



Somerton Energy Limited

ABN 38 089 956 150

Half-year financial report as at 31 December 2010

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Directors' report

The directors of Somerton Energy Limited submit herewith the financial report of Somerton Energy Limited and its subsidiaries (Somerton or the Group) for the half-year ended 31 December 2010. In order to comply with the provisions of the *Corporations Act 2001*, the directors report as follows:

The names of the Directors of the company during or since the end of the half-year are:

Name

- Robert M Kennedy - Non Executive Chairman
- Hector M Gordon - Managing Director
- Peter F Mullins - Non Executive Director

The above named directors held office during and since the end of the half-year.

Financial results

The net loss of the Group for the financial period after income tax expense was \$951,332 (31 December 2009: \$1,010,844).

Corporate

In August 2010 the Company's shares were consolidated on a 30:1 basis, following which a capital raising was completed, realising \$12,577,390 through the issue of 96,749,158 shares at \$0.13 per share.

Capital structure at 31 December 2010 was:

Capital Structure	31 December 2010
Fully Paid Ordinary Shares	141,486,642
Employee Incentive Rights	3,000,000

On 12 August 2010 the Company entered into a Strategic Alliance Agreement with Beach Energy Limited (*Beach*) which provides Somerton with access to business development opportunities and support services.

Review of operations

Overview

Somerton has adopted a strategic focus on unconventional oil and gas plays and other high impact petroleum projects, initially in the onshore Otway and Gippsland Basins.

During the half-year the first steps were taken in building a portfolio of oil and gas prospects consistent with this strategy. Interests in two additional Otway Basin tenements, PEL 186 and PEL 495, were acquired and Somerton confirmed its farmin to the Wombat tight gas project (PRL 2) in the Gippsland Basin.

The farmins to PELs 186 and 495 will give Somerton exposure to exploration plays targeting oil sourced from the basal Otway Group section, which contains excellent source rocks and has yielded oil flows, recoveries and shows over a wide area, particularly along the northern flank of the Penola Trough. Somerton's objective is, firstly, to obtain a broad suite of tenements which are prospective for this play and then to participate in a multi-well drilling program addressing both conventional and unconventional oil targets.

Somerton's activities can now be categorised into three core projects:

- Oil exploration in the western Otway Basin (PEP 151, PELs 186 and 495)
- Gas exploration in the Port Campbell region of the eastern Otway Basin (PEP 168)
- Appraisal of the Wombat tight gas field, Gippsland Basin (PRL 2)

During 2011 Somerton expects to participate in 4 exploration wells and the fracture stimulation and testing of at least

one well in the Wombat field.

PEL 186 (Otway Basin SA, Somerton 100%)

In December 2010, the Company entered into an agreement to acquire a 100% interest in PEL 186 from Geothermal Resources Limited, for a cash payment of \$200,000.

PEL 186 lies in the western Otway Basin and includes portions of the Penola, Robe and St Clair Troughs. Somerton considers the tenement to be prospective for a wide variety of oil and gas plays, but will particularly focus on evaluating basal Otway Group plays with significant oil potential. Somerton plans to drill one exploration well in PEL 186 in late 2011.

In accordance with Somerton's strategic alliance with Beach Energy Limited, Somerton has offered that company a 66.67% interest in PEL 186 on the same terms as the transaction between Somerton and Geothermal. Beach has accepted this offer and, consequently, Somerton's interest in the tenement will be reduced to 33.33% and its cash outlay to \$66,667 (subject to completion of a Sales and Purchase Agreement and regulatory approval).

PEL 495 (Otway Basin SA, Somerton 15%)

In December 2010, Somerton agreed the terms of a farmin agreement under which it will acquire a 15% interest in PEL 495 from Cooper Energy Limited (*Cooper*).

PEL 495 covers a portion of the Penola Trough which Somerton considers to be primarily prospective for oil. The permit contains seven prospects and leads, each of which Somerton considers to have the potential to contain up to 4 million barrels of recoverable oil. The "Sawpit" prospect will be drilled as soon as practicable, with timing primarily dependent on rig availability.

