



Emerald Oil & Gas NL

ABN: 72 009 795 046

Interim Financial Report
31 December 2007

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This financial report covers the consolidated entity consisting of Emerald Oil & Gas NL and its subsidiaries. The financial report is presented in the Australian currency.

Emerald Oil & Gas NL is a company limited by shares, incorporated and domiciled in Australia. It's registered office and principal place of business is:

Emerald Oil & Gas NL
Level 2
16 Altona Street
West Perth WA 6005

A description of the nature of the consolidated entity's operations and its principal activities is included in the review of operations and activities in the directors' report on pages 2 to 3, which does not form part of this financial report.

The Company has the power to amend and reissue the financial report.

Corporate Information

Directors:

Jeremy Shervington
Chairman

John Hannaford
Executive Director – Finance

Robert Berven
Executive Director - Technical

Morgan Barron
Company Secretary

Registered & Principal Office:

Level 2, 16 Altona Street
WEST PERTH WA 6005
Telephone: + 618 9482 0510
Facsimile: + 618 9482 0505

Postal Address:

P.O. Box 902
WEST PERTH WA 6872

Auditors:

Ernst & Young
11 Mounts Bay Road
PERTH WA 6000

Solicitors - Perth:

Jeremy Shervington
52 Ord Street
WEST PERTH WA 6005

Home Stock Exchange:

Australian Stock Exchange Limited
Exchange Plaza
2 The Esplanade
PERTH WA 6000
ASX Codes – EMR, EMRO

Share Registry:

Security Transfer Registrars
PO Box 535
APPLECROSS WA 6953
Telephone (within Australia) (08) 9315 2333

Directors' Report

Your Directors have pleasure in submitting their report on the consolidated entity for the "Group"; being the company and its controlled entities, for the half-year ended 31 December 2007.

DIRECTORS

The names and details of Directors in office at any time during the financial year are:

Jeremy D Shervington	Non Executive Chairman
Robert Berven	Executive Director – Technical
John Hannaford	Executive Director - Finance

Directors have been in office since the start of the financial year to the date of this report unless otherwise stated.

PRINCIPAL ACTIVITIES

The principal activities of Emerald Oil & Gas NL for the period were the exploration and evaluation of oil and gas resources in the USA and Australia. There were no changes to the principal activities during the period.

RESULTS

The net loss of the Group for the half-year ended 31 December 2007 after income tax amounted to \$2,228,867 (2006:\$658,632).

OPERATING AND FINANCIAL REVIEW

On 21 May 2007 the Company announced a \$3,015,000 placement to sophisticated investors. The funds were to be applied to the Canning Basin and USA drilling exploration activities. The raising was completed in two tranches, with \$720,000 raised prior to 30 June 2007. The Company completed the placement on 2 July 2007, raising the second tranche of \$2,295,000.

During the six months to December Emerald participated in the drilling of five wells at the Palito Blanco, Pandura and Hope Prospects in the USA and the Valentine & Stokes Bay wells, onshore in the Canning Basin of Western Australia. Oil and gas shows were encountered in all five wells however, only Jamie Garcia Gas Unit #2 (Palito Blanco) was completed as a gas bearing well. Stokes Bay #1 well encountered porous "reefal" carbonates within the Devonian Nullara limestone, however, conclusive testing this formation has been deferred until after the wet season in April 2008.

In July 2007, the Company reached an agreement with Daytona Energy Corporation ("Daytona") in relation to Emerald's participation in the Pandura project located in Webb County Texas, USA. Under the agreed terms Emerald paid 21.1875% of the dry hole cost and 15.75% of the completion costs of the Kathleen Marie #2 well earning a 15.0% working interest post completion in the Pandura leases. In addition, Daytona agreed that 250,000 of the Emerald shares it held were to be cancelled upon completion of formal documentation. The remaining 500,000 shares were voluntarily escrowed until satisfaction of Daytona's obligations in spudding the Kathleen Marie #2 well on the Pandura project. The Kathleen Marie #2 well spudded on 25 August 2007 and was plugged and abandoned on 11 September 2007 after encountering non-commercial gas shows. The 250,000 shares were cancelled in November 2007.

Directors' Report

In December 2007 the Company expanded its strategic tenement holdings in the Canning Basin, WA (onshore and offshore) with the successful application for EPL 07-6 and T 07-1 (Lacapede Islands).

The net loss for the period after tax was \$2,228,867 (2006:\$658,632).

