



ABN 50 078 652 632

INTERIM FINANCIAL REPORT

31 DECEMBER 2006



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DIRECTORS' REPORT

The Directors present their report together with the financial report of Oilex Ltd (the "Company") and its subsidiaries ("Oilex") for the half-year ended 31 December 2006 and the review report thereon.

DIRECTORS

The names of Directors who held office during the half-year and until the date of this report are as follows.

Mr Max D.J. Cozijn – Non-Executive Chairman
Dr Bruce H. McCarthy – Managing Director
Mr Raymond G. Barnes – Technical Director
Dr Geoffrey I. Johnson – Non-Executive Director (resigned 23 November 2006)
Mr Laxmi Lal Bhandari – Non-Executive Director (appointed 23 November 2006)

Directors were in office for this entire period unless otherwise stated.

REVIEW OF OPERATIONS

Financial Performance

The reported loss for the period was \$3,442,105 after accounting for a gain of \$2,819,195 on the sale of the Oilex interests in its onshore Queensland oil and gas permits.

Highlights

Oilex has established a portfolio of exploration and production interests in India, Australia, Oman and Timor-Leste. This is in line with the company's stated strategy of acquiring high quality exploration acreage in countries around the Indian Ocean rim in joint ventures with its Indian alliance members, with the main highlights being:

- Oilex (Operator 25%) awarded permit JPDA 06-103 offshore Timor Leste / Australia.
- Oilex (Operator 20%) awarded permit WA-388-P offshore Western Australia.
- Successful share placement completed in July 2006 raising gross proceeds of A\$20,060,000.
- Oilex's onshore Queensland petroleum interests sold to Bow Energy Limited for 13.3 million shares and 13.3 million options.
- Government of India approved assignment of interests in Bhandut, Sabarmati (Oilex 40% Operator) and Cambay Fields (Oilex 45%, Operator), onshore Gujarat, India.
- 2 wells drilled and suspended in first phase drilling programme on Cambay Field with indications of hydrocarbons.
- Testing and completion of Eocene EP IV potential reservoir interval in Cambay-72 commenced January.
- 3D seismic acquisition over Cambay Field completed in early December.
- Cambay 3D data set is excellent quality – 22 locations selected for potential phase 2 drilling programme of up to 8 wells in 2007.
- 2-3 wells planned in Block 56, Oman Q3 2007.
- 8 prospects mapped with potential volumes of 40 to 150 million barrels of oil in place on EPP 27.
- Negotiations finalised for drilling rig for EPP 27, offshore Otway Basin.

Further details are contained within releases made by the Company over this period.

CORPORATE MATTERS

Sale of Queensland assets to Bow Energy Limited

Oilex signed Share Sale & Purchase Agreements for the sale to Bow Energy Limited ("Bow") of its onshore Queensland oil and gas permit interests (with the exception of ATP 548P) in the Bowen-Surat and Cooper-Eromanga Basins.

As consideration for the sale of the assets, Oilex was issued with 13.3 million fully paid ordinary shares and 13.3 million options to purchase Bow shares at 50 cents per share on or before 5 years from the issue date.

By concluding this agreement with Bow, Oilex shareholders will share in any price appreciation of Bow's shares in the event of successful drilling by Bow on the permit areas that are being sold by Oilex and on Bow's existing exploration permits.

Capital Structure

As at 31 December 2006, Oilex has a total issued capital of 76,883,885 ordinary shares.

In addition there are a total of 26,025,100 unlisted options on issue exercisable at prices of between \$0.20 and \$1.75.

1,000,100 ordinary shares and 1,000,100 unlisted options were released from voluntary escrow on 7 December 2006.

AUDITORS' INDEPENDENCE DECLARATION

The lead auditors' independence declaration is set out on page 3 and forms part of the Directors' Report for the half-year ended 31 December 2006.

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

A handwritten signature in blue ink, appearing to read "M.D.J. Cozijn".

M.D.J. Cozijn
Chairman

A handwritten signature in blue ink, appearing to read "B.H. McCarthy".