Somerton will earn a 15% interest in PEL 495, by paying \$190,000 cash to Cooper and contributing 30% of the cost to drill the Sawpit-2 exploration well. Assuming a well cost of \$3 million, this represents a financial commitment by Somerton of approximately \$1.1 million.

PRL 13 (Otway Basin SA, Somerton 20%)

Somerton has entered into an agreement with Adelaide Energy Limited to sell its 20% interest in PRL 13 (Killanoola) to that company for a cash sum of \$110,000. This decision has been made as participation in PRL 13 is not considered to be consistent with Somerton's strategic focus.

PEP 151 (Otway Basin Vic, Somerton 75%)

During the period seismic interpretation of the northern portion of PEP 151 was undertaken. This work has confirmed the presence of two potential drilling locations, both of which will be further delineated by 100km of 2D seismic, to be acquired in March-April 2011.

Of most interest is the 'Arkarua' prospect, which Somerton considers to have the potential to contain more than 5 million barrels of recoverable oil in sandstones of the lower Otway Group. There is also potential for an unconventional oil play at Arkarua in the Casterton Formation and underlying basement.

Somerton expects to drill one well in PEP 151 in late 2011, subject to seismic results and rig availability.

PEP 168 (Otway Basin Vic, Somerton 50%)

Beach was appointed Operator of the PEP 168 Joint Venture effective 19 July 2010.

During the period review of existing seismic in PEP 168 was undertaken and planning commenced for acquisition of approximately 100km of 2D seismic in the second quarter of 2011. This program is designed to delineate new drilling targets in the vicinity of the East Wing gas discovery. Somerton expects that at least one gas exploration well will be drilled in PEP 168 in late 2011, subject to seismic results and rig availability.

Options to develop the East Wing gas discovery during FY12 are being assessed.

PEP 150 (Otway Basin Vic, Somerton 20%)

Grant of PEP 150 is contingent upon entering into agreement with the native title claimants. Somerton expects these negotiations will be completed by the end of FY11, which should allow exploration to commence in FY12.

PRL 2 (Gippsland Basin Vic, Somerton option to earn up to 16.7%)

During the period Somerton accepted an offer from Beach to participate in that company's farmin transaction with

Lakes Oil NL (*Lakes*) in relation to PRL 2 in the onshore Gippsland Basin.

Subject to completion of final documentation, Somerton will acquire from Lakes up to a 5% interest in PRL 2, by funding 33.3% of the cost of fracture stimulation and well testing at a cost to Somerton of up to \$3.33 million. Somerton will have an option to earn a further 11.7% (bringing Somerton's total interest to 16.7%) by contributing a further \$13.33 million (bringing total expenditure to \$16.7 million) to further appraisal and development in PRL 2.

PRL 2 is a retention lease in the onshore Gippsland Basin, eastern Victoria containing the Wombat tight gas accumulation, which has been estimated by Gaffney, Cline & Associates to contain a 2C Contingent Gas Resource ("Development Pending/Uncertain") of 329 BCF. Wells in the field have flowed gas on Drill Stem Test (DST) at rates of 0.48 million standard cubic feet of gas per day (mmscfd) and up to 4.3 mmscfd after fracture stimulation. If such rates can be achieved on a sustained basis, then development of the Wombat accumulation may be economically viable.

The primary purpose of the testing program, which will be operated by Beach, will be to determine whether economic gas flow rates can be achieved on a sustained basis.

Work associated with Somerton's farmin commenced on 17 December 2010 with start-up of an extended flow and pressure build-up test of a single zone (at approximately 1,470m) in the Wombat-2 well. The well was flowed for 12 days through a 1" choke at an average rate of approximately 0.8 million standard cubic feet of gas per day (mmscfd) before being shut-in for a four week build-up.

