

NORTHERN ENERGY CORPORATION LIMITED
AND ITS CONTROLLED ENTITIES

A.B.N. 90 081 244 395

FINANCIAL REPORT

FOR THE HALF-YEAR ENDED 31 DECEMBER 2007

NORTHERN ENERGY CORPORATION LIMITED

CORPORATE DIRECTORY	
<p>DIRECTORS</p> <p>Dr Christopher Rawlings Sam Willis Keith Barker Kevin Maloney Geoff Lord</p>	<p>STOCK EXCHANGE LISTING</p> <p>Australian Stock Exchange Ltd ASX Code: NEC</p>
<p>SECRETARY</p> <p>Paul Marshall</p>	<p>AUSTRALIAN BUSINESS NUMBER</p> <p>ABN 90 081 244 395</p>
<p>ADMINISTRATION AND REGISTERED OFFICE</p> <p>Level 5 60 Edward Street Brisbane QLD 4000</p> <p>Telephone: 07 3303 0695 Facsimile: 07 3303 0601 Email: nec@northernenergy.com.au Website: www.northernenergy.com.au</p>	<p>SHARE REGISTRY</p> <p>Security Transfer Registrars Pty Ltd 77 Canning Highway Applecross WA 6153</p> <p>Telephone: 08 9315 2333 Facsimile: 08 9315 2233 Email: registrar@securitytransfer.com.au Website: www.securitytransfer.com.au</p>
<p>SOLICITORS</p> <p>Hemming & Hart Level 2 300 Queen Street Brisbane QLD 4000</p>	<p>AUDITORS</p> <p>PKF Chartered Accountants & Business Advisors Level 6 10 Eagle St Brisbane QLD 4000</p>

NORTHERN ENERGY CORPORATION LIMITED AND CONTROLLED ENTITIES

DIRECTORS' REPORT

Your directors present their report on the consolidated entity consisting of Northern Energy Corporation Ltd and the entities it controlled at the end of, or during, the half-year ended 31 December 2007.

Directors

The names of persons who were directors of Northern Energy Corporation Ltd (NEC), during the whole of the half-year and up to the date of this report, unless otherwise stated, are:

Dr Christopher Rawlings
Sam Willis
Keith Barker
Kevin Maloney
Geoff Lord (appointed 6 December 2007)

Review of Operations

Projects

Elimatta EPC 650 (NEC 100%)

An extensive drilling programme at Elimatta was completed in November. The initial mining and coal preparation studies are currently being finalised. Preparation for commencement of the Environmental Impact Statement and mining lease application process took place during the period. These will be progressed in 2008.

Since the drilling program started in June 2007 a total of 67 holes have been drilled (54 cored and 13 chip) totalling approximately 5300m drilling and 2500m of core. In October the Company announced an increase in the Elimatta Resource. This upgrade from the previously announced Resource was based on information generated from an initial 20 of the holes in this programme. Information from the remainder of the holes was used to upgrade the resource model and a further Elimatta Resource Statement was announced in February 2008.

A conceptual mining study is being undertaken to examine alternative mining scenarios. Both dragline and truck and shovel mine designs are being evaluated. In addition, a coal handling and preparation plant study along with supporting infrastructure studies have been conducted during the period. These are ongoing and will be completed shortly. Findings from these studies will then feed into the next drilling and analysis programme and form the basis of a feasibility study, which is planned to commence in the current quarter. While the initial studies are not concluded, the base case concept identified is an open cut operation with a notional saleable production of around 4Mtpa of single specification high volatile export coal.

Maryborough EPC 923 (NEC 100%)

A short drilling programme of both cored and open holes is planned to commence in March. The programme is designed to further test both the eastern and western flank of the southern end of the Burrum syncline. The programme will be extended to include the lower seam sub crops in the new EPC1082.

Discussions with various parties regarding transport infrastructure options for any mine development at Maryborough have taken place and a number of options have been identified. One of those options is a barge operation between the mine and the port of Bundaberg. A consultants report on the technical and economic viability of such an operation was commissioned during the period and will be concluded shortly.

Yamala Coal Joint Venture (NEC 92% Sojitz 8%)

During the period Stage 1 of the three stage exploration and evaluation farm-in agreement with Sojitz was completed. Stage 2 of the programme was approved by the Joint Venture following completion of the drilling, coal quality testing and analysis of an extensive geophysical survey covering the entire EPC. This commitment is part of the three-stage \$5.3M farm-in agreement between Northern Energy Corporation and Japanese trading house Sojitz Corporation, entered into earlier in calendar 2007.

Following the approval of Stage 2 of the exploration programme by the Yamala Joint Venture in October drilling commenced at Yamala in December and 15 holes representing approximately 1200m of open hole and 110m core along with geophysical logging have been completed in Stage 2.

NORTHERN ENERGY CORPORATION LIMITED AND CONTROLLED ENTITIES

DIRECTORS' REPORT

The \$2-million Stage 2 budget includes approximately 60 additional drill holes (approx. 6000m); coal quality and geotechnical testing; and some 20 line kms of 2D seismic followed up with 3D seismic over key areas. The underlying objective is to upgrade approximately 100Mt of the existing identified Inferred Resource area to higher Resource categories and subsequently to Reserves, following appropriate mining and other engineering studies.

