MARION ENERGY LIMITED
ABN 99 000 031 292

INTERIM FINANCIAL REPORT

FOR THE HALF-YEAR ENDED 31 DECEMBER 2006

MARION ENERGY LIMITED

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MARION ENERGY LIMITED

DIRECTORS' REPORT

Your Directors present their report on 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 are:

Director	Position Held	Date Appointed
Jeffrey Clarke	Chief Executive Officer	13 December 2004
Peter Collery	Executive Director & Company Secretary	13 December 2004
Alan Edgar	Non Executive Director	11 March 2005
Gregory Harvey	Chairman	21 December 2004
Karel Louman	Executive Director & Chief Financial Officer	13 December 2004

Operating Results

The loss of the Consolidated Entity after providing for income tax for the half year amounted to $3,402,292 (half year to 31 December 2005 - $1,136,126, loss).

Principal Activities

The principal continuing activity of the Consolidated Entity during the half year was the management and operation of oil and gas properties in the USA. No significant changes in the nature of the activities of the Consolidated Entity occurred during the half year.

Overview

The Directors of Marion Energy Limited ("Marion") (ASX: MAE, MAEO) are pleased with the progress that has been made during the six months ended 31 December 2006 and subsequently up to the date of the signing of this report.

During the period Marion commenced an accelerated drilling program on its Utah properties and acquired an existing project in Oklahoma, USA on which it also commenced a well work-over program. Complexity of operations resulted in the company being delayed in achieving results compared to where it anticipated being at this point in time. However, Marion has nonetheless achieved considerable success with its operations as outlined below in the Operations Review.

Highlights

- Marion now has 19 wells in varying stages of development with 11 of these wells testing at gross rates of 18.7 million cubic feet per day (mmcf/day) of gas with 9.8 mmcf net to Marion. These wells will be progressively brought on to full production over the next 3 to 6 months. Another 8 wells are in progress with test results yet to be determined, and the chemical remediation of the Helper wells has commenced;
- Increased Marion's interest in Clear Creek to 92.5% working interest, subject to a 12.5% net profits interest;
- In August 2006 Marion acquired a 59.375% interest in new Helper acreage in excess of 22,000 gross acres;
- In October 2006 Marion acquired an interest in the Jester-Bloomington Project in Oklahoma. Marion has net interests of between 33 1/3% and 66 2/3% in the existing production, 28,500 gross acres and gathering infrastructure and is the operator; and
- In November 2006 Marion completed the establishment of a US$20 million senior secured revolving credit facility with Fortis Capital Corp.

Operations Report

As a result of its drilling and well work-over operations in Utah and Oklahoma, Marion now has 9 wells completed, tested and tied into production infrastructure and a further 2 wells completed, tested and about to be tied into production infrastructure. These 11 wells are expected to be progressively brought onto full production over the next 3 to 6 months with ultimate stabilised rates to be determined by production operations.

The 11 wells were tested at gross combined production test rates of 18.7 million cubic feet of gas per day with 9.8 million cubic feet of gas per day net to Marion. Once these wells are on full production, the company will be deriving considerable revenue and cash flow.

An additional 8 wells are currently at various stages of drilling, completing and testing. Based on previous results, Marion anticipates that these wells will in turn produce additional significant production and revenue. Set out below are two tables showing test results to date and also wells in progress.

The company has a large drilling inventory of wells with large reserve potential upside.The company has interests in a total of 74,419 acres in Utah and Oklahoma (net to Marion 44,565 acres).

In East Texas at its Jefferson McLeod Project, the company has been frustrated by the inability to secure drilling rigs and associated oil field services. As a result no drilling has occurred in this project in the last six months. At present the Board is undertaking a review of this project (in which Marion is not the operator) and the options for moving it forward.

Summary Test Results to Date (Gross test rates)

Clear Creek

• Ridge Runner 13-17	3.1 mmcf/day
• Ridge Runner 11-17	5.0 mmcf/day

Helper

• Kenilworth Rail Road #1	1.3 mmcf/day
• Kenilworth Rail Road #2	1.1 mmcf/day
• Ball Park #1	4.0 mmcf/day
• Cordingly Canyon 15-1	2.0 mmcf/day

Oklahoma

• McAlexander	411 mcf/day
• Travis #1	280 mcf/day
• Houck	750 mcf/day
• Price	150 mcf/day
• Patton	540 mcf/day

Note: The above test rates are preliminary and ultimate production rates may vary up or down in accordance with production operations.