This work will be used to determine whether long term production from the well is economically viable and to assist in the design of the fracture stimulation program of Wombat-4, scheduled for the first quarter of 2011. The Wombat-4 test is expected to involve fracture stimulation and testing of at least four zones.

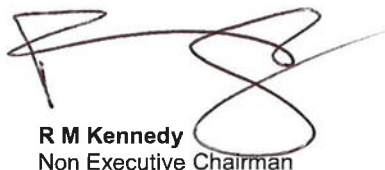
Auditor's independence declaration

The auditor's independence declaration is included on page 4 of the half-year financial report.

Signed in accordance with a resolution of directors made pursuant to s.306(3) of the *Corporations Act 2001*.



H M Gordon
Managing Director



R M Kennedy
Non Executive Chairman



P F Mullins
Non Executive Director

Adelaide, 9 February 2011

Auditor's independence declaration

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The Board of Directors
Somerton Energy Limited
25 Conyngham Street
GLENSIDE SA 5065

9 February 2011

Dear Board Members

Somerton 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 Somerton Energy Limited.

As lead audit partner for the review of the financial statements of Somerton Energy Limited for the financial half-year ended 31 December 2010, I declare that to the best of my knowledge and belief, there have been no 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


Jody Burton
Partner
Chartered Accountants

Directors' declaration

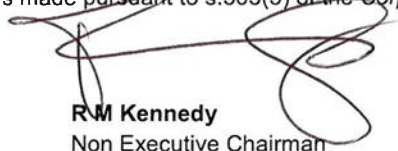
The Directors declare that:

- (a) in the Directors' opinion, there are reasonable grounds to believe that 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.

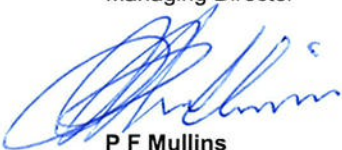
Signed in accordance with a resolution of the Directors made pursuant to s.303(5) of the *Corporations Act 2001*.



H M Gordon
Managing Director



R M Kennedy
Non Executive Chairman



P F Mullins
Non Executive Director

Adelaide, 9 February 2011

**Condensed consolidated statement of comprehensive income
for the half-year ended 31 December 2010**

	Consolidated	
	Half-year ended	
	31 Dec 2010	31 Dec 2009
	\$	\$
Continuing operations		
Revenue	124,026	848
Administrative expenditure	(608,171)	(212,304)
Employee benefits expense	(387,255)	(172,525)
Exploration and evaluation expenditure	(66,674)	(12,373)
Finance costs	(13,258)	(614,490)
Loss before tax	(951,332)	(1,010,844)
Income tax expense	-	-
Net loss for the period	(951,332)	(1,010,844)
Other comprehensive income	-	-
Total comprehensive income (loss) for the period attributable to members of Somerton Energy Limited	(951,332)	(1,010,844)
Loss per share		
From continuing operations:		
Basic (cents per share)	(0.9)	(0.2)
Diluted (cents per share)	(0.9)	(0.2)

Notes to the condensed consolidated financial statements are included on pages 10 to 12.

**Condensed consolidated statement of financial position
as at 31 December 2010**

	Consolidated	
	31 Dec 2010	30 Jun 2010
	\$	\$
Current assets		
Cash and cash equivalents	9,920,025	25,390
Trade and other receivables	59,163	275,000
Other assets	25,430	30,061
Total current assets	10,004,618	330,451
Non-current assets		
Environmental bonds	30,000	30,000
Property, plant and equipment	12,536	17,775
Total non-current assets	42,536	47,775
Total assets	10,047,154	378,226
Current liabilities		
Trade and other payables	152,108	558,308
Borrowings	-	398,807
Provisions	20,953	29,619
Total current liabilities	173,061	986,734
Non-current liabilities		
Borrowings	-	698,000
Total non-current liabilities	-	698,000
Total liabilities	173,061	1,684,734
Net assets/(liabilities)	9,874,093	(1,306,508)
Equity		
Issued capital	49,611,637	37,569,474
Reserves	118,732	28,962
Accumulated losses	(39,856,276)	(38,904,944)
Total equity/(deficiency)	9,874,093	(1,306,508)

Notes to the condensed consolidated financial statements are included on pages 10 to 12.