B.H. McCarthy
Managing Director

Dated this 27th day of February 2007



Lead Auditor's Independence Declaration under Section 307C of the Corporations Act 2001

To: the directors of Oilex Limited

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

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

A handwritten signature in blue ink that reads 'KPMG'.

KPMG

A handwritten signature in blue ink that reads 'B C Fullarton'.

B C FULLARTON
Partner
Perth
27 February 2007



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**CONSOLIDATED INTERIM INCOME STATEMENT
FOR THE SIX MONTHS ENDED
31 DECEMBER 2006**

	31 December 2006	31 December 2005
Note	\$	\$
Continuing operations		
Revenue	-	16,691
Employee benefits expense	(1,675,927)	(313,791)
Depreciation expense	(57,520)	(17,355)
Exploration expenditure	(1,726,436)	(1,482,652)
Administration expense	(1,207,933)	(455,588)
Share based payments	(1,194,035)	-
Other expenses	(545,188)	(55,724)
Financial income	503,941	187,704
Financial costs	(358,202)	-
LOSS BEFORE INCOME TAX	(6,261,300)	(2,120,715)
Income tax expense	-	-
NET LOSS FROM CONTINUING OPERATIONS	(6,261,300)	(2,120,715)
Discontinued operation		
Profit/(loss) from discontinued operation (net of tax)	6 2,819,195	(911,050)
LOSS FOR THE PERIOD	(3,442,105)	(3,031,765)
Earnings per share		
Basic loss per share (cents per share)	(4.5)	(7.1)
Diluted loss per share (cents per share)	(4.5)	(7.1)
Continuing operations		
Basic loss per share (cents per share)	(8.2)	(2.1)
Diluted loss per share (cents per share)	(8.2)	(2.1)

The income statement is to be read in conjunction with the notes to the consolidated interim financial report.



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CONSOLIDATED INTERIM BALANCE SHEET
AS AT
31 DECEMBER 2006

	31 December 2006	30 June 2006
	\$	\$
Current Assets		
Cash and cash equivalents	14,793,966	21,262,211
Trade and other receivables	1,826,233	1,457,402
Inventories	233,324	1,066,701
TOTAL CURRENT ASSETS	16,853,523	23,786,314
Non Current Assets		
Trade and other receivables	2,205,358	2,411,552
Exploration and evaluation	3,572,047	-
Property, plant & equipment	604,011	485,498
Investments	3,453,279	-
TOTAL NON CURRENT ASSETS	9,834,695	2,897,050
TOTAL ASSETS	26,688,218	26,683,364
Current Liabilities		
Trade and other payables	2,023,841	1,757,537
Provisions	566,715	164,353
Loans and borrowings	5,000,000	5,000,000
TOTAL CURRENT LIABILITIES	7,590,556	6,921,890
TOTAL LIABILITIES	7,590,556	6,921,890
NET ASSETS	19,097,662	19,761,474
Equity		
Issued capital	37,142,619	36,563,991
Option reserve	4,514,543	2,499,908
Available-for-sale reserve	185,030	-
Accumulated losses	(22,744,530)	(19,302,425)
TOTAL EQUITY	19,097,662	19,761,474

The balance sheet is to be read in conjunction with the notes to the consolidated interim financial report.



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**CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY
FOR THE SIX MONTHS ENDED
31 DECEMBER 2006**

	Issued Capital \$	Option Reserve \$	Available- for-sale Reserve \$	Accumulated Losses \$	Total Equity \$
Balance at 1 July 2005	17,039,127	-	-	(8,622,320)	8,416,807
Total recognised income and expense	-	-	-	(3,031,765)	(3,031,765)
Transactions with equity holders in their capacity as equity holders:					
Shares issued	302,410	-	-	-	302,410
Options issued	-	179,551	-	-	179,551
Balance at 31 December 2005	<u>17,341,537</u>	<u>179,551</u>	-	<u>(11,654,085)</u>	<u>5,867,003</u>
Balance at 1 July 2006	36,563,991	2,499,908	-	(19,302,425)	19,761,474
Total recognised income and expense	-	-	-	(3,442,105)	(3,442,105)
Revaluation of investments	-	-	185,030	-	185,030
Transactions with equity holders in their capacity as equity holders:					
Exercise of options	552,801	(202,801)	-	-	350,000
Share based payments	25,827	2,217,436	-	-	2,243,263
Balance as at 31 December 2006	<u>37,142,619</u>	<u>4,514,543</u>	<u>185,030</u>	<u>(22,744,530)</u>	<u>19,097,662</u>