EVENTS SUBSEQUENT TO BALANCE DATE

Since the end of the December quarter Emerald reached agreement with Capital Investment Partners Pty Ltd (CIP) to raise up to \$2.025 million to provide additional funds for exploration and production activities in the USA and Canning Basin, WA. The issue of 22.5 million shares at \$0.09 each with a free attaching 1 for 1 listed option expiring in May 2008, has been made predominantly to international and domestic clients of CIP. The issue was approved by shareholders on 26 February 2008.

LIKELY DEVELOPMENTS

There are no likely developments in the operations of the company that were not finalised at the date of this report. Further information as to likely developments in the operations of the Group and company and likely results of those operations would in the opinion of the Directors, be likely to result in unreasonable prejudice to the group.

AUDITORS INDEPENDENCE DECLARATION

The auditors independence declaration as required under section 307C of the Corporations Act 2001 for the half year ended 31 December 2007 has been received and can be found on page 4.

AUDITOR

Ernst & Young continue to be appointed as at the date of this report.

Signed in accordance with a resolution of the Directors.

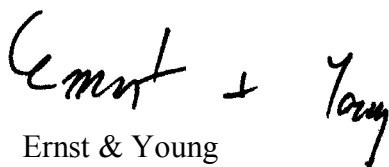


J. Hannaford
Executive Director - Finance

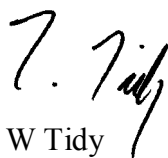
Perth
27 February 2008

Auditor's Independence Declaration to the Directors of Emerald Oil & Gas NL

In relation to our review of the financial report of Emerald Oil & Gas NL for the half-year ended 31 December 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.

A handwritten signature in black ink that reads "Ernst & Young".

Ernst & Young

A handwritten signature in black ink that reads "V. W. Tidy".

V W Tidy
Partner
Perth
27 February 2008

EMERALD OIL & GAS NL
ACN: 72 009 795 046

CONSOLIDATED INCOME STATEMENT
FOR THE HALF-YEAR ENDED 31 DECEMBER 2007

	Notes	Consolidated 2007	Consolidated 2006
		\$	\$
Revenue from operations		69,637	69,396
Financial administration, insurance and compliance costs		(117,951)	(113,540)
Consulting and contracting expenses		(144,865)	(240,102)
General administration expenses		(86,604)	(112,959)
Impairment of exploration and evaluation costs	6	(1,949,084)	(261,427)
Loss before income tax expense		(2,228,867)	(658,632)
Income tax expense		-	-
Loss for the period		(2,228,867)	(658,632)
Basic earnings (loss) per share			
- cents per share		(3.578)	(1.444)
Diluted earnings (loss) per share			
- cents per share		(3.578)	(1.444)

The above Income Statement should be read in conjunction with the accompanying notes.

EMERALD OIL & GAS NL
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CONSOLIDATED BALANCE SHEET
AS AT 31 DECEMBER 2007

	Notes	Consolidated 31 December 2007 \$	Consolidated 30 June 2007 \$
ASSETS			
Current assets			
Cash and cash equivalents	5	538,872	4,030,567
Trade and Other Receivables		50,767	5,738
Total current assets		589,639	4,036,305
Non-current assets			
Exploration and evaluation costs	6	2,365,746	1,333,517
Total non-current assets		2,365,746	1,333,517
TOTAL ASSETS		2,955,385	5,369,822
LIABILITIES			
Current liabilities			
Trade and Other Payables		180,200	2,482,620
Total current liabilities		180,200	2,482,620
TOTAL LIABILITIES		180,200	2,482,620
NET ASSETS		2,775,185	2,887,202
EQUITY			
Contributed Equity	7	7,119,741	5,002,891
Reserves		374,644	374,644
Accumulated losses		(4,719,200)	(2,490,333)
TOTAL EQUITY		2,775,185	2,887,202

The above Balance Sheet should be read in conjunction with the accompanying notes.