**Condensed consolidated statement of changes in equity
for the half-year ended 31 December 2010**

	Fully paid ordinary shares	Equity- settled employee benefits reserve	Accumulated losses	Total
	\$	\$	\$	\$
Balance at 1 July 2009	36,513,626	28,962	(58,709,437)	(22,166,849)
Recognition of share-based payments	-	-	-	-
Expired options not exercised	-	(28,962)	28,962	-
Loss attributable to equity holders of parent entity	-	-	(1,010,844)	(1,010,844)
Balance at 31 December 2009	36,513,626	-	(59,691,319)	(23,177,693)
Balance at 1 July 2010	37,569,474	28,962	(38,904,944)	(1,306,508)
Recognition of share-based payments	-	89,770	-	89,770
Expired options not exercised	-	-	-	-
Shares issued during the half-year	12,042,163	-	-	12,042,163
Loss attributable to equity holders of parent entity	-	-	(951,332)	(951,332)
Balance at 31 December 2010	49,611,637	118,732	(39,856,276)	9,874,093

Notes to the condensed consolidated financial statements are included on pages 10 to 12

**Condensed consolidated statement of cash flows
for the half-year ended 31 December 2010**

	Consolidated	
	Half-year ended	
	31 Dec 2010	31 Dec 2009
	\$	\$
Cash flows from operating activities		
Receipts from customers	-	-
Payments to suppliers and employees	(1,091,709)	(246,388)
Exploration and evaluation expenditure incurred	(69,803)	(113,452)
Interest and other costs of finance paid	(30,838)	-
Interest received	124,026	848
Net cash used in operating activities	(1,068,324)	(358,992)
Cash flows from investing activities		
Payment for investment deposits	-	-
Payment for property, plant and equipment	-	(275)
Net cash used in investing activities	-	(275)
Cash flows from financing activities		
Proceeds from issues of equity securities	12,577,390	-
Proceeds from borrowings	366,762	385,914
Repayment of borrowings	(747,990)	-
Other - settlement of Mitsui debt	(697,976)	-
Other - payment in relation to capital raising	(535,227)	-
Net cash provided by financing activities	10,962,959	385,914
Net (decrease)/increase in cash and cash equivalents	9,894,635	26,647
Cash and cash equivalents at the beginning of the period	25,390	68,765
Cash and cash equivalents at the end of the period	9,920,025	95,412

Notes to the condensed consolidated financial statements are included on pages 10 to 12.

Notes to the condensed consolidated financial statements

1. Significant accounting policies

Statement of compliance

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 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 consolidated 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 annual financial report for the financial year ended 30 June 2010. These accounting policies are consistent with Australian Accounting Standards and with International Financial Reporting Standards.

The Group has adopted all new and revised Standards and Interpretations issued by the Australian Accounting Standards Board (the AASB) that are relevant to their operations. The adoption of these Standards has not resulted in any changes to the Group's accounting policies and have no affect on the amounts reported for the current or prior periods.

2. Segment information

The Group operates in the Australian energy sector where the Company has actively sought oil and gas exploration opportunities within onshore Otway and Gippsland basins in South Eastern Australia for a number of targets through various tenements all of which are currently at exploration stage and require further investment to proceed to revenue generation stages. As such the Group is required to prioritise its funding allocation and does so based on the assessment of the market sentiment and the potential of finding a viable resource. Internal monthly management reports are provided to the Managing Director that consolidate operations into one segment. The Group's activities are therefore classed as one business segment.