Marion Energy Current Drilling Summary and Status

Well Name	Field	Status
Ridge Runner 2-19	Clear Creek	Completing
Ridge Runner 11-17	Clear Creek	Tied into infrastructure
Ridge Runner 11-20	Clear Creek	Tied into infrastructure
Ridge Runner 13-17	Clear Creek	Tied into infrastructure
ASD 3-17	Clear Creek	Drilling in progress
Kenilworth Rail Road #1	Helper	Tied into infrastructure; awaiting gel/ ferrite treatment
Kenilworth Rail Road #2	Helper	Tied into infrastructure; awaiting gel/ ferrite treatment
Ball Park #1	Helper	Tied into infrastructure; awaiting gel/ ferrite treatment
Cordingly Canyon 10-1	Helper	Awaiting completion
Cordingly Canyon 11-1	Helper	Tied into infrastructure; awaiting gel/ ferrite treatment
Cordingly Canyon 15-1	Helper	Tied into infrastructure; gel/ ferrite treatment commenced
Cordingly Canyon 15-2	Helper	Tied into infrastructure; awaiting gel/ ferrite treatment
Cordingly Canyon 15-3	Helper	Completing
Cordingly Canyon 15-5	Helper	Testing
McAlexander	J-B	Completing pipeline

Clear Creek Project, Utah (Marion 92.5% working interest, subject to 12.5% net profits interest)

The Clear Creek Unit - which comprises approximately 17,090 acres - is located in Carbon and Emery counties approximately 12 miles west of the Drunkards Wash field in the Uinta Basin in central Utah. The field was drilled in the 1950's and mostly produced through the early 1970's on over 1,000 acres spacing. It has produced 137 billion cubic feet ("Bcf") of natural gas from conventional Ferron sand reservoirs. In the Economic Entity's opinion, the well spacing was not sufficient to drain all the gas in place and significant gas remains to be produced. Similar reservoirs in the area are drilled on 40 - 80 acre spacing – and in some instances less - to achieve efficient drainage and to optimise production and recoverable reserves. The Economic Entity believes that this field represents its largest potential resource. Potential reserves in the area could be in excess of 1 Tcf of gas based on a report previously prepared by Ryder Scott.

There are potentially up to 200 well locations in the Ferron sandstone horizons with successful wells having the potential to produce in the range of 1-5 mmcf/day and with a reserve potential per well of 4-20 Bcf of gas. A number of secondary targets also exist in the project.

Helper Project, Utah (Marion 48.75% working interest)

The Helper Project - comprises approximately gross 28,500 acres and is part of a large coal bed methane play located in the Uinta Basin, Utah. The Helper Field - a Northern extension of the Drunkards Wash Field - has produced some 55 billion Bcf of gas from the Ferron coal and sands. Other potentially productive reservoirs are the Blackhawk coals and the Bluegate shales.

Based on empirical data of recoveries from the Helper field, Marion anticipates successful wells could contain recoverable reserves of at least of 1.5 Bcf per well.

There are potentially up to 100 well locations based on 80 acre spacing, with production potential of 0.3-1 mmcf/day of gas per well and a reserve range of 1.5-2.5 BCF per well. A number of secondary targets also exist in the project.

Jester-Bloomington Project, Oklahoma (Marion 33 1/3% working interest) and Willow Project, Oklahoma (previously named Harlow) (Marion 66 2/3% working interest)

The Oklahoma Project is located in Greer and Beckham counties and encompasses major parts of the Jester-Bloomington, North Bloomington and Willow fields. It has approximately a gross acreage of 28,500 acres with 12,500 net to Marion. The fields were discovered in 1959 and have two main reservoirs, the Granite Wash (average well spacing 160 acres) and Brown Dolomite (average well spacing 640 acres). The fields produced 12.9 Bcf of gas prior to being shut-in in 1998.

Marion believes the drilling to date only drained a part of the reserves and that a program of well remediation and new infill drilling could yield significant reserves to the company. Gathering system infrastructure is in place over much of the area. Marion believes up to 600 wells could be drilled on the acreage with wells potentially producing in the range of 100-300 mcf per day and a Reserve range of 150-350 mmcf of gas per well.

