ODYSSEY ENERGY LIMITED

ANNUAL FINANCIAL REPORT

30 JUNE 2007

ABN 73 116 151 636

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CORPORATE DIRECTORY

Directors

Mr Ian Middlemas - Chairman
Mr Mark O'Clery – Managing Director
Mr Mark Pearce - Finance Director

Company Secretary

Mr Mark Pearce

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Stock Exchange Listing

Australian Stock Exchange Limited
Home Branch – Perth
2 The Esplanade
Perth WA 6000

ASX Code

ODY - Fully paid ordinary shares

Solicitors

Hardy Bowen Lawyers

Auditor

BDO Kendalls Audit & Assurance (WA)

REVIEW OF OPERATIONS

OVERVIEW

In the 2007 Financial Year Odyssey achieved a number of major operational and corporate milestones, with the multi-fold expansion of its acreage positions in Utah and Oklahoma and the independent certification of a large proved and probable reserve base in both project areas. Together with significant investments in infrastructure, this provides the foundation for the Company's primary goal of building substantial production and cash flow from its US oil and gas assets over the coming months – which is to be boosted by new multi-well drilling and work-over programs in Oklahoma commencing in Q4 2007.

Highlights:

- Acquisition of 22,798 acres in Utah, more than tripling the Company's exposure to the primary Ferron Coal-Bed Methane play (to over 18,000 acres), and adding additional objectives all of which are being aggressively developed by adjacent operators.

- Acquisition of 16,000 acres, pipelines and 52 well-bores in Oklahoma, leading to a 33.3% Working Interest in almost 30,000 gross acres, 57 well bores and 120 kilometres of production infrastructure.

- Completion of pipeline & facilities upgrades in Jester-Bloomington lifting the project's production to over 500 thousand cubic feet of gas per day ("mcfgd"), and providing infrastructure capable of supporting new work-over and drilling campaigns.

Reserves Certification:

- Independent certification of gross proved and probable ("2P") gas reserves totalling 112 billion cubic feet ("Bcf") at North Helper & Jester-Bloomington, of which 29 Bcf is net to Odyssey and comprises;

  - 11Bcf net to Odyssey's 30% Working Interest in North Helper, and

  - 18 Bcf net to Odyssey's 33.3% Working Interest in Jester-Bloomington.

Over US$4.5 billion in industry transactions in the Rocky Mountains in the first half of 2007 established purchase prices for 2P reserves in the range of US$2.0 million to US$2.5+ million per Bcf. This coupled with aggressive appraisal and development programs by large US independents in acreage directly adjacent to North Helper, and the re-development of large fields on-trend with Jester-Bloomington, highlights the potential value of both projects.

Forward Program:

- The Company plans to build on the current production base with a program of new work-overs on many of the 57 well-bores within the Jester-Bloomington project area. Work-overs to date have highlighted specific opportunities for high-impact zone adds in a number of wells plus more generic low-cost optimisations which improve the performance of the majority of wells; with both strategies already achieving significant production adds.

- In parallel the Company will commence a new 10 to 15 well drilling program in Q4 2007 targeting infill locations on the most prolific trends in the established field areas. A number of these wells are expected to be drilled, completed and tied into production infrastructure pre-Christmas to increase gas sales into the North American winter and take advantage of the traditional period of peak demand.

- In North Helper all Ferron wells have been completed, tied into production infrastructure and are currently de-watering and producing gas. In line with the performance of the adjacent Helper Field which has produced over 90 BCF from the Ferron, each well is expected to reach a production base of 300 mcfgd, with the potential to ultimately achieve rates in line with the original well tests (1.0 to 2.0 million cubic feet of gas per day).

- The cash flow achieved from Ferron production will underpin further development of the play directly adjacent to the Helper Field and appraisal of offset plays and productive trends in the expanded project area.

- Following the independent certification of gross proved and probable gas reserves (referred to above), the Company will now increase its focus on new business activities, with a view to leveraging off the inherent value of the certified reserves to attract and complete the acquisition of new projects in the oil and gas sector.

NORTH HELPER GAS PROJECT – ODYSSEY 30% WORKING INTEREST

Key Points

- Region subject to intense industry activity with major asset sales and aggressive development programs,
- Project expanded to over 29,000 acres after a number of lease acquisitions including 22,798 acre Bayless acquisition,
- Gross 2P reserves of 44 Bcf (11 Bcf net to Odyssey) certified for 9,360 central project area.
- 9 wells drilled and completed, with 7 Ferron wells tied into production infrastructure and de-watering,
- First of 2 Mancos Shale wells on long-term staged production test to demonstrate commerciality,
- Ferron production commenced, with focus on increasing gas sales and cash flow from existing wells as de-watering continues.

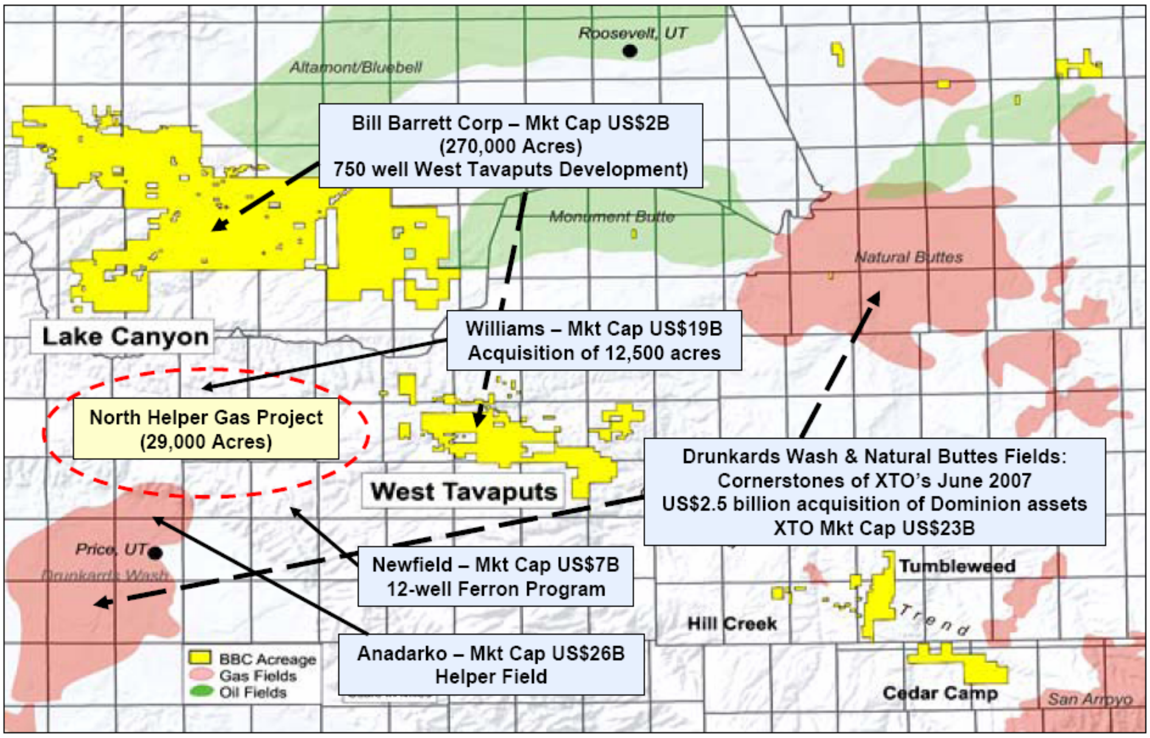

Figure 1: Industry Activity in North Helper area.

Project Summary

The North Helper Gas Project is located along the northern edge of the Helper Field and is on the Ferron Formation Coal-Bed Methane trend which hosts the Helper - Drunkwards Wash - Buzzards Bench field complex. This is one of the primary gas producing trends in Utah, with over 650 billion cubic feet of gas produced from these three fields to date, and over 90 billion cubic feet from Helper alone since its discovery in 1993.