3. Results for the period

The following revenue and expense items are relevant in explaining the financial performance for the interim period:

	Consolidated	
	Half-year ended	
	31 Dec 2010	31 Dec 2009
	\$	\$
Revenue		
Revenue from the rendering of services	-	-
Interest revenue		
Bank deposits	124,026	848
Expenditure		
Depreciation of non-current assets	5,239	6,142
Operating lease rental expenses		
Minimum lease payments	12,717	25,330
Share-based payments:		
Equity-settled share-based payments	89,770	-

4. Issuances, repurchases and repayments of equity securities

	Consolidated	
	31 Dec 2010	30 Jun 2010
Issued Capital	\$	\$
141,486,642 fully paid ordinary shares (30 June 2010: 1,342,102,226)	49,611,637	37,569,474
	2010	
Fully Paid Ordinary Shares	No.	\$
Beginning of the half-year reporting period	1,342,102,226	37,569,474
Post share consolidation on a 30 to 1 basis on 27 July 2010	44,737,484	37,569,474
Issue of shares	96,749,158	12,577,390
Less: Costs of share issues	-	(535,227)
Balance at end of financial year	141,486,642	49,611,637

Capital Transactions

During the financial period the Company issued 96,749,158 shares in the following manner:

- Share consolidation of a 30 to 1 basis on 6 August 2010
- 3,000,000 incentive rights issued to Hector Gordon (Managing Director) on 6 August 2010
- Issue of 5,662,551 new ordinary shares pursuant to a Private Placement on 18 August 2010
- Issue of 68,669,909 new ordinary shares under a Renounceable Rights Issue on 15 September 2010
- Issue of 22,416,698 new ordinary shares pursuant to an Underwriting Agreement on 28 September 2010

The net proceeds from these share issues has been \$12,042,163. The cash proceeds from the share issues as at 31 December 2010 is:

	31 Dec 2010
	\$
Proceeds from issues of equity	12,577,390
Payment for share issue costs	(535,227)
Net cash provided by share issues as at 31 December 2010	12,042,163
Accrued share issue costs	-
Net cash provided by share issues	12,042,163

5. Borrowings

On 30 September 2010 repayment of a loan from Beach Energy Limited was made of \$747,990 (plus interest at 7% of \$29,350) for the funding of on-going operational costs of the Group.

Also, on 1 October 2010 the debt to Mitsui E & P Australia Pty Ltd was settled in full by payment of \$697,976.

6. Contingencies and commitments

In order to maintain current rights of tenure to exploration tenements, the Group has the following exploration expenditure requirements. These represent management's best estimate of expenditure required to meet existing work obligations in all tenements. These obligations are not provided for in the financial statements

	Consolidated	
	31 Dec 2010	30 Jun 2010
	\$	\$
Exploration expenditure		
Not longer than 1 year	4,050,000	1,050,000
Longer than 1 year and not longer than 5 years	50,000	3,350,000
Longer than 5 years	-	-
	4,100,000	4,400,000

7. Subsequent events

Subsequent to 31 December 2010 no event has arisen that would be likely to materially affect the operations of the disclosing entity or the state of affairs of the disclosing entity not otherwise disclosed in the disclosing entity's financial report.

Independent Auditor's Report to the Directors of Somerton Energy Limited

We have reviewed the accompanying half-year financial report of Somerton Energy Limited, which comprises the consolidated condensed statement of financial position as at 31 December 2010, and the consolidated condensed statement of comprehensive income, the consolidated condensed statement of cash flows, and the consolidated condensed statement of changes in equity for the half-year ended on that date, selected explanatory notes and, the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the end of the half-year or from time to time during the half-year as set out on pages 5 to 12.

Directors' Responsibility for the Half-Year Financial Report

The directors of the company are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the half-year financial report that is free from material misstatement, whether due to fraud or error.

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 consolidated entity's financial position as at 31 December 2010 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 Somerton 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 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.

Auditor's Independence Declaration

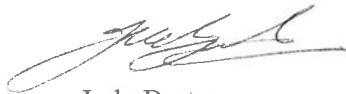
In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of Somerton Energy, would be in the same terms if given to the directors as at the time of this auditor's report.

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 Somerton Energy 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 2010 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



Jody Burton
Partner
Chartered Accountants
Adelaide, 9 February 2011