LIVINGSTONE PETROLEUM LTD

ABN 42 112 256 649

Condensed interim financial report for six months ending

31 December 2006

Directors' report

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Directors' report

The directors present their report together with the consolidated financial report for the half-year ended 31 December 2006 and the review report thereon.

Directors

The directors of the company at any time during or since the end of the half-year are:

Name	Period of directorship
Jim Malone – Non Executive Director	Appointed 17 December 2004
Craig Burton – Executive Director	Appointed 17 December 2004
Michael Fry – Non Executive Director	Appointed 17 December 2004

Review of operations – Half-year ended 31 December 2006

During the period the Company commenced the next phase of exploration at the Forbes Joint Venture Project with the drilling of the South Buckeye 1-18 and Heavenly 2-28 wells, both wells targeting gas bearing stratigraphic traps in the Forbes formation, analogous to the gas discoveries made with the Larner 1-12 and 2-12 wells.

The South Buckeye 1-18 well was spudded on 24 October 2006 and encountered gas in one of the objectives between 9,315 feet and 9,345 feet. Based on the electric logging of the well there appears to be approximately 10 to 15 feet of net pay in this Forbes formation interval. The amount of net pay encountered in this well is consistent with Forbes formation gas producing wells located in the area. The decision was made to set pipe and complete the South Buckeye 1-18 well, with the testing program to establish the commerciality of the gas discovery expected to commence shortly once a service rig is secured.

The Heavenly 2-28 well was spudded on 27 November 2006 and drilled to a total depth of 9,920 feet. Electric logging of the well suggested only small amounts of gas present in the targeted Forbes sandstone objectives of this well. Following analysis of the electric logs a decision was made for the well to be plugged and abandoned.

Forbes Exploration Strategy

The Forbes Joint Venture has developed numerous drill prospects with many of these prospects having priority follow-on targets should the initial prospect be a successful discovery. Besides the Forbes sandstone formation located at depths between 8,000 to 9,500 feet, the Joint Venture has identified additional prospects in the shallower Starkey and Winters formations around 4,000 feet and the deeper Guinda formation located below 9,500 feet. The prospect sizes vary according to which objective formation is considered the primary target, however in general the sizes vary from 1 to 5 billion cubic feet. Some of the deeper targets in the Guinda formation are tens of billion cubic feet.

2007 Drilling Program

Following the recent drilling of the South Buckeye and Heavenly prospects, the Joint Venture partners are evaluating the results and scheduling the next phase of the drilling program. Confirmation of a commercial flow of gas at South Buckeye following testing will substantially upgrade the additional offset prospects located near this particular target.

Directors' report

The Joint Venture is prioritising the shallower Starkey and Winters formation targets as part of the 2007 drilling program, with some of these targets located in close proximity to the Edge 1-10 exploration discovery and have been identified to blend with gas from the Edge 1-10 well to facilitate its commercial production.

Corporate

On 6 July 2006 the Company announced it had raised $3,600,000 through the issue of 10,000,000 ordinary shares at 36 cents each after meeting its full subscription under the prospectus dated 20 June 2006. These funds were used to fund the company's exploration programs, including the new drilling program commenced on the Forbes Project in October 2006.

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

The lead auditor's independence declaration is set out on page 5 and forms part of the directors' report for the half-year ended 31 December 2006.

Dated at Perth this 16th day of March 2007.

Signed in accordance with a resolution of the directors:

Craig Burton
Director

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

To: the directors of Livingstone Petroleum Ltd

I declare that, to the best of my knowledge and belief, in relation to the review for the financial 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.

KPMG

KPMG

T R Hart
Partner

Perth
16 March 2007

KPMG

Independent auditor's review report to the members of Livingstone Petroleum Ltd

Report on the Financial Report

We have reviewed the accompanying half-year financial report of Livingstone Petroleum Ltd, 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 half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2006 and its performance for the half-year ended on that date; and complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As auditor of Livingstone Petroleum Ltd, 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 Livingstone Petroleum Ltd 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.

Inherent uncertainty regarding continuation as a going concern

Without qualification to the conclusion expressed above, attention is drawn to the following matter. As a result of the matters described in Note 4, there is significant uncertainty whether the consolidated entity will be able to continue as a going concern and therefore whether it will realise its assets and extinguish its liabilities in the normal course of business and at the amounts stated in the financial report.