Ashford Project EL6234 and EL6428 (NEC 50%)

A core drum sample for coke testing in Australia and Japan was extracted in December. The sample was processed in the first week of January and produced a product with 7.0% ash, 7.5 swell with 365 ddpm fluidity. Approximately 180kg of the product has been air freighted to Japan for the Japanese drum testing programme.

Two additional RC holes were drilled while the drill rig was on site to test thickness anomalies near old holes without geophysics. It is intended that these results will be included in the resource model and a review of the Ashford Resource will be undertaken with the aim of upgrading the Resource category.

Auditors Independence Declaration

The 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 2007.

This report is made in accordance with a resolution of the Board of Directors and is signed for and on behalf of the directors by:

Keith Barker
Director

Brisbane
Date: 13 March 2008



Chartered Accountants
& Business Advisers

**NORTHERN ENERGY CORPORATION LIMITED
AND ITS CONTROLLED ENTITIES**

Auditor's Independence Declaration for the half-year ended 31 December 2007

To: The Directors of Northern Energy Corporation Limited

As lead engagement partner for the review of Northern Energy Corporation Limited for the half-year ended 31 December 2007, I declare that, to the best of my knowledge and belief, there have been:

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

PKF
CHARTERED ACCOUNTANTS

Albert Loots
Partner

Dated at Brisbane 13 March 2008

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NORTHERN ENERGY CORPORATION LIMITED AND CONTROLLED ENTITIES

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

	Note	Consolidated Entity	
		Half Year	
		2007	2006
		\$	\$
Revenue		212,603	67,519
Employee benefits expense		(191,824)	(163,846)
Depreciation and amortisation expenses		(20,229)	(11,466)
Exploration costs		(3,397)	(62,018)
Borrowing costs		(1,526)	(1,898)
Administration and consultancy costs		(181,161)	(126,293)
Other expenses		(19,599)	(49,364)
Profit/(Loss) before income tax		(205,132)	(347,366)
Income tax expense		-	-
Net Profit/(Loss) after income tax		(205,132)	(347,366)
		Cents	Cents
Basic earnings/(loss) per share		(0.30)	(0.59)
Diluted earnings/(loss) per share		(0.30)	(0.59)

The Condensed Income Statement should be read in conjunction with the notes to the financial statements.

NORTHERN ENERGY CORPORATION LIMITED AND CONTROLLED ENTITIES

CONDENSED BALANCE SHEET
AS AT 31 DECEMBER 2007

	Note	Consolidated Entity	
		31 December 2007 \$	30 June 2007 \$
Current Assets			
Cash and cash equivalents		5,046,146	7,146,753
Other receivables		360,392	279,193
Other current assets		29,253	52,576
Total Current Assets		<u>5,435,791</u>	<u>7,478,521</u>
Non-Current Assets			
Other receivables		123,453	100,750
Property, plant and equipment		112,554	109,196
Exploration expenditure		8,040,506	6,050,112
Total Non-Current Assets		<u>8,276,512</u>	<u>6,260,058</u>
TOTAL ASSETS		<u>13,712,303</u>	<u>13,738,579</u>
Current Liabilities			
Trade and other payables		618,598	471,970
Short term borrowings		9,029	8,646
Short term provisions		33,504	33,565
Total Current Liabilities		<u>661,130</u>	<u>514,180</u>
Non-Current Liabilities			
Long term borrowings		23,595	28,207
Total Non-Current Liabilities		<u>23,595</u>	<u>28,207</u>
TOTAL LIABILITIES		<u>684,725</u>	<u>542,387</u>
NET ASSETS		<u>13,027,578</u>	<u>13,196,192</u>
Equity			
Issued capital	5	36,170,117	36,145,414
Reserves		418,420	406,604
Accumulated losses		(23,560,959)	(23,355,827)
TOTAL EQUITY		<u>13,027,578</u>	<u>13,196,192</u>

The Condensed Balance Sheet should be read in conjunction with the notes to the financial statements.

NORTHERN ENERGY CORPORATION LIMITED AND CONTROLLED ENTITIES

CONDENSED STATEMENT OF CASH FLOWS
FOR THE HALF-YEAR ENDED 31 DECEMBER 2007

	Consolidated Entity	
	Half Year	
Note	2007	2006
	\$	\$
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	54,179	21,808
Payments to suppliers and employees	(388,252)	(513,160)
Interest received	199,349	69,912
Interest and other costs of finance paid	(1,526)	(1,898)
Net cash inflow/(outflow) from operating activities	(136,250)	(423,338)
CASH FLOWS FROM INVESTING ACTIVITIES		
Payments for property, plant and equipment	(56,089)	(3,172)
Payments for exploration	(2,124,102)	(761,379)
Funding for exploration	224,766	-
Payments for security deposits	(22,703)	-
Net cash inflow/(outflow) from investing activities	(1,978,127)	(764,551)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issue of shares	18,000	-
Payment of share issue costs	-	-
Repayment of finance lease principal	(4,229)	(3,879)
Net cash inflow/(outflow) from financing activities	13,771	(3,879)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	(2,100,607)	(1,191,768)
Cash and cash equivalents at the beginning of the financial period	7,146,753	2,909,185
CASH AND CASH EQUIVALENTS AT THE END OF THE FINANCIAL PERIOD	5,046,146	1,717,417

The Condensed Statement of Cash Flows should be read in conjunction with the notes to the financial statements.