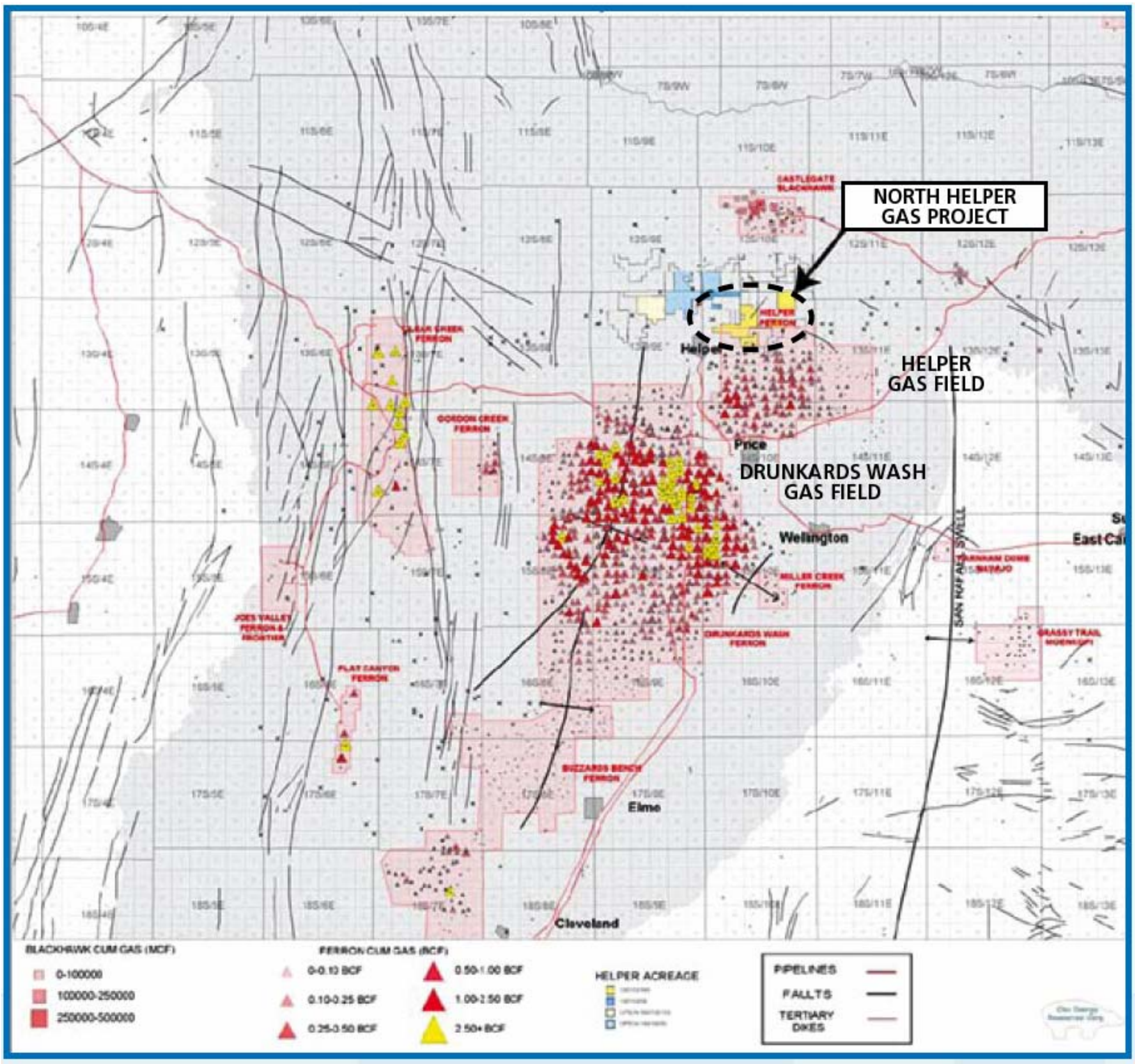

Figure 2: North Helper Gas Project Location Map.

Project Expansion

In July 2006 the Company significantly increased its acreage position in Utah by acquiring 22,798 acres of leases on-trend with the original 5,023 acre North Helper project area.

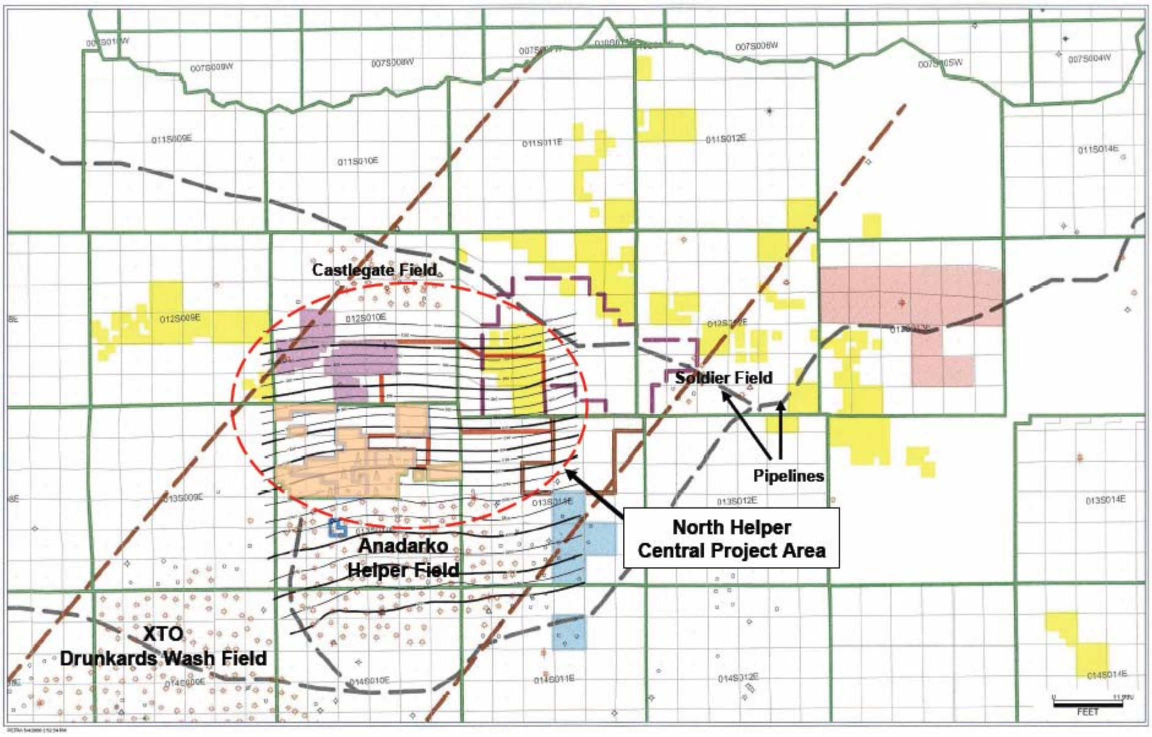

Figure 3: Original North Helper leases (orange) with project expansion highlighted in yellow.

The primary objective in the expanded project remains the Ferron Formation Coal-Bed Methane play, with over 18,000 acres within the primary play trend.

Project Expansion (continued)

Secondary objectives include the Mancos Shale (which has already been targeted by dedicated drilling in the project area), and a series of shallower objectives which come into play as the Ferron and Mancos Shale sections deepen to the north.

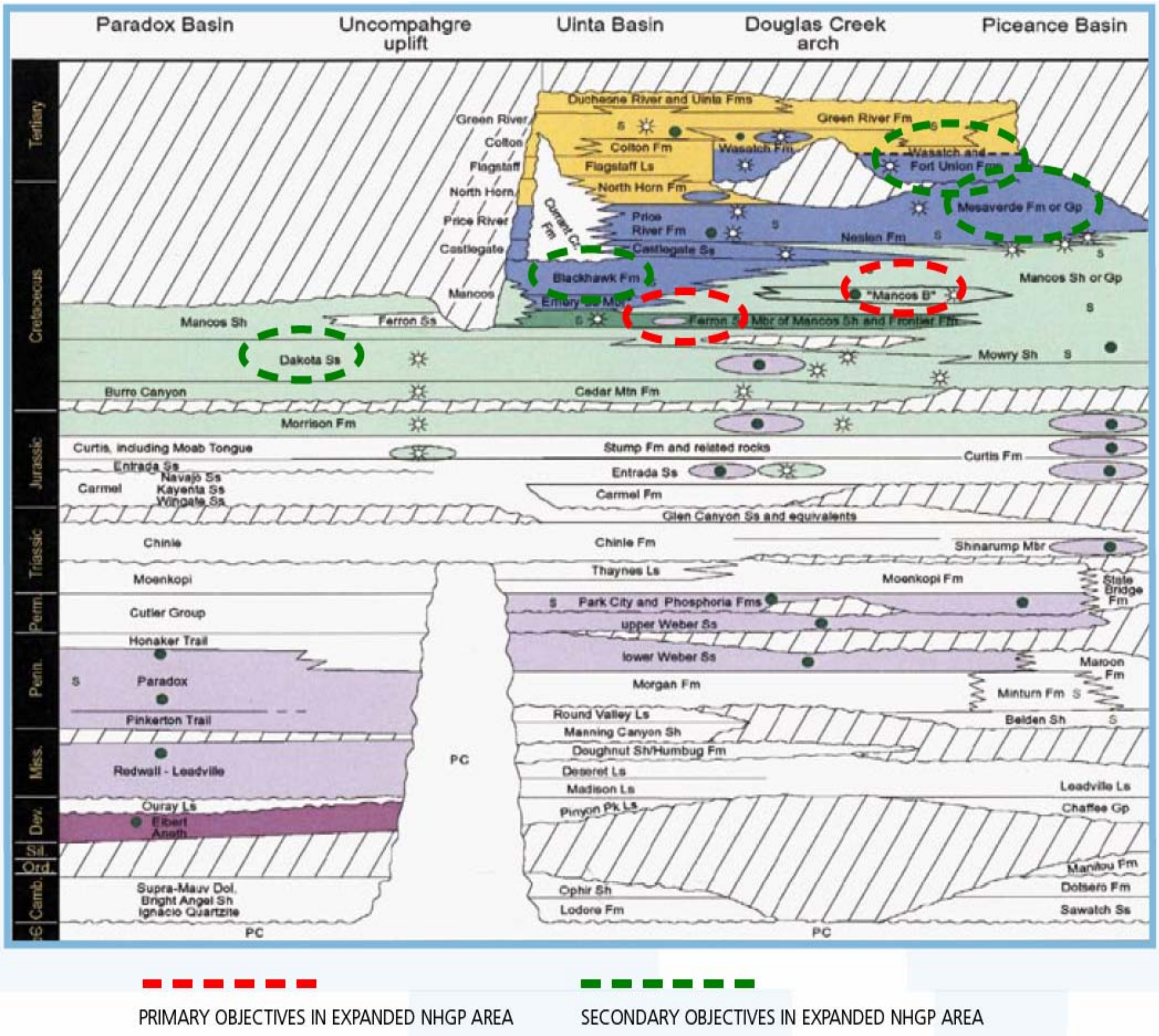

Figure 4: Objectives for exploration, appraisal and development activities in the expanded NHGP area.