KPMG

KPMG

T R Hart
Partner

Perth
16 March 2007

Consolidated interim income statement

For the six months ended 31 December

	31-Dec-06 AUD	31-Dec-05 AUD
Revenue	349,970	121,163
Cost of goods sold	(235,263)	(29,064)
Gross profit	114,707	92,099
Professional fees	(44,283)	(34,664)
Personnel expenses	(84,351)	(34,626)
Exploration expenditure written off	(1,331,270)	(133,343)
Other	(112,333)	(30,669)
Results from operating activities	(1,457,530)	(141,203)
Financial Income	68,442	68,588
Financial Expenses	-	-
Net financial income	68,442	68,588
Loss before tax	(1,389,088)	(72,615)
Income tax expense	-	-
Loss for the period	(1,389,088)	(72,615)
Loss per share:		
Basic loss per share (cents per share)	(2.12)	(0.16)
Diluted loss per share (cents per share)	(2.12)	(0.16)

The income statement is to be read in conjunction with the condensed notes to the consolidated interim financial report set out on pages 12 to 15.

Consolidated interim statement of changes in equity

For the six months ended 31 December

Half- year ended 31 December 2006	Issued capital AUD	Accumulated losses AUD	Reserves AUD	Total equity AUD
Balance at 1 July 2006	9,503,390	(1,558,259)	803,927	8,749,058
Equity settled share based payment transactions	-	-	4,803	4,803
Share issue net of cost	3,437,223	-	-	3,437,223
Effect of translation of foreign operations to group presentation currency	-	-	(918,896)	(918,896)
Exploration costs	-	-	-	-
Net loss for the period	-	(1,389,088)	-	(1,389,088)
Balance at 31 December 2006	12,940,613	(2,947,347)	(110,166)	9,883,100

Half-year ended 31 December 2005	Issued capital AUD	Accumulated losses AUD	Reserves AUD	Total equity AUD
Balance at 1 July 2005	5,187,628	(36,139)	460,646	5,612,135
Equity settled share based payment transactions	-	-	3,210	3,210
Share issue net of cost	2,872,573	-	-	2,872,573
Effect of translation of foreign operations to group presentation currency	-	-	236,686	236,686
Net loss for the period	-	(72,615)	-	(72,615)
Balance at 31 December 2005	8,060,201	(108,754)	700,542	8,651,989

The statement of changes in equity is to be read in conjunction with the condensed notes to the consolidated interim financial report set out on pages 12 to 15.

Consolidated interim balance sheet

As at 31 December 2006

	Note	31-Dec-06 AUD	30-Jun-06 AUD
Current assets			
Cash and cash equivalents		78,558	3,296,696
Receivables		39,538	780,467
Total current assets		118,096	4,077,163
Non-current assets			
Property, plant and equipment		290,536	363,135
Exploration and development expenditure	*7*	10,507,973	7,622,875
Total non-current assets		10,798,509	7,986,010
Total assets		10,916,605	12,063,173
Current liabilities			
Trade and other payables		329,276	269,031
Funds held on Trust		-	2,966,790
Provisions		597,971	-
Income tax provision		6,364	6,364
Total current liabilities		933,611	3,242,185
Non-current liabilities			
Provisions		99,894	71,930
Total non-current liabilities		99,894	71,930
Total liabilities		1,033,505	3,314,115
Net assets		9,883,100	8,749,058
Equity			
Issued capital	*8*	12,940,613	9,503,390
Reserves		(110,166)	803,927
Accumulated losses		(2,947,347)	(1,558,259)
Total equity attributable to shareholders of the parent		9,883,100	8,749,058
Total equity		9,883,100	8,749,058

The balance sheet is to be read in conjunction with the condensed notes to the consolidated interim financial report set out on pages 12 to 15.