NORTHERN ENERGY CORPORATION LIMITED AND CONTROLLED ENTITIES

CONDENSED STATEMENT OF CHANGES IN EQUITY
FOR THE HALF-YEAR ENDED 31 DECEMBER 2007

Consolidated Entity

	Issued Capital	Share Option Reserve	Accumulated Losses	Total
	\$		\$	\$
At 1 July 2006	30,457,702	406,604	(22,857,988)	8,006,318
Profit/(loss) for the period	-	-	(347,366)	(347,366)
At 31 December 2006	30,457,702	406,604	(23,205,354)	7,658,952
At 1 July 2007	36,145,414	406,604	(23,355,827)	13,196,191
Share option issue	-	18,519	-	18,519
Share option exercise	24,703	(6,703)	-	18,000
Profit/(loss) for the period	-	-	(205,132)	(205,132)
At 31 December 2007	36,170,117	418,420	(23,560,959)	13,027,578

The Condensed Statement of Changes in Equity should be read in conjunction with the notes to the financial statements.

NORTHERN ENERGY CORPORATION LIMITED AND CONTROLLED ENTITIES

NOTES TO THE FINANCIAL STATEMENTS
FOR THE HALF-YEAR ENDED 31 DECEMBER 2007

1. BASIS OF PREPARATION

The half-year condensed financial statements are a general purpose financial report prepared in accordance with the requirements of the Corporations Act 2001, Australian Equivalent to International Reporting Standard AASB 134: Interim Financial Reporting and other authoritative pronouncements of the Australian Accounting Standards Board including the Australian Accounting Interpretations.

It is recommended that this financial report be read in conjunction with the annual financial report for the year ended 30 June 2007 and any public announcements made by Northern Energy Corporation Ltd and its controlled entities during the half-year in accordance with the continuous disclosure requirements of the Corporations Act 2001.

The accounting policies have been consistently applied by the entities in the consolidated entity and are consistent with those applied in the 30 June 2007 annual report.

The half-year report does not include all notes of the type normally included in an annual financial report.

2. SEGMENT INFORMATION

The Company operates predominantly in one business and geographical segment being in the coal industry in Australia. No revenue from this activity has been earned to date as the Company is still in the exploration and evaluation stage.

3. CONTINGENT ASSETS AND LIABILITIES

There have been no changes in contingent liabilities or contingent assets since the last annual reporting date, 30 June 2007.

4. EVENTS SUBSEQUENT TO BALANCE DATE

In January 2008 a total of 4,000,000 fully paid ordinary shares were issued following the exercise of 2,500,000 1 February 2008 \$0.25 options and 1,500,000 1 February 2008 \$0.30 options. Total proceeds from the exercise of the options was \$1,075,000. There have been no other events apart from the option exercise since 31 December 2007 that impact upon the financial report as at 31 December 2007.

5. ISSUED CAPITAL

	Half Year		Half Year	
	2007	2006	2007	2006
	Shares	Shares	\$	\$
Opening Balance 1 July	67,252,324	58,480,324	36,145,414	30,457,702
Issue of Ordinary Shares during the Half-Year				
9/10/07 Exercise of share options	60,000	-	18,000	-
9/10/07 Transfer from share option reserve	-	-	6,703	-
Closing Balance 31 December	<u>67,312,324</u>	<u>58,480,324</u>	<u>36,170,117</u>	<u>30,457,702</u>

NORTHERN ENERGY CORPORATION LIMITED AND CONTROLLED ENTITIES

DECLARATION BY DIRECTORS

The directors of the Company declare that:

1. The financial statements and notes, as set out on pages 6 to 10:
 - (a) comply with Australian Equivalents to International Reporting Standard AASB 134: Interim Financial Reporting and the Corporations Regulations; and
 - (b) give a true and fair view of the consolidated entity's financial position as at 31 December 2007 and of its performance for the half-year ended on that date.
2. 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.

This declaration is made in accordance with a resolution of the Board of Directors.

Keith Barker
Director

Brisbane
Date: 13 March 2008

INDEPENDENT AUDITOR'S REVIEW REPORT

To the members of the Northern Energy Corporation Limited:

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of the Northern Energy Corporation Limited, 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, a summary of significant accounting policies other selected explanatory notes and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at 31 December 2007 or from time to time during the half year ended on that date.

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 designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the half-year financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of an Interim Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the 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 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 the Northern Energy Corporation 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.

Independence

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

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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 the Northern Energy Corporation 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 2007 and of its performance for the half-year ended on that date; and
- (b) complying with Accounting Standard AASB 134 Interim Financial Reporting and Corporations Regulations 2001.

PKF
CHARTERED ACCOUNTANTS

Albert Loots
Partner

Dated at Brisbane 13 March 2008.