The statement of changes in equity is to be read in conjunction with the notes to the consolidated interim financial report.



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CONSOLIDATED INTERIM STATEMENT OF CASH FLOWS
FOR THE SIX MONTHS ENDED
31 DECEMBER 2006

	31 December 2006 \$	31 December 2005 \$
Cash Flows From Operating Activities		
Inflows:		
Cash receipts from customers	34,618	124,986
Interest received	463,717	187,704
Other income	-	139,857
Outflows:		
Payments to suppliers and employees	(1,961,327)	(742,863)
Interest paid	(265,111)	-
Net Cash Flows Used In Operating Activities	(1,728,103)	(290,316)
Cash Flows From Investing Activities		
Inflows:		
Proceeds from sale of property, plant and equipment	-	25,704
Outflows:		
Payments for exploration and evaluation expenditure	(4,813,447)	(2,200,596)
Acquisition of property, plant and equipment	(276,695)	(134,498)
Net Cash Flows Used In Investing Activities	(5,090,142)	(2,309,390)
Cash Flows From Financing Activities		
Inflows:		
Proceeds from the exercise of options	350,000	-
Net Cash Flows From Financing Activities	350,000	-
NET DECREASE IN CASH AND CASH EQUIVALENTS	(6,468,245)	(2,599,706)
CASH AND CASH EQUIVALENTS AT 1 JULY	21,262,211	8,137,627
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	14,793,966	5,537,921

The statement of cash flows is to be read in conjunction with the notes to the consolidated interim financial report.



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**NOTES TO THE CONSOLIDATED INTERIM FINANCIAL REPORT
FOR THE SIX MONTHS ENDED
31 DECEMBER 2006**

NOTE 1 – REPORTING ENTITY

Oilex Ltd (the “Company”) is a company domiciled in Australia. The consolidated interim financial report of the Company as at and for the six months ended 31 December 2006 comprises the Company and its subsidiaries (together referred to as “Oilex”) and Oilex’s interests in jointly controlled operations.

The consolidated annual financial report of Oilex as at and for the year ended 30 June 2006 is available upon request from the Company’s registered office at Level 3, 50 Kings Park Road, West Perth, Western Australia 6005 or at www.oilex.com.au.

NOTE 2 – STATEMENT OF COMPLIANCE

The consolidated interim financial report is a general purpose financial report which has been prepared in accordance with AASB 134: *Interim Financial Reporting* and the Corporations Act 2001.

The condensed consolidated interim financial report does not include all of the information required for a full annual financial report, and should be read in conjunction with the consolidated annual financial report of Oilex as at and for the year ended 30 June 2006.

This condensed consolidated interim financial report was approved by the Board of Directors on 27 February 2007.

NOTE 3 – SIGNIFICANT ACCOUNTING POLICIES

The accounting policies applied by Oilex in this interim financial report are the same as those applied by Oilex in its consolidated financial report as at and for the year ended 30 June 2006.

NOTE 4 – ESTIMATES

The preparation of an interim financial report requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing this interim financial report, the significant judgements made by management in applying Oilex’s accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial report as at and for the year ended 30 June 2006.



