Supplies	5,656	10,026
Payroll taxes	18,433	12,977
Vehicle maintenance and repairs	4,421	15,201
Computer expenses	1,554	25,712
License taxes	6,593	7,215
Telephone	11,784	11,864
Other	86,914	31,625
Total administration expenses	1,128,357	726,024

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

	31 December 2006 \$	30 June 2006 \$
NOTE 4: ISSUED CAPITAL		
<i>Ordinary shares</i>		
Issued and fully paid	<u>17,450,397</u>	<u>17,450,397</u>

NOTE 5: SEGMENT REPORTING

	Continuing operations		
	Australia \$	USA \$	Total \$
31 December 2006			
Segment revenue	221,333	814,541	1,035,874
Segment results	(317,086)	(723,237)	(1,040,323)
31 December 2005			
Segment revenue	39,262	521,732	560,994
Segment results	(198,537)	(483,370)	(681,907)

NOTE 6: CONTINGENT LIABILITIES

There has been no change in contingent liabilities since the last annual reporting date.

NOTE 7: EVENTS SUBSEQUENT TO REPORTING DATE

There has not been any matter or circumstance that has arisen since 31 December 2006 that has significantly affected, or may significantly affect, the operations of the Company, the results of those operations, or the state of affairs of the Company in future financial years.

NOTE 8: DIVIDENDS

No dividends have been paid or provided for during the half-year.

Directors Declaration

DIRECTORS' DECLARATION

The directors of the company declare that:-

1. The financial statements and notes, as set out on pages 4 to 11 are in accordance with the Corporations Act 2001 including:
 - (a) complying with Accounting Standard AASB 134: *Interim Financial Reporting* and the *Corporations Regulations 2001*; and
 - (b) giving a true and fair view of the consolidated entity's financial position as at 31 December 2006 and of its performance, as represented by the results of its operations, changes in equity and its cash flows, for the half-year ended on that date; and
2. there are reasonable grounds to believe that Elk Petroleum Limited 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:



Richard Wood
Director
Dated this 13th day of March 2007

Independent Review Report

INDEPENDENT REVIEW REPORT TO THE MEMBERS OF ELK PETROLEUM LIMITED

SCOPE

We have reviewed the financial report of Elk Petroleum Limited for the Half-year ended December 31 2006 comprising the balance sheet, income statement, statement of cash flows, statement of changes in equity, accompanying notes to the financial statements and directors declaration of the consolidated entity. The company's directors are responsible for the financial report. The financial report includes the consolidated financial statements of the consolidated entity comprising the company and the entity it controlled at the end of the half-year or from time to time during the half-year.

We have performed an independent review of the financial report in order to state whether, on the basis of the procedures described, anything has come to our attention that would indicate that the financial report is not presented fairly, in accordance with Accounting Standard AASB 134: Interim Financial Reporting and other mandatory professional reporting requirements in Australia and statutory requirements, so as to present a view which is consistent with our understanding of the consolidated entity's financial position, and its performance as represented by the results of its operations and cash flows, and in order for the company to lodge the financial report with the Australian Securities and Investments Commission/Australian Stock Exchange Limited.

Our review has been conducted in accordance with Australian Auditing Standards applicable to review engagements. A review is limited primarily to inquiries of company personnel and analytical procedures applied to the financial data. These procedures do not provide all the evidence that would be required in an audit, thus the level of assurance provided is less than given in an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

INDEPENDENCE

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

STATEMENT

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Elk Petroleum Limited is not in accordance with:

- (a) The Corporations Act 2001, including:
 - (i) giving a true and fair view of the consolidated entity's financial position as at December 31 2006 and of its performance for the half-year ended on that date; and
 - (ii) complying with Accounting Standard AASB 134: Interim Financial Reporting and the Corporations Regulations 2001; and
- (b) other mandatory professional reporting requirements in Australia.

Mack & Co

Mack & Co
Chartered Accountants
2nd Floor, 35 Havelock Street
West Perth WA 6005

N. A. Calder

N. A. Calder, Partner

Dated this 13th day of March 2007