EMERALD OIL & GAS NL
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CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE HALF-YEAR ENDED 31 DECEMBER 2007

2007 (CONSOLIDATED)

	Contributed Equity	Business Combination Reserve	Options Reserve	Accumulated losses	Minority Interest	Total
	\$	\$	\$	\$	\$	\$
Total equity at 1 July 2007	5,002,891	-	374,644	(2,490,333)	-	2,887,202
Loss for the period	-	-	-	(2,228,867)	-	(2,228,867)
Options exercised	22	-	-	-	-	22
Shares issued during the period, net of costs	2,156,828	-	-	-	-	2,156,828
Cancellation of share capital	(40,000)	-	-	-	-	(40,000)
Total equity at 31 December 2007	7,119,741	-	374,644	(4,719,200)	-	2,775,185

2006 (CONSOLIDATED)

	Contributed Equity	Business Combination Reserve	Options Reserve	Accumulated losses	Minority Interest	Total
	\$	\$	\$	\$	\$	\$
Total equity at 1 July 2006 as previously reported	746,253	1,399,037	229,200	(627,862)	2,225,740	3,972,368
Correction of errors	3,624,777	(1,399,037)	-	65,101	(2,225,740)	65,101
Total equity at 1 July 2006 (restated)	4,371,030	-	229,200	(562,761)	-	4,037,469
Loss for the period	-	-	-	(658,632)	-	(658,632)
Options exercised	2,509	-	-	-	-	2,509
Options issued during the period	-	-	7,124	-	-	7,124
Total equity at 31 December 2006	4,373,539	-	236,324	(1,221,393)	-	3,388,470

The above Statement of Changes in Equity should be read in conjunction with the accompanying notes.

CONSOLIDATED CASH FLOW STATEMENT
FOR THE HALF-YEAR ENDED 31 DECEMBER 2007

	Notes	Consolidated 2007 \$	Consolidated 2006 \$
<i>Cash flows from operating activities</i>			
Receipts from customers		4,768	-
Interest received		69,637	69,396
Payments to suppliers and employees		(359,364)	(803,672)
Net cash (used in) operating activities		(284,959)	(734,276)
<i>Cash flows from investing activities</i>			
Exploration expenditure		(3,021,314)	(213,850)
Net cash (used in) Investing activities		(3,021,314)	(213,850)
<i>Cash flows from financing activities</i>			
Proceeds from borrowings		-	-
Proceeds from issues of shares		-	-
Proceeds from exercise of options		-	2,509
Capital raising costs		(185,422)	(265,000)
Net cash flows provided by/(used in) financing activities		(185,422)	(262,491)
Net increase/(decrease) in cash and cash equivalents		(3,491,695)	(1,210,617)
Cash and cash equivalents at the beginning of the period		4,030,567	3,939,778
Cash and cash equivalents at the end of the period	5	538,872	2,729,161

The above Cash Flow Statement should be read in conjunction with the accompanying notes.

Notes to the Financial Statements

NOTE 1 – REPORTING ENTITY

Emerald Oil & Gas NL (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 2007 comprises the Company and its subsidiaries (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 2007 is available upon request from the ASX homepage www.asx.com.au or from the Company's registered office at Level 2, 16 Altona Street, West Perth, WA 6005.

NOTE 2 – BASIS OF PREPARATION

The consolidated interim financial report is a general purpose financial report which has been prepared in accordance with Australian Accounting Standards AASB 134 Interim Financial Reports and the Corporations Act 2001. The half-year report has been prepared on a historical cost basis. For the purpose of preparing the half-year financial report, the half-year has been treated as a discrete reporting period.

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 Group as at and for the year ended 30 June 2007.

It is also recommended that the half-year financial report be considered together with any public announcements made by Emerald Oil & Gas NL and its controlled entities during the half-year ended 31 December 2007 in accordance with the continuous disclosure obligations arising under the Corporations Act 2001.

This consolidated interim financial report was approved by the Board of Directors on 26 February 2008.

NOTE 3 – SIGNIFICANT ACCOUNTING POLICIES

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 2007, except as disclosed below.

(a) Changes in accounting policies

Since 1 July 2007, the Group has adopted the following Standards and Interpretations, mandatory for all annual reporting periods beginning on or after 1 July 2007. Adoption of these Standards and Interpretations did not have any effect on the financial position or performance of the Group.

- AASB 101 (revised October 2006) Presentation of Financial Statements
- AASB 7 Financial Instruments: Disclosures
- AASB 2005-10 Amendments to Australian Accounting Standards (AASB 132, 101, 114, 117, 133, 139, 1, 1023 and 1038)
- AASB 2007-1 Amendments to Australian Accounting Standards arising from Interpretation 11 (AASB 2)
- AASB 2007-4 Amendments to Australian Accounting Standards arising from ED151 and other Amendments
- AASB 2007-7 Amendments to Australian Accounting Standards (AASB 1, AASB 2, AASB 4, AASB 5, AASB 107, & AASB 128)
- Interpretation 10 Interim Financial Reporting and Impairment
- Interpretation 11 AASB 2 – Group and Treasury Share Transactions

Notes to the Financial Statements

NOTE 4 – INCOME TAX

Emerald Oil & Gas NL has tax losses arising in Australia which are available indefinitely to offset against future profits of the Company providing the tests for deductibility against future profits are met.