These additional objectives include;

- The Cretaceous Blackhawk sands and coals, which currently produce gas from both the Castlegate and Soldier Fields directly adjacent to the extended project area;
- The shallower Cretaceous and Tertiary Mesaverde, Wasatch and Fort Union Formations which are currently being exploited in acreage to the east of the new licenses; and
- The deeper Cretaceous Dakota Formation, which also forms a secondary objective in the original 5,023 acre project area.

Drilling and Production

The positive test results from the Kenilworth Railroad #1 & #2 and Ball Park Canyon #1 wells in the first half of 2006 led the Company to accelerate its appraisal and development program at North Helper. Three additional wells were drilled back-to-back in mid-2006; with Cordingly Canyon #11-1 a sixth vertical Ferron appraisal / development well, followed by the Cordingly Canyon #15-5 and #10-1 wells.

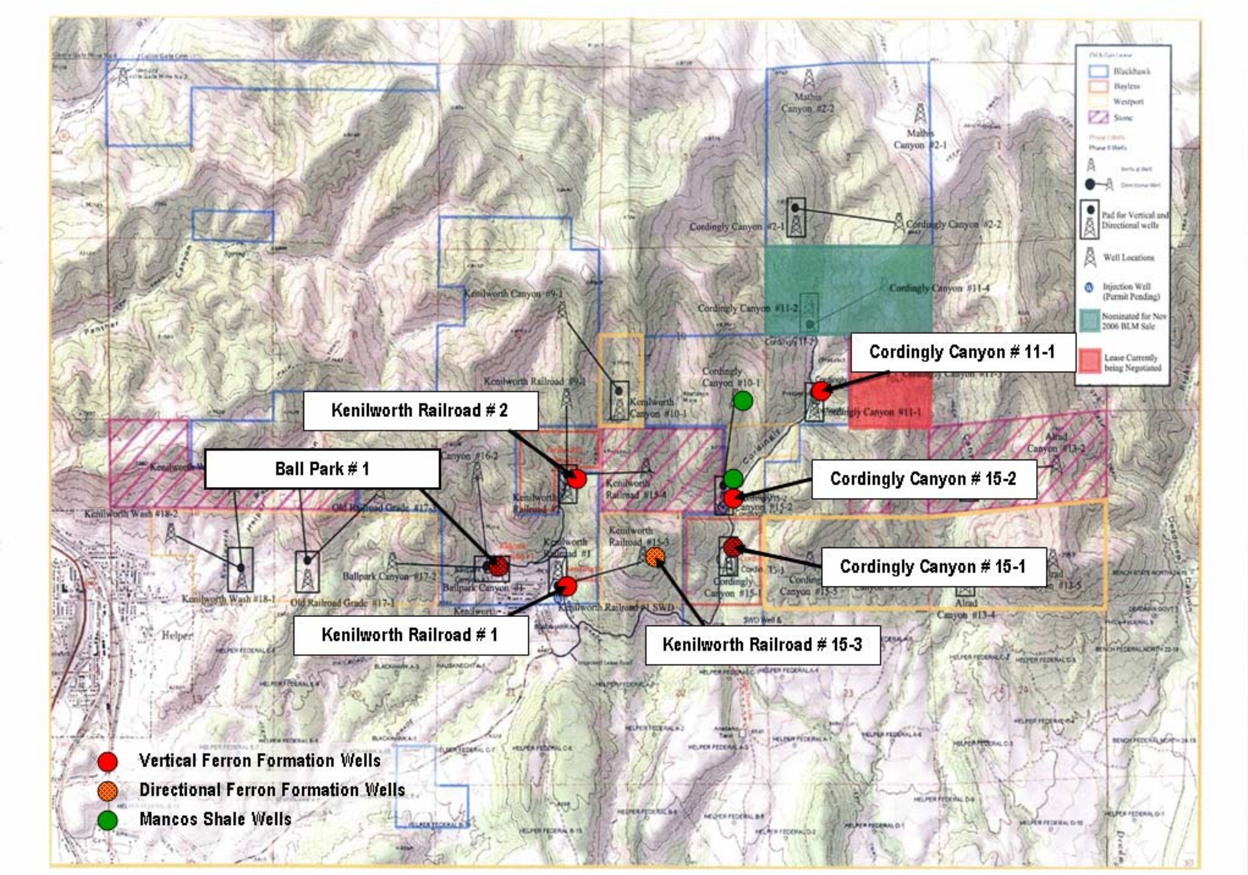

Figure 5: North Helper project wells.

Cordingly Canyon #15-5 was drilled as the first dedicated test of the Mancos Shale, which directly overlies the Ferron throughout the project area. All of the Company's wells exhibited gas shows while drilling through this shale section, and similar shows were noted during the 1990's Drunkards Wash and Helper Field development programs. A direct production analogue occurs across the border in Colorado, where the shale is a prolific producer across the Douglas Creek Arch area of the Piceance Basin. Key elements appear to be a thick gas-prone shale section, coupled with silty interbeds which provide permeability and fracturing associated with regional structuring. All of these elements are apparent in the project area, with Cordingly Canyon #15-5 intersecting a Mancos section over 4,000 feet thick with numerous gas shows observed during drill string connections and associated with interpreted fracture sets in the shale.

The third well drilled in the program, Cordingly Canyon #10-1, was designed as a directional test of the Ferron, but after drilling through the objective section the well developed hole problems associated with swelling clays and was completed as a second Mancos Shale well.

At the conclusion of the drilling program the Cordingly Canyon #15-1 well was tested to confirm the Ferron's potential in the East of the project. The results were consistent with the tests conducted earlier in the year, with the well flowing at rates in excess of 2.0 million cubic feet of gas per day ("mmcfgd"), and all six of the Ferron wells were subsequently tied into production infrastructure to commence the process of clean-up, dewatering and commence gas sales.

Drilling and Production (continued)

During the December Quarter gas sales were over 30 million cubic feet, and despite production rates being consistent with the performance of wells in the Helper Field to the south, all of the six North Helper wells showed evidence that gas-entry was being hampered by reduced near well-bore permeability – an issue which may not have been recognised during the development of the adjacent Helper Field in the 1990's. This restriction in flow was found to be associated with unbroken gel from the original fracture stimulation process and iron precipitation associated with periodic low PH conditions during well clean-up. Both effects have been recognised in other producing CBM fields in North America, resulting in the development of standard techniques for their treatment.

Design of the appropriate injection program for North Helper commenced in January 2007 based on analysis of samples from the field, and the Cordingly Canyon #15-1 well was treated in March 2007. Based on positive results from this test, the Ball Park #1 well was also given a test treatment in mid-April, coupled with a coal-stimulation package to assist in the handling of coal fines during clean-up. After a similar improvement in the performance of the well and analysis of produced fluids showing no evidence of residual gel, a full scale program was designed and implemented, with all of the Ferron wells treated in June and July 2007.

During this period the Kenilworth Railroad #15-3 directional well was drilled from the Kenilworth Railroad #1 site, bringing the total number of wells in the project area to nine – comprising 7 Ferron wells (6 vertical and 1 directional) and two Mancos Shale wells (1 vertical and 1 directional). In addition Kenilworth Railroad #15-3 has provided a new Ferron completion unaffected by the original fracture stimulation program and therefore capable of providing a baseline for the post-treatment clean-up and dewatering of the other wells.

At the time of writing this report all of the Ferron wells were continuing to dewater with associated gas sales and the Cordingly Canyon #15-5 Mancos Shale well was in the early stages of production testing, with a long-term staged completion program in progress to determine the optimum approach to development of the shale play.

Reserves Report

In June 2007 the Company published the results of the first independent certification of reserves at North Helper. Gross proved and probable gas reserves for the project total 44 Bcf of gas, with 11Bcf net to Odyssey's 30% Working Interest (24% Net Revenue Interest).

The majority of these reserves are in the Ferron coal-bed methane play, with proved and probable gross gas reserves of 28 Bcf associated with the 7 Kenilworth Railroad, Cordingly Canyon and Ball Park Canyon wells and the adjacent 160 acre development locations. Significantly, the certified gas reserve has only been determined for the 9,360 acre central project area, and excludes almost 9,000 acres of leases to the north which also lie on the Ferron coal trend.