Consolidated interim statement of cash flows

For the six months ended 31 December

	31-Dec-06 AUD	31-Dec-05 AUD
Cash flows from operating activities		
Received from customers	397,470	111,967
Cash paid to suppliers and employees	(271,030)	(60,202)
Net cash from operating activities	126,440	51,765
Cash flows from investing activities		
Payment for exploration and evaluation expenditure	(3,776,069)	(2,214,147)
Net cash used in investing activities	(3,776,069)	(2,214,147)
Cash flows from financing activities		
Proceeds from the issue of share capital	633,210	3,150,374
Share issue costs	(172,213)	(277,801)
Interest received	70,494	52,904
Loan repayment	(100,000)	-
Net cash from financing activities	431,491	2,925,477
Net increase/ (decrease) in cash and cash equivalents	(3,218,138)	763,095
Cash and cash equivalents at 1 July	3,296,696	1,708,135
Cash and cash equivalents at 31 December	78,558	2,471,230

The statement of cash flows is to be read in conjunction with the condensed notes to the consolidated interim financial report set out on pages 12 to 15.

Condensed notes to the consolidated interim financial report

1. Reporting entity

Livingstone Petroleum Limited (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 subsidiary (together referred to as the 'consolidated entity').

The consolidated annual financial report of the consolidated entity as at and for the year ended 30 June 2006 is available upon request from the Company's registered office at 8 Colin Street, 6005 West Perth, or can be downloaded from www.livpet.com.au.

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, IAS 34: Interim Financial Reporting and the Corporations Act 2001.

The 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 the consolidated entity as at and for the year ended 30 June 2006.

This consolidated interim financial report was approved by the Board of Directors on 16 March 2007.

3. Significant accounting policies

Except as described below, the accounting policies applied by the consolidated entity in this consolidated interim financial report are the same as those applied by the consolidated entity in its consolidated financial report as at and for the year ended 30 June 2006.

In the prior financial year, the consolidated entity adopted AASB 132: Financial Instruments: Disclosure and Presentation and AASB 139: Financial Instruments: Recognition and Measurement in accordance with the transitional rules of AASB 1. There has been no change in the opening balance of retained earnings and reserves at 1 July 2005, upon adoption of AASB 132 and AASB 139.

4. Going Concern

The financial report has been prepared on the going concern basis that contemplates the continuity of normal business activities and the realisation of assets and extinguishment of liabilities in the ordinary course of business. For the six months ended 31 December 2006 the consolidated entity recorded a loss of $1,389,088 and had a net working capital deficiency of $815,515. The significant amounts within current liabilities relate to cash calls from the Forbes Joint Venture. The Company's working capital position was adversely impacted by higher than anticipated drilling and associated costs which have been charged to the consolidated entity by the joint venture operator during the six months. Until the Joint Venture approves the next phase of drilling there are no significant exploration costs being incurred or committed to by the Company.

On 16 March 2007 the Company entered into an unsecured loan facility agreement for $1,000,000 with Mr Craig Burton, a director of the Company, to cover specified working capital required until the next capital raising is successfully completed by the Company. At the date of this report, the Company had not drawn down on the facility. Funds advanced against the facility are repayable immediately upon completion of the Company's next capital raising and will incur 8% p.a. interest accrued monthly for the term of the loan.

The Board is currently assessing plans for an equity raising which is required to meet current and future obligations and provide the Company with sufficient additional working capital.

The ability to meet current and future obligations is dependant upon the Company raising sufficient additional equity or debt funding in the near future. The Board is confident that the Company will be successful in raising additional equity. Should the Company be unsuccessful at raising additional equity or identifying other acceptable funding alternatives there is significant uncertainty whether the consolidated entity will be able to continue as a going concern. If the consolidated entity is unable to continue as a going concern, it will be required to realise its assets and extinguish its liabilities other than in the normal course of business and at amounts that may be different to those stated in the financial report.

5. Estimates

The preparation of the 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 consolidated interim financial report, the significant judgements made by management in applying the consolidated entity's accounting policies and the key sources of estimation uncertainty were the same as those applied to the consolidated financial report as at and for the year ended 30 June 2006.