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**NOTES TO THE CONSOLIDATED INTERIM FINANCIAL REPORT
FOR THE SIX MONTHS ENDED
31 DECEMBER 2006**

NOTE 5 – SEGMENT INFORMATION

Primary Reporting- Geographical Segments

	India \$	Australia \$	Oman \$	Timor- Leste \$	Discontinued Operation \$	Group and Unallocated \$	Consolidated \$
Half-year ended 31 December 2006							
Segment revenue	-	-	-	-	21,110	503,941	525,051
Segment result/(loss)	(335,522)	(391,134)	(327,080)	(86,582)	2,819,195	(5,120,982)	(3,442,105)
Half-year ended 31 December 2005							
Segment revenue	-	16,691	-	-	135,861	187,704	340,256
Segment result/(loss)	(640,275)	(1,480,440)	-	-	(911,050)	-	(3,031,765)

NOTE 6 – DISCONTINUED OPERATION

In August 2006 Oilex signed a Share Sale and Purchase Agreement for the sale to Bow Energy Ltd (“Bow”) of its onshore Queensland oil and gas permit interests in the Bowen-Surat and Cooper-Eromanga Basins. As consideration for the sale of the assets, Oilex was issued 13.3 million fully paid ordinary shares and 13.3 million options to purchase Bow shares at \$0.50 per share on or before 5 years from the issue date. The effective date of sale is 24 August 2006 with settlement effected on 8 November 2006. The shares will be subject to voluntary escrow for a period of two years from the date of issue.

This disposal involved the sale of 100% of Oilex’s interest in Seqoil Pty Ltd and other Queensland assets held by the parent entity.

The segment was not a discontinued operation or classified as held for sale as at 30 June 2006 and the comparative income statement has been restated to show the discontinued operation separately from continuing operations.

The effect of the disposal was an increase in the net assets of Oilex of \$2,819,195.

During the six months ended 31 December 2006, Seqoil Pty Ltd had net cash outflows from operating activities of \$9,152 (six months ended 31 December 2005: \$941,762), net cash outflows from investing activities of nil (six months ended 31 December 2005: \$16,800) and net cash outflows from financing activities of \$101,812 (six months ended 31 December 2005: net cash inflow of \$1,201,004).



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**NOTES TO THE CONSOLIDATED INTERIM FINANCIAL REPORT
FOR THE SIX MONTHS ENDED
31 DECEMBER 2006**

NOTE 6 – DISCONTINUED OPERATION (continued)

Gains/losses attributable to the discontinued operation for the six months ended 31 December 2006 were as follows:

	2006 \$	2005 \$
Results of discontinued operation		
Revenue	21,110	135,861
Expenses	(60,507)	(1,046,911)
Results from operating activities	(39,397)	(911,050)
Income tax expense	-	-
Loss after tax but before gain on sale of discontinued operation	(39,397)	(911,050)
Gain on sale of discontinued operation	2,858,592	-
Tax on gain on sale of discontinued operation	-	-
Gain for the period	<u>2,819,195</u>	<u>(911,050)</u>

NOTE 7 – SHARE BASED PAYMENTS

The Company has an established Employee share option plan (“ESOP”) that entitles key management personnel (“KMP”) and employees to purchase shares in the Company. The terms and conditions of the ESOP and grants made during the year ended 30 June 2006 are disclosed in the most recent annual financial report. In July 2006 a further grant on similar terms was made to key management personnel and in October 2006 a further grant on similar terms was made to key financiers. The basis of measuring fair value of options granted is consistent with that disclosed in the consolidated financial report as at and for the year ended 30 June 2006.

The Company also has established a Performance Rights (“PRs”) plan, approved by shareholders on 23 November 2006 at the 2006 AGM that entitles employees to zero exercise price options. The PRs are subject to a performance hurdle, based on Oilex’s percentage share price growth compared to the growth in the S&P/ASX 200 Energy Sector Accumulation Index, which must be satisfied before any PRs can be exercised. To the extent that the performance hurdle is achieved, the PRs vest and may be exercised to acquire shares in the Company. No PR’s have been granted during the half-year.