These losses have not been recognised in the financial statements, except insofar they offset deferred tax liabilities of the group.

NOTE 5 – CASH AND CASH EQUIVALENTS

For the purposes of the cash flow statement, cash and cash equivalents are comprised of the following:

	31 December 2007	31 December 2006
	\$	\$
Cash – unrestricted	538,872	2,190,756
Cash - restricted	(a) -	538,405
	<u>538,872</u>	<u>2,729,161</u>

(a) Cash is held in trust by the Company's US solicitors in relation to proposed exploration and evaluation expenditure.

NOTE 6 – EXPLORATION AND EVALUATION EXPENDITURE

	31 December 2007	30 June 2007
	\$	\$
Costs carried forward in respect of: Exploration and evaluation expenditure, at cost	<u>2,365,746</u>	<u>1,333,517</u>

Reconciliation:

A reconciliation of the carrying amounts of exploration and evaluation expenditure is set out below:

Carrying amount at beginning of period	1,333,517
Additions	3,021,313
Other movements	(a) (40,000)
Impairment losses	(b) (1,949,084)
Carrying amount at end of period	<u>2,365,746</u>

(a) During the period the Company cancelled 250,000 shares which were issued to Daytona Energy in relation to the Pandura project. The financial effect of cancelling these shares has been applied against exploration expenditure.

(b) During the period, the directors have decided to cease exploration activities on the Pandura, Progresso, Glamour Girl and Hope projects. As such, the carrying value of the exploration expenditure to date on these projects has been reduced to zero. Expenditure on Greenbush has been written down to half of its carrying value at 31 December because although the hole conditions have deteriorated, the Directors are of the opinion that this well still has potential to flow gas.

EMERALD OIL & GAS NL
ACN: 72 009 795 046

Notes to the Financial Statements

NOTE 7 - CONTRIBUTED EQUITY

	Number of Shares	\$
2007		
(a) Issued and Paid Up Capital		
Fully paid ordinary shares	62,119,373	7,119,741
	62,119,373	7,119,741
(b) Movements in fully paid shares on issue		
Opening balance	49,619,261	5,002,891
Private placement*	12,750,000	2,156,828
Cancellation of share capital**	(250,000)	(40,000)
Exercise of options during period	112	22
Total fully paid shares on issue	62,119,149	7,119,741
* Cash received as at 30 June 2007 and held in trust until placement approved by shareholders.		
** During the period the company renegotiated the Pandura agreement terms with the operator Daytona Energy, which resulted in the cancellation of 250,000 shares.		

NOTE 8 – RELATED PARTY TRANSACTIONS

(a) Parent and ultimate controlling party

The parent entity and ultimate controlling party is Emerald Oil & Gas NL.

(b) Loans to and from related parties

Loans to Subsidiaries

Loans to subsidiary were made during the period as follows:

	Company 2007 \$
<u>Loan to Emerald Gas Pty Ltd</u>	
Beginning of the period	153,239
Loans advanced	1,856,175
Provision for diminution	(1,520,354)
End of the period	<u>489,060</u>
<u>Loan to Emerald Gas USA LLC</u>	
Beginning of the period	1,924,903
Loans advanced	1,170,021
Cancellation of Daytona Shares	(40,000)
Provision for diminution	(2,759,841)
End of the period	<u>295,083</u>

Notes to the Financial Statements

NOTE 8 – RELATED PARTY TRANSACTIONS (CONTINUED)

(c) Other related party transactions

Ventnor Capital Pty Ltd, a company of which Mr John Hannaford is a director, was paid rent and company secretarial fees in relation to the administration of the Group. Ventnor Capital Pty Ltd also provided the services of a finance director to the Group during the period. A summary of the total fees paid to Ventnor Capital Pty Ltd during the period is as follows:

	2007	2006
	\$	\$
Rent and office administration	45,000	48,097
Company secretarial fees	48,375	42,400
Finance Director fees	60,000	60,000
Total	153,375	150,497

The total amount of fees due to Ventnor Capital as at 31 December 2007 was \$54,327 (2006: \$105,887).