Probable gross gas reserves of 16 Bcf have also been certified in the Mancos Shale (based on the Cordingly Canyon # 10-1 and Cordingly Canyon # 15-5 wells), and the Blackhawk Coals (which produce from the Castlegate and Soldier Fields), but the majority of the potential within these objectives (and in the Mesa Verde and Wasatch Formations which are productive in the adjacent West Tavaputs and Natural Buttes Fields) is not captured by the certified reserve estimates and provides a large potential upside in the 29,000 acre project area.

North Helper Gas Project – Reserves Net to Odyssey's 30% Working Interest*:

	Proved (Bcf)	Probable (Bcf)	Total 2P (Bcf)	Possible (Bcf)	Total 3P (Bcf)
Ferron	1	6	7	-	7
Other Objectives	-	4	4	6	10
Project Totals	1	10	11	6	17*

* Gas reserves have not been estimated for the 19,718 acres north of the central project area.

JESTER-BLOOMINGTON GAS FIELD RE-DEVELOPMENT PROJECT – ODYSSEY 33.3% WORKING INTEREST

Key Points

- Project expanded to almost 30,000 acres after a number of lease acquisitions including the 16,000 acre Harlow acquisition,
- Gross 2P reserves of 68 Bcf (18 Bcf net to Odyssey).
- 57 wells and 120 kilometres of pipelines and production infrastructure, with initial drilling and work-over program completed and production base increased from 200 mcfgd to over 500 mcfgd,
- New multi-well work-over program and 10 to 15 well drilling program to commence in Q4 2007, targeting increased gas sales into North American winter and period of peak demand.

Project Summary

The Jester-Bloomington Gas Field Re-Development project is located in Greer County Oklahoma on the western end of one of the largest productive gas trends in North America, which includes Panhandle West, Panhandle, Panhandle East Fields and the Hugoton Fields in Oklahoma, Northern Texas and Kansas.

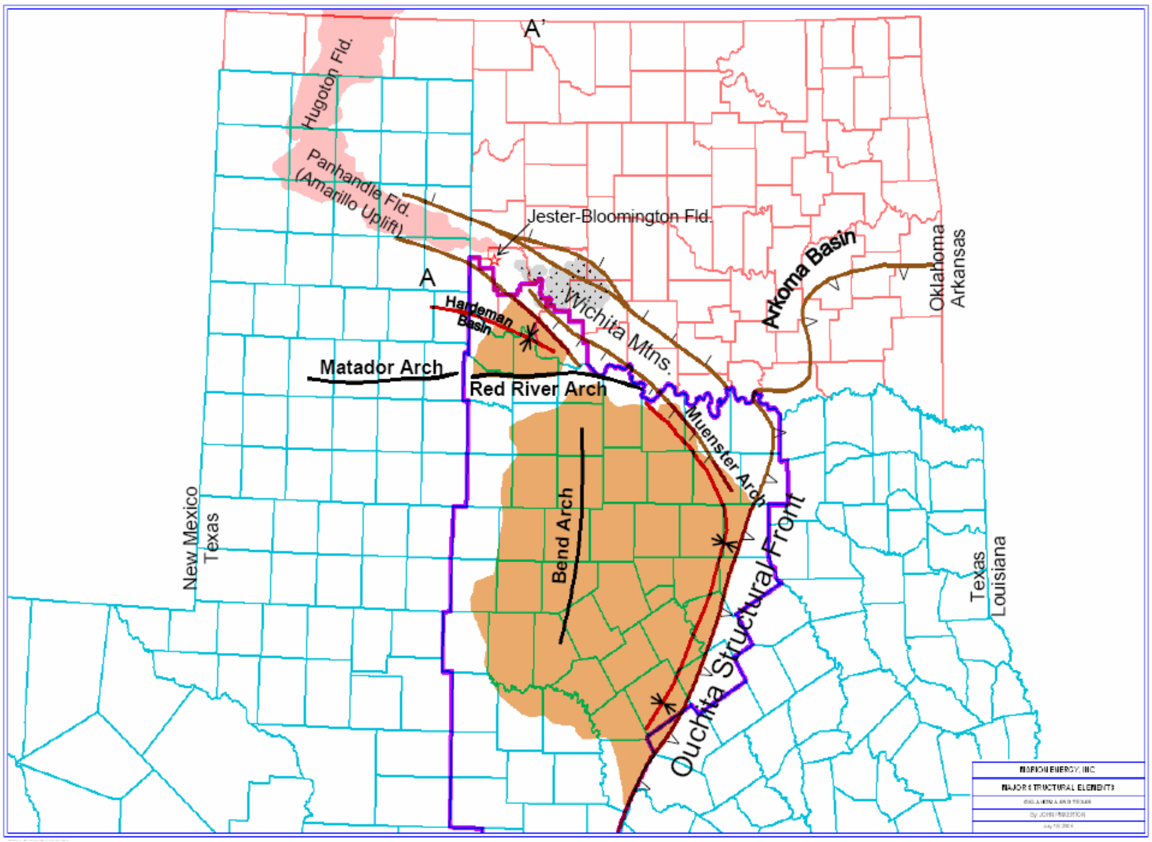

Figure 6: Jester-Bloomington Gas Field Re-Development Project Location Map.

The Jester-Bloomington Field was discovered in the late 1950's and produced almost 8 billion cubic feet of gas from two shallow reservoirs (generally less than 1,500 feet), prior to being shut-in in 1998. The Granite Wash and Brown Dolomite were originally developed by local landowners and small private companies; with average well spacing over 160 acres and 640 acres respectively leaving the potential for a major re-development of the field area. Adjacent fields such as Erick and South Erick (cumulative production over 250 billion cubic feet) are currently being down-spaced to 40 acre development locations.

Project Expansion

In December 2006 the Company participated in the acquisition of approximately 16,000 gross acres covering parts of the North Bloomington and Willow Fields in Greer and Beckham counties, extending north and east of Jester-Bloomington.

In addition to a substantial increase in the size of the project (from approximately 8,000 to 24,000 gross acres), the acquisition included the rights to 52 wells which have produced 5 billion cubic feet of gas from the Brown Dolomite. The majority of these wells were shut-in or in need of remediation, but at the time of settlement produced at a combined rate of 200 mcfgd net to the acquisition.

Given that the wells had been poorly maintained and the acreage was developed on a spacing of greater than 160 acres in the 1970's and 1980's, the new acreage fit seamlessly with plans for the re-development of the original Jester-Bloomington field area; both with the potential for significant increases in production through a program of work-overs of existing wells and through new development drilling and down-spacing to 40 acres.

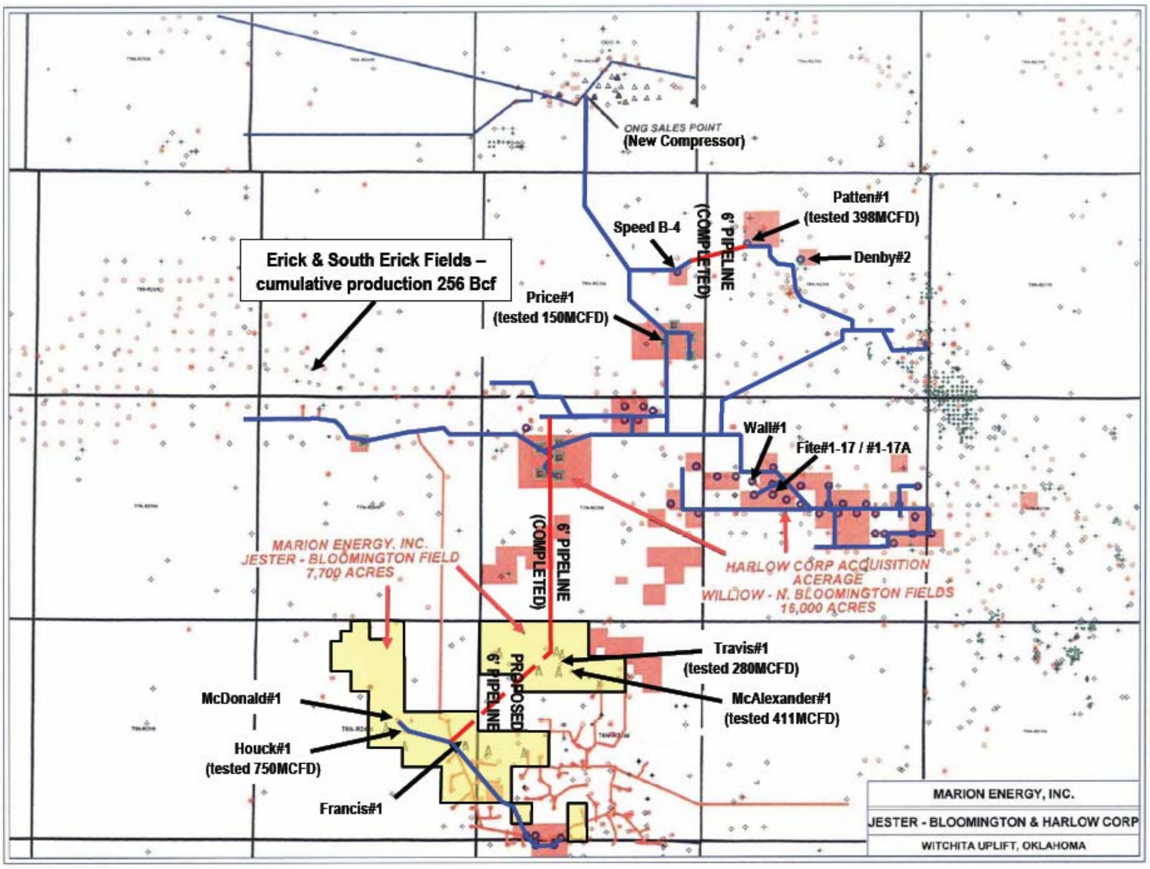

Figure 7: Original Jester-Bloomington leases (yellow) with project expansion highlighted in yellow and infrastructure acquisition in blue.