The terms and conditions of the grants made during the six months ended 31 December 2006 are as follows:

Grant date/employees entitled	Number of instruments	Vesting conditions	Contractual life of options
Options granted to KMP since 1 July 2006	2,825,000	Three years of service	3-4 years
Options granted to advisers since 1 July 2006	1,500,000	Immediately	3-4 years

**NOTES TO THE CONSOLIDATED INTERIM FINANCIAL REPORT
FOR THE SIX MONTHS ENDED
31 DECEMBER 2006**

NOTE 7 – SHARE BASED PAYMENTS (continued)

Fair value of options granted during the six months ended 31 December 2006 has been determined using the following assumptions:

	Options granted to advisers	Options granted to KMP
Fair value at measurement date	\$0.75 - \$0.85	\$0.65 - \$0.75
Share price	\$1.34	\$0.97
Exercise price	\$1.50 - \$2.00	\$0.45 - \$0.90
Expected volatility	92.75%	90.85%
Option life	3 – 4 years	3 – 4 years
Expected dividends	-	-
Risk-free interest rate	6.00%	5.75%

NOTE 8 – EQUITY SECURITIES ISSUED

	2006 Shares	2005 Shares
Issue of share capital	19,566	1,008,034
Exercise of options	750,000	-
	769,566	1,008,034

NOTE 9 – CONTINGENCIES

- (1) The vendor of Oilex's previous equity in Barcoo Junction North retained a 5% Net Profits Interest (NPI). Under the acquisition agreement with the vendor, Oilex was obliged to use its best endeavours to initiate a drilling program on the Barcoo Junction North Prospect within 12 months of the grant of the permit which occurred on 31 October 2005. The vendor has continued to threaten legal action regarding Oilex's performance of its obligations under this acquisition agreement since October 2005 and again more recently in February 2007, notwithstanding that Oilex has disposed of its interest in the Barcoo Junction North prospect in November 2006. The directors have sought legal advice in relation to these claims. The directors consider there is no merit in the threatened action.
- (2) Pursuant to shareholder approval granted at the General Meeting of Shareholders held on 28 July 2006, approval was granted for the issue of shares to India Hydrocarbons Limited in 2 tranches. 2.5 million shares remain to be issued within 1 year of obtaining shareholder approval at A\$0.20 per share, by 28 July 2007.

NOTE 10 – SUBSEQUENT EVENTS

On 9 January 2007 Oilex received the approval of the Government of India for the assignment of 40% participating interests in the Bhandut and Sabarmati Fields PSC's and an additional 15% net participating interest in the Cambay Field PSC. The interests were acquired from Niko Resources Ltd under an agreement that was made in February 2006.

DIRECTORS' DECLARATION

In the opinion of the Directors of Oilex Ltd (the "Company"):

1. the financial statements and notes set out on pages 4 to 11, are in accordance with the Corporations Act 2001 including:
 - a) giving a true and fair view of the financial position of the consolidated entity as at 31 December 2006 and of its performance, as represented by the results of its operations and cash flows for the half-year ended on that date; and
 - b) complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the Corporations Regulations 2001; and
2. there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Dated at West Perth this 27th day of February 2007.

Signed in accordance with a resolution of the Directors.



Mr M.D.J. Cozijn
Chairman



Dr B.H. McCarthy
Managing Director

West Perth, Western Australia
27 February 2007



Independent auditor's review report to the members of Oilex Limited

Report on the Financial Report

We have reviewed the accompanying half-year financial report of Oilex Limited, which comprises the consolidated interim balance sheet as at 31 December 2006, income statement, statement of changes in equity and cash flow statement for the half-year ended on that date, a statement of accounting policies and other explanatory notes and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the half-year's end or from time to time during the half-year.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation and fair presentation of the half-year financial report in accordance with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001*. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the half-year financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

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

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

Conclusion

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 Oilex Limited is not in accordance with the *Corporations Act 2001*, including:

- (a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2006 and of its performance for the half-year ended on that date; and



(b) complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the Corporations Regulations 2001.

A handwritten signature in blue ink, appearing to be 'KPMG'.

KPMG

A handwritten signature in blue ink, appearing to be 'B C Fullarton'.

B C FULLARTON
Partner
Perth
27 February 2007