Outlook

The second half of the year will remain focussed on further development of the company's interests in Utah and Oklahoma. This will involve completion of the current wells in progress, drilling of new wells, remediation of old wells and upgrading of gathering system infrastructure.

Significant changes in the State of Affairs

In November 2006, Marion completed the establishment of a US$20 million senior secured revolving credit facility with Fortis Capital Corp.

Subsequent Events after Balance Date

There has not been any matter or circumstance occurring subsequent to the end of the half year that has significantly affected, or may significantly affect the operations of the consolidated entity, the results of those operations, or the state of affairs of the consolidated entity in future financial years.

Auditor's Independence Declaration

The lead auditor's independence declaration under section 307C of the *Corporations Act* 2001 is set out on page 5 for the half-year ended 31 December 2006.

Signed in accordance with a resolution of the Board of Directors

P.T. Collery

Peter Collery
Director

Dated at Melbourne this 16th day of March 2007

Deloitte.

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AUDITORS INDEPENDENCE DECLARATION
TO THE MEMBERS OF MARION ENERGY LIMITED

The Board of Directors
Marion Energy Limited
Suite 3.14, Pacific Tower
737 Burwood Road
HAWTHORN, VIC 3122

16 March 2007

Dear Sirs

Marion Energy Limited

In accordance with section 307C of the Corporations Act 2001, I am pleased to provide the following declaration of independence to the directors of Marion Energy Limited.

As lead audit partner for the review of the financial statements of Marion Energy Limited for the half-year ended 31 December 2006, I declare that to the best of my knowledge and belief, there have been contraventions of:

i. the auditor independence requirements of the Corporations Act 2001 in relation to the review; and

ii. any applicable code of professional conduct in relation to the review.

Yours sincerely

Deloitte Touche Tohmatsu

Deloitte Touche Tohmatsu

M Schofield
Partner
Chartered Accountants

Melbourne, 16 March 2007

Liability limited by a scheme approved under Professional Standards Legislation.

MARION ENERGY LIMITED

DIRECTORS' DECLARATION

The Directors declare that:

a) in the directors' opinion, there are reasonable grounds to believe the company will be able to pay its debts as and when they become due and payable; and

b) in the directors' opinion, the attached financial statements and notes thereto are in accordance with the Corporations Act 2001, including compliance with accounting standards and giving a true and fair view of the financial position and performance of the consolidated entity.

Signed in accordance with a resolution of the directors made pursuant to s.303(5) of the Corporations Act 2001.

On behalf of the Directors:

P.T. Collery

Peter Collery
Director

Melbourne, 16th March 2007

MARION ENERGY LIMITED

CONDENSED CONSOLIDATED INCOME STATEMENT
FOR THE HALF-YEAR ENDED 31 DECEMBER 2006

	Note	Consolidated Entity Half-year ended 31.12.2006 $	 Half-year ended 31.12.2005 $
Revenue from operating activities		244,973	527,142
Gain on disposal of oil and gas property		-	429,283
Revenue from outside operating activities		244,042	82,763
Revenues from ordinary activities		489,015	1,039,188
Cost of sales		(95,046)	(399,795)
Lease operating expense		(1,139,467)	-
Administration expenditure		(965,741)	(152,789)
Employee benefits expense		(779,569)	(1,260,077)
Legal and professional fees		(911,484)	(362,653)
Loss before income tax expense	2	(3,402,292)	(1,136,126)
Income tax benefit		-	-
Net loss for the period		(3,402,292)	(1,136,126)
Loss attributable to members of the parent entity		(3,402,292)	(1,136,126)
Basic earnings per share (cents per share)		(1.7)	(0.7)
Diluted earnings per share (cents per share)		(1.7)	(0.7)

The accompanying notes form part of these financial statements.