Importantly the acquisition also included compression facilities and 112 kilometres of pipeline systems with direct access to interstate pipelines and the domestic US natural gas market.

Drilling and Production

In September 2006 McAlexander #1 was drilled as a 'proof of concept' well in the original Jester-Bloomington project area in parallel with the acquisition and testing of a number of adjacent shut-in well bores from the 1950's field development. The well tested at a rate of 411 mcfgd after completion and fracture stimulation in the deeper Granite Wash reservoir only, and the offset Houck #1 and Travis #1 wells were tested at 750 mcfgd and 280 mcfgd respectively, supporting the Company's contention that the area was not only originally significantly under-developed, but that productive areas shut in for extended periods may have re-charged.

An initial work-over program targeting wells in the newly acquired acreage commenced in late December 2006 and yielded similar results, with the Price #1 well recording an 8-fold increase in flow rate to 150 mcfgd on test, and Patten #1 testing at a rate of 398 mcfgd after the addition of 8 feet of new perforations.

At the conclusion of this program, the Company initiated a series of upgrades to the project's pipeline and production infrastructure, including installation of a new sales compressor, completion of a new 6" line to the McAlexander #1 and Travis #1 wells, and completion of a one-mile spur line to the Patten #1 and Denby #2 wells in the NE of the project area. At the conclusion of this work, in June 2007, the pipeline system was successfully pressure-tested and production into the Oneok interstate pipeline re-established.

At the time of writing this report a program of re-visiting the wells initially worked-over and tested had commenced, with wells and gathering systems being progressively optimised and tied into the production infrastructure. The initial impact of this work has been an increase in production from 200 mcfgd to over 500 mcfgd, with further increases expected as the field optimisation program continues. Planning for a second new 6" line to tie the Houck #1, McDonald #1 and Francis #1 wells and the southern part of the project area is also well advanced, and a new work-over program and 10 to 15 well drilling program are scheduled to commence in Q4 2007.

The work-over program will have two separate objectives: with low-cost well enhancements and optimisations expected to increase base-level production for the majority of the 52 wells acquired in late 2006, and a second program which will specifically target a new reservoir objective – the Wellington Limestone.

The Wellington Limestone has produced significant volumes of gas from two wells in the northeast of the project area (Denby #1 and #2), but appears to have been overlooked in other wells on-trend which focused on the deeper Granite Wash and Brown Dolomite reservoirs. Having identified this interval in a program of re-logging the existing wells with modern electric logging suites, the Company will now conduct a series of work-overs specifically targeting the Wellington. If successful, this program not only has the potential to significantly increase production in the short-term, but also has follow-up potential through-out the project area.

The Company's new drilling campaign will run in parallel with the work-over programs, and will commence with 10 to 15 wells in Q4 2007. These wells will infill acreage surrounding some of the most prolific producers from the 1970's and 1980's, with an initial focus on the north-eastern Spring Creek area.

While the primary objective of the drilling program is to begin the development the project's large 68 Bcf certified reserve base in the Brown Dolomite and Granite Wash reservoirs, many of the wells also fall within the Company's area of interest for the Wellington Limestone. If successful in this unit, they will not only further boost production and cash flow from the project, but may also lead to certification of significant new proved and probable reserves.

Reserves Report

In June 2007 the Company published the results of the first independent certification of reserves at Jester-Bloomington, which has grown to almost 30,000 gross acres as a result of an ongoing program of lease acquisition. Gross proved and probable gas reserves for the project total 68 Bcf, with 18 Bcf net to Odyssey's 33.33% Working Interest (approximately 26.67% Net Revenue Interest).

The certified reserves consist of 18 Bcf proved gross gas reserves in the Brown Dolomite and Granite Wash reservoirs, and 50 Bcf of probable gross gas reserves for the two reservoirs, giving the combined 2P gross gas reserve of 68 Bcf for the project as a whole.

Additional possible gas resources are associated with potential down-spacing of development drilling in both reservoirs to 20 acres and the potential for higher ultimate recoveries per well than assumed in the base reserve cases.

Jester-Bloomington Gas Project – Reserves Net to Odyssey's 33.33% Working Interest:

	Proved (Bcf)	Probable (Bcf)	Total 2P (Bcf)	Possible (Bcf)	Total 3P (Bcf)
Brown Dolomite + Granite Wash	5	13	18	-*	18*

* Possible gas reserves associated with down-spacing from 40-acre development locations have not been estimated.

ODYSSEY ENERGY LIMITED
DIRECTORS' REPORT

The Directors of Odyssey Energy Limited present their report on the consolidated entity consisting of Odyssey Energy Limited ("the Company" or "Odyssey" or "Parent Entity") and the entities it controlled at the end of, or during, the year ended 30 June 2007 ("Consolidated Entity" or "Group").

DIRECTORS

The names of directors in office at any time during the financial year or since the end of the financial year are:

Mr Ian Middlemas
Mr Mark O'Clery
Mr Mark Pearce

Unless otherwise disclosed, Directors held their office from 1 July 2006 until the date of this report.

The Company was incorporated on 8 September 2005. Accordingly, the comparative information included in this report is for the period from incorporation to 30 June 2006.

CURRENT DIRECTORS AND OFFICERS

Ian Middlemas
Chairman
Qualifications – B.Com, CA

Mr Middlemas is a Chartered Accountant, a member of the Securities Institute of Australia and holds a Bachelor of Commerce degree. He worked for a large international Chartered Accounting firm before joining the Normandy Mining Group where he was a senior group executive for approximately 10 years. He has had extensive corporate and management experience, and is currently a director with a number of publicly listed companies in the resources sector.

Mr Middlemas was appointed a director of Odyssey Energy Limited on 8 September 2005. During the three year period to the end of the financial year, Mr Middlemas has held directorships in Salinas Energy Limited (November 1995 - present), OmegaCorp Ltd (October 2000 – August 2007), Global Petroleum Limited (April 2007 – present), QED Occtech Limited (July 2001 – present), Indo Mines Limited (December 2006 – present), Mantra Resources Limited (September 2005 – present), Mavuzi Resources Limited (January 2007 – present), Odyssey Energy Limited (September 2005 – present), Pacific Energy Limited (June 2006 – present), Echelon Resources Limited (May 2002 – present), Sierra Mining Limited (January 2006 – present), Sovereign Metals Limited (July 2006 – present), Xenolith Gold Limited (March 2007 - present), Leyshon Resources Ltd (November 2001 - April 2006), Marion Energy Limited (August 2004 - December 2004), Agincourt Resources Ltd (October 2001 - December 2004), Berkeley Resources Ltd (July 2003 – November 2006) and Olea Australis Ltd (October 1999 - November 2004).

Mark O'Clery
Managing Director
Qualifications – B Sc (Hons)

Mr O'Clery is a Petroleum Geologist, specialising in exploration and production, with over 20 years' experience in the international oil and gas business. He has held technical, commercial, operational and managerial roles with a number of large international petroleum companies including WMC Petroleum, British Gas E&P, Ampolex, Mobil E&P, Fusion Oil and Gas, and OMV.

Mr O'Clery was appointed a director of Odyssey Energy Limited on 8 September 2005 and was appointed Managing Director on 3 July 2006. He has not held any other directorships in listed companies during the three year period to the end of the financial year.

ODYSSEY ENERGY LIMITED
DIRECTORS' REPORT (CONTINUED)

Mark Pearce
Finance Director and Company Secretary
Qualifications – B.Bus, CA, FCIS, F Fin

Mr Pearce is a Chartered Accountant and is currently a director of several listed companies that operate in the resources sector. He has had considerable experience in the formation and development of listed small cap resource companies and has worked for several large international Chartered Accounting firms. Mr Pearce is also a Fellow of the Institute of Chartered Secretaries and a Fellow of the Financial Services Institute of Australasia.

Mr Pearce was appointed a director of Odyssey Energy Limited on 8 September 2005, appointed Company Secretary of Odyssey Energy Limited on 10 May 2006, and appointed Finance Director on 3 July 2006. During the three year period to the end of the financial year, Mr Pearce has held directorships in OmegaCorp Limited (October 2000 – August 2007), Leyshon Resources Limited (November 2001 - April 2006), Salinas Energy Limited (February 2002 - July 2006), Xenolith Gold Limited (March 2007 - present), GulfX Limited (May 2007 – present), Mantra Resources Limited (September 2005 – present), Mavuzi Resources Limited (January 2007 – present), QED Occtech Limited (November 2004 – present), Echelon Resources Limited (May 2002 – present), Sovereign Metals Limited (July 2006 – present), Sierra Mining Limited (January 2006 – August 2006), Berkeley Resources Limited (July 2003 – April 2006) and Marion Energy Limited (August 2004 - December 2004).