(d) Terms and Conditions

Loans between entities in the wholly owned Group are not interest bearing, are unsecured and are payable at call.

Transactions with other related parties are made on normal commercial terms and conditions and at market rates. Outstanding balances are unsecured and are repayable in cash.

NOTE 9– SEGMENT REPORTING

Business Segment – primary reporting segment

The consolidated entity operates solely in the exploration and development of properties for the development of oil and gas within Australia and the USA.

2007

Geographical segment	USA \$	Australia \$	Eliminations \$	Consolidated \$
Segment Revenues	-	69,637	-	69,637
Segment loss	(1,006,038)	(4,527,314)	3,304,485	(2,228,867)

2006

Geographical segment	USA \$	Australia \$	Eliminations \$	Consolidated \$
Segment Revenues	-	69,396	-	69,396
Segment loss	(348,350)	(310,282)	-	(658,632)

Notes to the Financial Statements

NOTE 10 – COMMITMENTS AND CONTINGENCIES

Capital commitments

Consolidated
31 December
2007
\$

At 31 December 2007 the Group has commitments principally relating to the drilling and development of its oil and gas properties as follows:

Within one year

1,295,000

NOTE 11 – POST BALANCE DATE EVENTS

On 11 January 2008, the Company announced that it had acquired two new tenements covering the Lacapede Islands in the Canning Basin, Western Australia. The Directors believe there is significant potential to discover several prospects similar to the Stokes Bay Devonian "reefal" reservoir rocks along the western extension of the Pinnacle Fault.

On 17 January 2008, the Company announced it had reached an in principle agreement with Capital Investment Partners ("CIP") to raise up to \$2.025 million to provide additional funds for exploration and production activities in the USA and Canning Basin, WA. The first tranche of the placement was completed on 23 January 2008 being the issue of 4,500,000 shares and 4,500,000 listed options to raise \$405,000 before costs.

On 26 February 2008 the shareholders of the Company ratified the issue of the first tranche of 4,500,000 shares and 4,500,000 listed options and approved the issue of the second tranche of 18,000,000 shares and 18,000,000 listed options. As a result of the second tranche being approved, the Group received subscriptions of \$1,620,000.

Directors Declaration

In the directors' opinion:

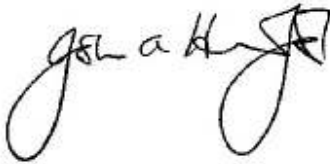
a) the financial statements and notes set out on pages 5 to 13:

- i. comply with Australian Accounting Standard AASB 134 Interim Financial Reporting and the Corporations Regulations 2001; and
- ii. give a true and fair view of the Company's and Consolidated Entity's financial position as at 31 December 2007 and of its performance, as represented by the results of their operations, changes in equity and their cash flows, for the financial year ended on that date; and

b) 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 directors.

On behalf of the board

A handwritten signature in black ink, appearing to read 'J. Hannaford', with a stylized flourish at the end.

J. Hannaford
Executive Director - Finance
Perth
27 February 2008

To the members of Emerald Oil & Gas NL

Report on the Condensed Half Year Financial Report

We have reviewed the accompanying half year financial report of Emerald Oil & Gas NL, which comprises the condensed balance sheet as at 31 December 2007, and the condensed income statement, condensed statement of changes in equity and condensed cash flow statement for the half year ended on that date, other selected explanatory notes and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the half year end or from time to time during the half year.

Directors' Responsibility for the half year 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 Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal controls 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.

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 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 2007 and its performance for the half year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Emerald Oil & Gas NL and the entities it controlled during the half year, 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.

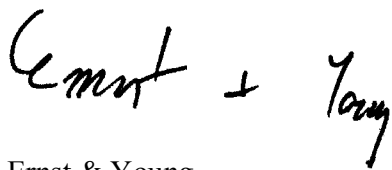
Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*. We have given to the directors of the company a written Auditor's Independence Declaration, a copy of which is included in the Directors' Report. The Auditor's Independence Declaration would have been expressed in the same terms if it had been given to the directors at the date this auditor's report was signed.

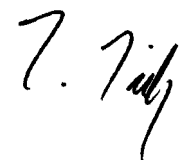
Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the interim financial report of Emerald Oil & Gas NL is not in accordance with the *Corporations Act 2001*, including:

- (i) giving a true and fair view of the consolidated entity's financial position as at 31 December 2007 and of its performance for the six months ended on that date; and
- (ii) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.



Ernst & Young



V W Tidy

Partner

Perth

27 February 2008