MARION ENERGY LIMITED

CONDENSED CONSOLIDATED BALANCE SHEET
AS AT 31 DECEMBER 2006

		Consolidated Entity	
		31.12.2006	**30.6.2006**
	Note	**$**	**$**
CURRENT ASSETS			
Cash and cash equivalents		1,551,563	20,634,061
Trade and other receivables		7,406,283	2,514,223
Other current assets		20,081	14,618
TOTAL CURRENT ASSETS		8,977,927	23,162,902
NON CURRENT ASSETS			
Investments accounted for using the equity method		757,710	512,033
Plant and equipment		747,182	519,925
Oil and gas properties		62,754,272	27,358,303
Other		176,966	176,966
TOTAL NON CURRENT ASSETS		64,436,130	28,567,227
TOTAL ASSETS		73,414,057	51,730,129
CURRENT LIABILITIES			
Trade and other payables		7,029,857	1,494,418
Interest bearing liabilities and borrowings		42,329	12,062
Provisions		22,213	22,213
TOTAL CURRENT LIABILITIES		7,094,399	1,528,693
NON-CURRENT LIABILITIES			
Interest bearing liabilities and borrowings		4,611,958	187,900
Provisions		346,289	336,859
TOTAL NON-CURRENT LIABILITIES		4,958,247	524,759
TOTAL LIABILITIES		12,052,646	2,053,452
NET ASSETS		61,361,411	49,676,677
EQUITY			
Issued capital	3	102,575,632	91,984,381
Reserves		6,977,792	2,482,017
Accumulated losses		(48,192,013)	(44,789,721)
TOTAL EQUITY		61,361,411	49,676,677

The accompanying notes form part of these financial statements.

MARION ENERGY LIMITED

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

	$ Ordinary Share Capital	$ Capital Profits	$ Option Reserve	$ Foreign Currency Reserve	$ Accumulated Losses	$ Total
Balance at 1.7.2005	64,333,656	277,610	2,695,000	(451,830)	(40,642,729)	26,211,707
Shares issued during the period	4,820,506	-	-	-	-	4,820,506
Conversion of options	-	-	31,159	-	-	31,159
Translation of foreign currency statements	-	-	-	18,905	-	18,905
Loss attributable to members of the parent entity	-	-	-	-	(1,136,126)	(1,136,126)
Balance at 31.12.2005	69,154,162	277,610	2,726,159	(432,925)	(41,778,855)	29,946,151
Balance at 1.7.2006	91,984,381	277,610	2,749,009	(544,602)	(44,789,721)	49,676,677
Shares issued during the period	10,480,000	-	-	-	-	10,480,000
Conversion of options	111,251	-	-	-	-	111,251
Translation of foreign currency statements	-	-	-	(494,920)	-	(494,920)
Valuation of share options issued	-	-	4,862,330	-	-	4,862,330
Valuation of employee share options	-	-	128,365	-	-	128,365
Loss attributable to members of the parent entity	-	-	-	-	(3,402,292)	(3,402,292)
Balance at 31.12.2006	102,575,632	277,610	7,739,704	(1,039,522)	(48,192,013)	61,361,411

Capital Profits Reserve
The capital profits reserve records non-taxable profits on sale of investments.

Foreign Currency Translation Reserves
The foreign currency translation reserve records exchange differences arising from the translation of the financial statements of a foreign subsidiary.

Option Reserve
The option reserve records items recognised on valuation of share options.

The accompanying notes form part of these financial statements.

MARION ENERGY LIMITED

CONDENSED CONSOLIDATED CASH FLOW STATEMENT
FOR THE HALF-YEAR ENDED 31 DECEMBER 2006

	Half-year ended 31.12.2006 $	Half-year ended 31.12.2005 $
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	244,973	911,815
Payments to suppliers and employees	(2,741,559)	(1,976,953)
Payments for capitalised exploration and development expenditure	(26,253,633)	(4,973,146)
Finance costs	(18,497)	(695)
Interest received	133,552	62,985
Net cash used in Operating activities	(28,635,164)	(5,975,994)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of investments	-	1,472,791
Proceeds from sell down of area of interest	6,832,092	-
Payment to increase area of interest	(11,789,758)	-
Payments for investments	(245,677)	(377,362)
Payment for plant and equipment	(289,567)	(730,020)
Net cash used in Investing activities	(5,492,910)	365,409
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from borrowings	4,461,645	43,454
Proceeds from share issues	10,591,251	5,120,000
Payment of share issue costs	-	(299,494)
Repayment of borrowings	(7,320)	(5,635)
Net cash provided by Financing activities	15,045,576	4,858,325
NET DECREASE IN CASH AND CASH EQUIVALENTS	(19,082,498)	(752,260)
Cash and cash equivalents at 1 July	20,634,061	5,356,061
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	1,551,563	4,603,801

The accompanying notes form part of these financial statements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The half-year financial report is a general purpose financial report prepared in accordance with the Corporations Act 2001 and AASB 134 "Interim Financial Reporting". Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 34 "Interim Financial Reporting". The half-year financial report does not include notes of the type normally included in an annual financial report and shall be read in conjunction with the most recent annual financial report.