PRINCIPAL ACTIVITIES

The principal activities of the Consolidated Entity during the financial year consisted of oil and gas exploration, appraisal and development activities following the acquisition of oil and gas projects based in the United States. There has been no change in the nature of those activities.

EMPLOYEES

	2007	2006
The number of full time equivalent people employed by the Consolidated Entity at balance date	1	1

DIVIDENDS

No dividends have been declared, provided for or paid in respect of the year ended 30 June 2007.

EARNINGS PER SHARE

	2007 Cents	2006 Cents
Basic loss per share	(3.31)	(2.3)
Diluted loss per share	(3.31)	(2.3)

CORPORATE STRUCTURE

Odyssey Energy Limited is a company limited by shares that is incorporated and domiciled in Australia. The Company has prepared a consolidated financial report including the entities it incorporated and controlled during the financial year.

ODYSSEY ENERGY LIMITED
DIRECTORS' REPORT (CONTINUED)

CONSOLIDATED RESULTS

	2007 $	2006 $
Loss of the Consolidated Entity before income tax expense	(1,367,963)	(535,935)
Income tax expense	-	-
Net loss	(1,367,963)	(535,935)

REVIEW OF OPERATIONS AND ACTIVITIES

A review of the Group's operations during the year to 30 June 2007 is contained in the Review of Operations (pages 4 to 15) and forms part of this report.

Corporate and Financial Position

The Board has resolved that it intends to undertake a placement, subject to shareholder approval, of 10 million shares at $0.40 to raise $4.0 million before costs, to provide funding to undertake a proposed drilling and completion program at Oklahoma and general working capital. The Board has also resolved to undertake a rights issue to all existing and new shareholders on a 1 for 3 basis for a listed option exercisable at $0.50 on or before 31 December 2009, at an issue price of $0.03 per option.

If the Group is not able to generate sufficient cash flow from its oil and gas projects to fund ongoing exploration and appraisal programs, additional funding may be required, which may include debt funding or further capital raisings.

Business Strategies and Prospects

The Company currently has the following business strategies and prospects over the medium to long term:

i) Seek to maximise the value of the Group's oil and gas assets in the USA;
ii) Expand the Company's portfolio of oil and gas assets in both the United States and other areas where the Company sees an opportunity to grow the oil and gas business; and
iii) Continuing to examine other new business development opportunities in the energy industry, but with the emphasis on the oil and gas sector.

Risk Management

The Board is responsible for the oversight of the Consolidated Entity's risk management and control framework. Responsibility for control and risk management is delegated to the appropriate level of management with the Managing Director having ultimate responsibility to the Board for the risk management and control framework.

Arrangements put in place by the Board to monitor risk management include regular reporting to the Board in respect of operations and the financial position of the Group.

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

Other than as disclosed below, there were no significant changes in the state of affairs of the Group during the year.

i) On 3 July 2006, Mr Mark O'Clery was appointed Managing Director of the Company.

ii) On 4 July 2006, the Group announced the acquisition of an additional 22,438 acres forming part of the NHGP at a net cost to Odyssey of US$1.51 million.

iii) On 29 September 2006 the completed a placement of 12 million shares at $0.60 each, to raise $7.2 million before costs.

iv) On 18 December 2006, the Company acquired a 33% working interest in an additional 16,000 acres of the Jester-Bloomington Gas Redevelopment Project, which also included the rights to over 50 wells and 112 km of pipeline and gas gathering systems.

ODYSSEY ENERGY LIMITED
DIRECTORS' REPORT (CONTINUED)

v) On 15 February 2007 the Company completed a placement of 6 million shares at $0.50 each, to raise $3.0 million before costs.

vi) In June 2007, the independent certification of gross proved and probable ("2P") gas reserves totalling 112 billion cubic feet ("Bcf") at North Helper & Jester-Bloomington, of which 29 Bcf is net to Odyssey.

SIGNIFICANT POST BALANCE DATE EVENTS

The Board has resolved that it intends to undertake a placement, subject to shareholder approval, of 10 million shares at $0.40 to raise $4.0 million before costs, to provide funding to undertake a proposed drilling and completion program at Oklahoma and general working capital.

The Board has also resolved to undertake a rights issue to all existing and new shareholders on a 1 for 3 basis for a listed option exercisable at $0.50 on or before 31 December 2009, at an issue price of $0.03 per option.

Other than as outlined above as at the date of this report there are no matters or circumstances, which have arisen since 30 June 2007 that have significantly affected or may significantly affect:

(a) the operations, in financial years subsequent to 30 June 2007, of the Consolidated Entity;
(b) the results of those operations, in financials years subsequent to 30 June 2007, of the Consolidated Entity; or
(c) the state of affairs, in financial years subsequent to 30 June 2007, of the Consolidated Entity.

ENVIRONMENTAL REGULATION AND PERFORMANCE

The Consolidated Entity's operations are subject to various environmental laws and regulations under the relevant government's legislation, including Utah and Oklahoma, USA. Full compliance with these laws and regulations is regarded as a minimum standard for all operations to achieve.

Instances of environmental non-compliance by an operation are identified either by external compliance audits or inspections by relevant government authorities. There have been no significant known breaches by the Consolidated Entity during the financial year.

LIKELY DEVELOPMENTS AND EXPECTED RESULTS

It is the Board's current intention that the Group will seek to progress exploration, appraisal and field development activities on the United States oil and gas projects. The Company will also continue to examine new opportunities in the oil and gas sector.

These activities are inherently risky and there can be no certainty that the Group will be able to successfully achieve the objectives. In the opinion of the Directors, any further disclosure of information regarding likely developments in the operations of the Group and the expected results of these operations in subsequent financial years may prejudice the interests of the Company and accordingly further information has not been disclosed.

ODYSSEY ENERGY LIMITED
DIRECTORS' REPORT (CONTINUED)

INFORMATION ON DIRECTORS' INTERESTS IN SECURITIES OF ODYSSEY

	Interest in Securities at the date of this Report				Interest in Securities issued/granted during the year			
	Shares(1)	$0.20 Unlisted Options(2)	$0.60 Unlisted Options(3)	$1.00 Unlisted Options(4)	Shares(1)	$0.20 Unlisted Options(2)	$0.60 Unlisted Options(3)	$1.00 Unlisted Options(4)
Ian Middlemas	2,900,000			-	-	-	-	-
Mark O'Clery	500,000	300,000	600,000	600,000	300,000	-	600,000	600,000
Mark Pearce	1,016,000		250,000	250,000	300,000	-	250,000	250,000

(1) "Shares" means fully paid ordinary shares in the capital of the Company. These Shares were subscribed for by the directors following shareholder approval and not issued in connection with their employment.
(2) $0.20 "Unlisted Options" means an option to subscribe for 1 ordinary Share in the capital of the Company at an exercise price of $0.20 on or before 31 December 2008.
(3) $0.60 "Unlisted Options" means an option to subscribe for 1 ordinary Share in the capital of the Company at an exercise price of $0.60 on or before 30 June 2009.
(4) $1.00 "Unlisted Options" means an option to subscribe for 1 ordinary Share in the capital of the Company at an exercise price of $1.00 on or before 31 December 2009.

SHARE OPTIONS

At the date of this report the following options have been issued or over unissued capital:

- 300,000 unlisted options at an exercise price of $0.20 each that expire on 31 December 2008
- 850,000 unlisted options at an exercise price of $0.60 each that expire on 30 June 2009
- 1,400,000 unlisted options at an exercise price of $1.00 each that expire on 31 December 2009

Since 30 June 2007, no shares have been issued as a result of the exercise of options.

MEETINGS OF DIRECTORS

The following table sets out the number of meetings of the Company's directors held during the year ended 30 June 2007, and the number of meetings attended by each director.

	Board Meetings Number eligible to attend	Board Meetings Number attended
Current Directors		
Ian Middlemas	8	6
Mark O'Clery	8	7
Mark Pearce	8	8

REMUNERATION REPORT

This report details the amount and nature of remuneration of each director of the Company. Other than directors, there were no executive officers of the Company during the year.

Remuneration Policy

Non-Executives
The Board policy is to remunerate non-executive directors at market rates for comparable companies for time, commitment and responsibilities. The Board determines payments to the non-executive directors and reviews their remuneration annually, based on market practice, duties and accountability. Independent external advice is sought when required. The maximum aggregate amount of fees that can be paid to non-executive directors is subject to approval by shareholders at a General Meeting. Fees for non-executive directors are not linked to the performance of the Group or shareholder wealth. However, to align directors' interests with shareholder interests, the directors are encouraged to hold shares in the Company and have in limited circumstances received options.

During the 2006 financial year, Mr O'Clery received options as consideration for becoming a director prior to the Initial Public Offering ("IPO"). As the options were not issued until the IPO was successfully completed, and given the nature and size of the Company's activities at the time of grant, no further performance requirements were considered necessary and there was no other incentive based remuneration paid to directors or executives.