6. Segment reporting

The consolidated entity operates in one business and geographical segment, namely exploration, development and production of gas in one geographical area – USA

7. Exploration and development expenditure

		31-Dec-06 AUD	30-Jun-06 AUD
Exploration expenditure	[a]	8,528,710	3,475,221
Carrying amount of development expenditure	[b]	1,903,234	4,091,658
Carrying amount of rehabilitation asset	[c]	76,029	55,996
		10,507,973	7,622,875

[a] Reconciliation of movement in exploration expenditure

	Half year ended 31-Dec-06	Financial year ended 30-Jun-06
Exploration expenditure at cost	AUD	AUD
Balance at the beginning of the period	5,392,993	3,932,076
Additions	4,501,110	3,639,480
Transferred to development expenditure	(34,123)	(2,178,563)
Exploration expenditure written off	(1,331,270)	-
Balance at the end of the period	8,528,710	5,392,993
Carrying amount		
Balance at the beginning of the period	5,392,993	3,932,076
Balance at the end of the period	8,528,710	5,392,993

The ability to recoup capitalised exploration and evaluation expenditure is dependant upon the successful development or ultimate sale of the areas of interest to which the expenditure relates.

[b] Reconciliation of carrying amount of development expenditure

	Half year ended 31-Dec-06 AUD	Financial year ended 30-Jun-06 AUD
Development expenditure at cost		
Balance at the beginning of the period	2,178,563	-
Transferred from exploration assets	34,123	2,178,563
Foreign currency translation movement	(161,552)	-
Balance at the end of the period	2,051,134	2,178,563

	Half year ended 31-Dec-06	Financial year ended 30-Jun-06
Development expenditure – amortised		
Balance at the beginning of the period	(4,677)	-
Amortisation of development expenditure	(144,450)	(4,677)
Foreign currency translation movement	1,227	-
Balance at the end of the period	(147,900)	(4,677)
Carrying amount		
Balance at the beginning of the period	2,173,886	-
Balance at the end of the period	1,903,234	2,173,886

[c] Reconciliation of carrying amount of rehabilitation asset

	Half year ended 31-Dec-06 AUD	Financial year ended 30-Jun-06 AUD
Rehabilitation asset at cost		
Balance at the beginning of the period	58,776	13,154
Additions	26,250	58,776
Rehabilitation asset written off	-	(13,154)
Balance at the end of the period	85,026	58,776
Rehabilitation asset – amortization		
Balance at the beginning of the period	(2,780)	-
Amortisation charge for the period	(6,217)	(2,780)
Balance at the end of the period	(8,997)	(2,780)
Carrying amounts		
Balance at the beginning of the period	55,996	13,154
Balance at the end of the period	76,029	55,996

8. Capital

The consolidated entity recorded the following amounts within shareholder's equity as a result of the issuance of ordinary shares:

For the six months ended 31 December 2006

	Ordinary shares	Number of shares	Issue price	AUD
1 July 2006	Opening balance	56,000,001		9,503,390
11 July 2006	Issue of fully paid shares	10,000,000	$0.360	3,600,000
31 December 2006	**Closing balance**	66,000,001		13,103,390
	Less:			
	Share issue costs			(162,777)
				12,940,613

For the six months ended 31 December 2005

	Ordinary shares	Number of shares	Issue price	AUD
1 July 2005	Opening balance	37,000,001		5,187,628
	Call funds received after 30 June 2005			150,374
14 September 2005	Share issue	15,000,000	$0.20	3,000,000
31 December 2005	Closing balance	52,000,001		8,338,002
	Less:			
	Share issue costs			(277,801)
				8,060,201

No dividends were paid by the consolidated entity.

Condensed notes to the consolidated interim financial report

9. Share-based payments

During the six months ended 31 December 2006 no options were issued under the Company's share option plan.

For the six months ended 31 December 2006, the consolidated entity recognised a share based payment expense of $4,803 (six months ended 31 December 2005: $3,210), which reflects the vesting of previously issued share options.

The basis for measuring fair value is consistent with that disclosed in the consolidated financial report as at and for the year ended 30 June 2006.

10. Related parties

Arrangements with related parties continue to be in place. For details on these arrangements, refer to the 30 June 2006 annual financial report.

Directors' declaration

In the opinion of the directors of Livingstone Petroleum Limited ("the Company"):

1. the financial statements and notes set out on pages 8 to 15, 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 2004; 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 in Perth this 16th day of March 2007.

Signed in accordance with a resolution of directors:

Craig Burton
Director