Basis of preparation

The condensed financial statements have been prepared on the basis of historical cost, except for the revaluation of certain non-current assets and financial instruments. Cost is based on the fair values of the consideration given in exchange for assets. All amounts are presented in Australian dollars, unless otherwise noted.

The accounting policies and methods of computation adopted in the preparation of the half-year financial report are consistent with those adopted and disclosed in the company's 2006 annual financial report for the financial year ended 30 June 2006.

	Half-year ended 31.12.2006 $	Half-year ended 31.12.2005 $
2. RESULTS FOR THE PERIOD		
The following revenue and expense items are relevant in explaining the financial performance for the interim period.		
Interest received – other persons	133,552	62,985
Depreciation	58,010	40,055
Finance costs – other persons	33,588	695
Amortisation	181,379	12,759

3. ISSUED CAPITAL

	Half-year ended 31.12.2006		Half-year ended 31.12.2005	
	Number	$	Number	$
Issued Shares				
Balance at 1 July	192,414,201	91,984,381	144,106,552	64,333,656
Shares issued during the half-year	13,100,000	10,480,000	16,000,000	4,820,506
Conversion of options	445,002	111,251	-	-
Return of capital			-	-
Balance at 31 December	205,959,203	102,575,632	160,106,552	69,154,162
Issued Options				
Balance at 1 July	86,641,667	-	85,166,667	-
Options issued during the half-year	6,000,000	-	-	-
Options converted during the half-year	(445,002)	-	-	-
Balance at 31 December	92,196,665	-	85,166,667	-

Terms of the options on issue as at 31 December 2006 are:

- 44,696,665 of the options are listed on the ASX and are exercisable at 25 cents on or before 31 March 2007.
- 20,000,000 unlisted options are exercisable at 25 cents on or before 30 June 2007.
- 20,000,000 unlisted options are exercisable at 30 cents on or before 30 June 2008.
- 1,500,000 unlisted options are exercisable at $1.00 on or before 16 June 2011.
- 5,000,000 listed options are exercisable at 80 cents on or before 28 August 2011.
- 1,000,000 listed options are exercisable at 70 cents on or before 14 November 2011.

During the half year the following options were granted but not vested or issued:

- 8,000,000 options exercisable at 80 cents.

During the six months the Economic Entity increased its percentage ownership in the Clear Creek field and granted the vendor 8,000,000 options subject to conditions. For the options to vest, be issued and become exercisable the following conditions must be met:

- If an Annual Reserve Report estimates, for the Clear Creek Natural Gas Unit, Carbon and Emery County, Utah, that all proved and provable resources of hydrocarbons in place, in whatever form, attributable to Marion Energy Limited, sold or unsold, are equal to or greater than the following Bcf hurdles:
  - 250 Bcf – 2,000,000 options will be vested and issued
  - 500 Bcf – 2,000,000 options will be vested and issued
  - 750 Bcf – 4,000,000 options will be vested and issued

The options expire if they are not exercised within 36 months of vesting or 31 August 2016, whichever date occurs earlier.

4. ACQUISITION OF SUBSIDIARIES

No subsidiaries were acquired or disposed of during the six months ended 31 December 2006.

5. CONTINGENT LIABILITIES

The contingent liabilities disclosed in the Annual Report for the year ended 30 June 2006 remain unchanged.

6. SEGMENT INFORMATION

The following is an analysis of the revenue and results for the period, analysed by business segments, Marion Energy Limited primary basis of segmentation.