As the size and nature of the Company's activities have grown considerably, the roles of the Board members have changed and with the appointment of executives in July 2006, remuneration arrangements were reviewed in the 2007 financial year.

Executives
The remuneration policy for executives is to provide a fixed remuneration component and a specific equity related component. The board believes that this remuneration policy is appropriate given the stage of development of the Company and the activities which it undertakes and is appropriate in aligning director objectives with shareholder and business objectives.

The remuneration policy in regard to setting the terms and conditions for the executive directors has been developed by the board taking into account market conditions and comparable salary levels for companies of a similar size and operating in similar sectors.

The Company is a growing listed company with most of its funds allocated to specific exploration and development activities. As a result, the Board chose to issue incentive options to the executives as a key component of the incentive portion of his remuneration, in order to retain the services of the executives and to provide an incentive linked to the performance of the Company. The Board considers that the executives' experience in the resources industry will greatly assist the Company in progressing the projects to the next stage of development. As such, the Board believes that the number of options granted to the executives is commensurate to their value to the Company. There are no additional performance criteria on the shares or options as:

- the Incentive Options granted to the executives had exercise prices equal to, or greater than, the issue price of the shares when announced; and

- given the speculative nature of the Company's activities and the small management team responsible for its running, it is considered the performance of the executives and the performance and value of the Company are closely related. As such, the options granted will generally only be of benefit if the executives performs to the level whereby the value of the Company increases sufficiently to warrant exercising the options granted.

As the Company has only been incorporated since September 2005 and is in the development stage of an inherently risky industry, the remuneration policy does not currently take into account current or prior year earnings or shareholder wealth. However the Board believes that the granting of options to executive directors has provided the executives with an incentive to generate shareholder wealth.

General
Directors receive a superannuation guarantee contribution required by the government, which is currently 9% and do not receive any other retirement benefit. Some individuals, however, may choose to sacrifice part of their salary to increase payments towards superannuation. All remuneration paid to directors is valued at cost to the company and expensed.

Details of the nature and amount of each element of the emolument of each director of the Company for the year ended 30 June 2007 are as follows:

ODYSSEY ENERGY LIMITED
DIRECTORS' REPORT (CONTINUED)

Remuneration of Key Management Personnel

Details of the nature and amount of each element of the emolument of each director of the Company for the year ended 30 June 2007 are as follows (other than directors, there were no other key management personnel employed by the Group during the 2007 or 2006 financial years):

		Short-term Salary & Fees	**Other** (3)	**Post-employment** Superannuation benefits	**Share based Payments** Value of Unlisted Options(2)	**Total**	**Performance Related**
		$	$	$	$	$	%
Directors							
Mr Ian Middlemas (Chairman)	2007	36,000	-	-	-	36,000	-
Mr Mark O'Clery (Managing Director)	2007	-	302,860	-	333,960	636,820	52.43%
Mr Mark Pearce (Finance Director)	2007	30,000	-	-	139,150	169,150	82.27%
Total Remuneration – Directors	2007	66,000	302,860	-	473,110	841,970	

		Short-term Salary & Fees	**Other** (3)	**Post-employment** Superannuation benefits	**Share based Payments** Value of Unlisted Options(2)	**Total**	**Performance Related**
		$	$	$	$	$	%
Directors							
Mr Ian Middlemas (Chairman)	2006	21,000		-	-	21,000	-
Mr Mark O'Clery (Managing Director)	2006	7,500	55,800	-	30,420	93,720	32.5
Mr Mark Pearce (Finance Director)	2006	10,000		-	-	10,000	-
Total Remuneration – Directors	2006	38,500	55,800	-	30,420	124,720	

Notes

(1) During the year, no remuneration was paid in the form of a long-term incentive bonus, non-monetary benefit, prescribed benefit or other benefit to key management personnel. Additional disclosure in relation to remuneration policies is contained in the Remuneration Report.

(2) The fair value of the options has been independently calculated at the date of grant using a Binominal model (see Note 10(h) for terms and conditions of Unlisted Options).

(3) This relates to consulting fees paid to Mark O'Clery during the period in the capacity as a contractor to the Company.

All options are vested and exercisable. There are no contracts with Directors.

No options granted as part of their remuneration were exercised by key management personnel during the 2007 financial year.

ODYSSEY ENERGY LIMITED
DIRECTORS' REPORT (CONTINUED)

Compensation Options: Granted and Vested (Consolidated)

Options 2007

	Terms & conditions for each grant							Vested	
30 June 2006	No.	Grant Date	Fair Value per option at grant date ($)	Exercise price per option ($)	Expiry Date	First Exercise Date	Last Exercise Date	No.	%
Directors									
Mark O'Clery	300,000	23 Nov 05	$0.1014	$0.20	31 Dec 08	23 Nov 05	31 Dec 08	300,000	100
30 June 2007									
Directors									
Mark O'Clery	600,000	29 Sep 06	$0.3061	$0.60	30 Jun 09	29 Sep 06	30 Jun 09	600,000	100
Mark O'Clery	600,000	29 Sep 06	$0.2505	$1.00	31 Dec 09	29 Sep 06	31 Dec 09	600,000	100
Mark Pearce	250,000	29 Sep 06	$0.3061	$0.60	30 Jun 09	29 Sep 06	30 Jun 09	250,000	100
Mark Pearce	250,000	29 Sep 06	$0.2505	$1.00	31 Dec 09	29 Sep 06	31 Dec 09	250,000	100
Total	**2,000,000**							**2,000,000**	

Value of Options Granted to Directors

The following table discloses the value of options granted, exercised or lapsed during the year:

Name	Grant date	Number granted	Vested	Value per Option at grant date	Value of options granted during the year	Value of options exercised during the year	Value of options lapsed during the year	Value of options granted, exercised & lapsed during the year	Percentage of total remuneration for the year that consists of options
Mark O'Clery	29 Sep 2006	600,000	600,000	$0.3061	$183,660	-	-	$183,660	28.83%
	29 Sep 2006	600,000	600,000	$0.2505	$150,300	-	-	$150,300	23.60%
Mark Pearce	29 Sep 2006	250,000	250,000	$0.3061	$76,525	-	-	$76,525	45.24%
	29 Sep 2006	250,000	250,000	$0.2505	$62,625	-	-	$62,625	37.02%

Fair Value of Options

Options granted as part of director and executive emoluments have been independently valued using the Binomial Option Valuation model, which takes account of factors including the option exercise price, the current level and volatility of the underlying share price, the risk-free interest rate, expected dividends on the underlying share, current market price of the underlying share and the expected life of the option.

See below for the assumptions used for grants made during the financial years ended 30 June 2006 and 30 June 2007:

	$0.20 Options	**$0.60 Options**	**$1.00 Options**
Exercise price	$0.20	$0.60	$1.00
Price of shares on date of grant	$0.20	$0.61	$0.61
Price of shares at 30 June 2007	$0.83	$0.83	$0.83
Dividend yield	-	-	-
Volatility	75%	74%	74%
Risk-free interest rate	4.90%	5.75%	5.75%
Issue Date	23 Nov 2005	29 Sep 2006	29 Sep 2006
Expiry date	31 Dec 2008	30 June 2009	31 Dec 2009
Expected life of option	3.10 years	2.75 years	3.25 years
Fair value at grant date	$0.1014	$0.3061	$0.2505

The dividend yield reflects the assumption that the current dividend payout will remain unchanged. The expected life of the options is based on historical data and is not necessarily indicative of exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome.

Employment Contracts with Directors and Executives

No employment contracts have been entered into with any directors or executives of the Company. By way of a Board resolution, Mr O'Clery receives a daily rate of $1,500 ($1,950 whilst travelling internationally) and Mr Pearce receives a retainer of $30,000 per annum. Their services are able to be terminated without notice.

Mr Pearce is a director and beneficial shareholder of Apollo Group Pty Ltd, which provided a fully serviced office, administration services (including company secretarial) and other services for a fixed monthly retainer of $15,000 for the year ended 30 June 2007 (2006: $10,500). This arrangement is able to be terminated by one month's notice by either party.

On 27 September 2006, shareholders approved the granting of Unlisted Incentive Options to Messrs O'Clery and Pearce. Further details regarding the Unlisted Incentive Options are outlined in the *Information on Directors' Interests in Securities of Odyssey* section of this report.

INSURANCE OF OFFICERS AND AUDITORS

The Company has not, during or since the end of the financial year, indemnified or agreed to indemnify an officer or auditor of the Company or of any related body corporate against a liability incurred as such an officer or auditor.

NON-AUDIT SERVICES

The Directors are satisfied that the provision of non-audit services during the year ended 30 June 2007 by the auditor (BDO Kendalls Audit & Assurance (WA) ("BDO")) is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001, as:

i) The only non-audit service provided by BDO was an Investigating Accountants Report for the Company's prospectus dated 28 September 2006;

ii) The audit division (including partner and staff) involved with the audit of the Group were not involved with the provision of the non-audit service; and

iii) Only a relatively small fee (being $4,807) was paid to BDO for the non-audit service - details of amounts paid or payable to the auditor for non-audit services provided during the year by the auditor are outlined in Note 14 to the Financial Statements.