Business and geographical segments

	USA		Australia		Eliminations		Consolidated Entity	
	2006	2005	2006	2005	2006	2005	2006	2005
	$	$	$	$	$	$	$	$
REVENUE								
External sales	244,973	527,142	-	-	-	-	244,973	527,142
Other revenue	201,918	435,733	42,124	792,284	-	(715,971)	244,042	512,046
Total segment revenue	446,891	962,875	42,124	792,284	-	(715,971)	489,015	1,039,188
RESULT								
Segment result	(2,779,842)	(897,257)	(622,450)	(238,869)	-	-	(3,402,292)	(1,136,126)
Loss from ordinary activities before income tax expense							(3,402,292)	(1,136,126)
Income tax expense							-	-
Net loss							(3,402,292)	(1,136,126)

Business and Geographical Segments
The economic entity has one business segment – oil and gas development and production.

The economic entity has two geographic segments:
- An oil and gas development and production division based in Texas and Utah, USA.
- A corporate head office function based in Camberwell, Victoria, Australia

7. EVENTS SUBSEQUENT TO REPORTING DATE

There has been no matter or circumstance that has arisen since the end of the reporting period which is not otherwise dealt with in this report, that has significantly effected or may significant affect the operations of the economic entity, the results of those operations, or the state of affairs of the economic entity in subsequent financial periods.

8. GOING CONCERN

Whilst there are uncertainties as to the exact timing and form of additional fund raising necessary to fund the current level of activities of the consolidated entity and company for at least the next 12 months, the directors have reasonable expectations that they can raise additional cash resources and reduce costs during the period for this purpose. These financial statements have therefore been prepared on a going concern basis which contemplates the continuity of normal business activities and the realization of assets and settlement of liabilities in the ordinary course of business.

To continue as a going concern the company and the consolidated entity require:

- Generation of sufficient funds from operating activities; and/or
- The continued support of its bankers, creditors and its major shareholders.

The Directors believe the going concern basis of preparation to be appropriate given the following reasons:

- The directors have arranged a US$20 million senior secured revolving credit facility with Fortis Capital Corp;
- The consolidated entity has on issue 40 million 25 cent options exercisable on or before 31 March 2007 and it is anticipated that the majority of these options will be exercised resulting in a cash injection of approximately $10 million; and
- As a result of its drilling and well work-over operations in Utah and Oklahoma, Marion now has 9 wells completed, tested and tied into production infrastructure and a further 2 wells completed, tested and about to be tied into production infrastructure. These 11 wells are expected to be progressively brought onto full production over the next 3 to 6 months with ultimate stabilised rates to be determined by production operations.

  The 11 wells were tested at gross combined production test rates of 18.7 million cubic feet of gas per day with 9.8 million cubic feet of gas per day net to Marion. Once these wells are on full production, the directors believe company will be deriving considerable revenue and cash flow.

The company has recorded a net loss of $3,402,292 for the half year period and, net cash outflows from operating activities of $28,635,164 and has cash reserves of $1,551,563 at 31 December 2006. The company has a net current asset surplus of $1,883,528 at 31 December 2006.

Having carefully assessed the uncertainties relating to the likelihood of securing additional funding and the consolidated entity's and company's ability to effectively manage their expenditures and cash flows from operations, the directors believe that the consolidated entity and company will continue to operate as going concerns for the foreseeable future and therefore it is appropriate to prepare the financial statements on a going concern basis.

Deloitte.

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Independent Auditor's Review Report to the Members of Marion Energy Limited

Report on the Half-Year Financial Report

We have reviewed the accompanying interim financial report of Marion Energy Limited, which comprises the condensed consolidated balance sheet as at 31 December 2006, condensed consolidated income statement, condensed consolidated cash flow statement, condensed consolidated statement of changes in equity for the half year ended on that date, selected explanatory notes and the directors' declaration of Marion Energy Limited for the half year ended 31 December 2006 as set out on pages 5 to 14.

Directors' Responsibility for the Half-Year Financial Report

The directors of the company are responsible for the preparation and fair presentation of the interim period financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the interim period 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 interim period 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 company's financial position as at 31 December 2006 and its performance for the interim period ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Marion Energy Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a interim period 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.

Deloitte.

Auditor's Independence Declaration

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*.

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

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

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

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

M. Schofield

M J Schofield
Partner
Chartered Accountants
Melbourne: **16, March 2007**