Based on the above, the Board is satisfied that the nature and scope of the non-audit service provided did not compromise the auditor's independence.

AUDITOR'S INDEPENDENCE DECLARATION

The auditor's independence declaration is on page 25 of the Annual Financial Report.

This report is made in accordance with a resolution of the directors made pursuant to section 298(2) of the Corporations Act 2001.

For and on behalf of the Directors

MARK O'CLERY
Managing Director

Perth, 26 September 2007

BDO Kendalls

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ABN 90 360 101 594

26 September 2007

The Directors
Odyssey Energy Limited
Level 9, 28 The Esplanade
PERTH WA 6000

Dear Sirs

DECLARATION OF INDEPENDENCE BY BDO KENDALLS TO THE DIRECTORS OF ODYSSEY ENERGY LIMITED

As lead auditor of Odyssey Energy Limited for the year ended 30 June 2007, I declare that, to the best of my knowledge and belief, there have been no contraventions of:

- the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and

- any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Odyssey Energy Limited and the entities it controlled during the period.

Yours faithfully
BDO Kendalls Audit & Assurance (WA) (formerly BDO)

BG McVeigh
Partner

INCOME STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2007

	Note	Consolidated 2007 $	Consolidated 2006 $	Company 2007 $	Company 2006 $
Continuing Operations					
Revenue	2(a)	**210,445**	**98,800**	**91,665**	**98,800**
Administration costs		(393,209)	(173,012)	(360,131)	(173,012)
Business development costs		(152,027)	(31,846)	(28,824)	(31,846)
Exploration costs		(758,431)	(214,158)	(681,054)	(214,158)
Finance costs	2(b)	(274,741)	(215,719)	(274,741)	(215,719)
Impairment of assets		-	-	-	(100,000)
Loss before income tax expense		**(1,367,963)**	**(535,935)**	**(1,253,085)**	**(635,935)**
Income tax expense	3	-	-	-	-
Net loss attributable to members of Odyssey Energy Limited		**(1,367,963)**	**(535,935)**	**(1,253,085)**	**(635,935)**
Basic loss per share (cents per share)	18	(3.31)	(2.30)		
Diluted loss per share (cents per share)	18	(3.31)	(2.30)		

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

BALANCE SHEETS
AS AT 30 JUNE 2007

	Note	Consolidated 2007 $	Consolidated 2006 $	Company 2007 $	Company 2006 $
Current Assets					
Cash and Cash Equivalents	19(b)	1,216,430	2,438,520	1,159,516	2,438,520
Trade and Other Receivables	4	77,592	12,089	15,943	12,089
Total Current Assets		1,294,022	2,450,609	1,175,459	2,450,609
Non-current Assets					
Property, plant and equipment	5	34,656	-	7,547	-
Other financial assets	6	-	-	14,946,969	4,805,057
Exploration expenditure	7	15,050,168	8,191,866	-	-
Total Non-current Assets		15,084,824	8,191,866	14,954,516	4,805,057
TOTAL ASSETS		**16,378,846**	**10,642,475**	**16,129,975**	**7,255,666**
Current Liabilities					
Trade and Other Payables	8	1,998,797	3,429,424	64,857	125,534
Total Current Liabilities		1,998,797	3,429,424	64,857	125,534
Non-current Liabilities					
Borrowings	9	2,925,000	2,925,000	2,925,000	2,925,000
Total Non-current Liabilities		2,925,000	2,925,000	2,925,000	2,925,000
TOTAL LIABILITIES		**4,923,797**	**6,354,424**	**2,989,857**	**3,050,534**
NET ASSETS		**11,455,049**	**4,288,051**	**13,140,118**	**4,205,132**
EQUITY					
Contributed equity	10(a)	14,387,833	4,810,647	14,387,833	4,810,647
Reserves	10(c)	(1,028,886)	13,339	641,305	30,420
Accumulated losses		(1,903,898)	(535,935)	(1,889,020)	(635,935)
TOTAL EQUITY		**11,455,049**	**4,288,051**	**13,140,118**	**4,205,132**

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

CASH FLOW STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2007

	Note	Consolidated 2007 $	Consolidated 2006 $	Company 2007 $	Company 2006 $
Cash flows from operating activities					
Interest received		91,868	98,800	91,665	98,800
Payments to suppliers and employees		(701,365)	(490,870)	(519,280)	(490,870)
Receipts from customers		118,577	-	-	-
Interest paid		(274,741)	-	(274,741)	-
Net cash outflow from operating activities	19(a)	**(765,661)**	**(392,070)**	**(702,356)**	**(392,070)**
Cash flows from investing activities					
Purchase of property, plant and equipment		(42,471)	-	(11,921)	-
Loans to controlled entities		-	-	(10,141,913)	(4,905,057)
Exploration expenditure		(9,991,144)	(4,905,057)	-	-
Net cash outflow from investing activities		**(10,033,615)**	**(4,905,057)**	**(10,153,834)**	**(4,905,057)**
Cash flows from financing activities					
Proceeds from issue of shares		10,200,000	5,150,002	10,200,000	5,150,002
Proceeds from issue of convertible notes		-	2,925,000	-	2,925,000
Proceeds from Borrowings		800,000	-	800,000	-
Repayment of Borrowings		(800,000)	-	(800,000)	-
Transaction costs from issue of shares		(622,814)	(339,355)	(622,814)	(339,355)
Net cash inflow from financing activities		**9,577,186**	**7,735,647**	**9,577,186**	**7,735,647**
Net increase in cash and cash equivalents held		**(1,222,090)**	**2,438,520**	**(1,279,004)**	**2,438,520**
Cash and cash equivalents at the beginning of the financial year		**2,438,520**	**-**	**2,438,520**	**-**
Cash and cash equivalents at the end of the financial year	19(b)	**1,216,430**	**2,438,520**	**1,159,516**	**2,438,520**

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

STATEMENTS OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2007

CONSOLIDATED	**Attributable to equity holders of the parent**				**Total equity**
	Issued Capital $	Currency Translation Reserve $	Option Premium Reserve $	Accumulated Losses $	$
As at 8 September 2005	**-**	**-**	**-**	**-**	**-**
Currency translation reserve	-	(17,081)	-	-	(17,081)
Net income recognised directly in equity					
Net loss for the period	-	(17,081)	-	(535,935)	(535,935)
		(17,081)		(535,935)	(553,016)
Total recognised income and expenditure for the period attributable to members of Odyssey Energy Limited	-	(17,081)	-	(535,935)	(553,016)
Issue of shares	5,150,002	-	-	-	5,150,002
Share issue costs	(339,355)	-	-	-	(339,355)
Cost of share based payments	-	-	30,420	-	30,420
As at 30 June 2006	**4,810,647**	**(17,081)**	**30,420**	**(535,935)**	**4,288,051**
As at 1 July 2006	**4,810,647**	**(17,081)**	**30,420**	**(535,935)**	**4,288,051**
Currency translation reserve	-	(1,653,110)	-	-	(1,653,110)
Net income recognised directly in equity					
Net loss for the year	-	(1,653,110)	-	(1,367,963)	(1,367,963)
		(1,653,110)		(1,367,963)	(3,021,073)
Total recognised income and expenditure for the year attributable to members of Odyssey Energy Limited	-	(1,653,110)	-	(1,367,963)	(3,021,073)
Issue of shares	10,200,000	-	-	-	10,200,000
Share issue costs	(622,814)	-	-	-	(622,814)
Cost of share based payments	-	-	610,885	-	610,885
As at 30 June 2007	**14,387,833**	**(1,670,191)**	**641,305**	**(1,903,898)**	**11,455,049**

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

STATEMENTS OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2007

COMPANY	Attributable to equity holders of the parent				Total equity
	Issued Capital	Currency Translation Reserve	Option Premium Reserve	Accumulated Losses	
	$	$	$	$	$
As at 8 September 2005	**-**	**-**	**-**	**-**	**-**
Net loss for the period	-	-	-	(635,935)	(635,935)
Total recognised income and expenditure for the period attributable to members of Odyssey Energy Limited	-	-	-	(635,935)	(635,935)
Issue of shares	5,150,002	-	-	-	5,150,002
Share issue costs	(339,355)	-	-	-	(339,355)
Cost of share based payments	-	-	30,420	-	30,420
As at 30 June 2006	**4,810,647**	**-**	**30,420**	**(635,935)**	**4,205,132**
As at 1 July 2006	**4,810,647**	**-**	**30,420**	**(635,935)**	**4,205,132**
Net loss for the year	-	-	-	(1,253,085)	(1,253,085)
Total recognised income and expenditure for the year attributable to members of Odyssey Energy Limited	-	-	-	(1,253,085)	(1,253,085)
Issue of shares	10,200,000	-	-	-	10,200,000
Share issue costs	(622,814)	-	-	-	(622,814)
Cost of share based payments	-	-	610,885	-	610,885
As at 30 June 2007	**14,387,833**	**-**	**641,305**	**(1,889,020)**	**13,140,118**

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

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in preparing the financial report of the Company, Odyssey Energy Limited and its consolidated entities ("Consolidated Entity" or "Group") for the year ended 30 June 2007 are stated to assist in a general understanding of the financial report.

Odyssey Energy Limited is a company limited by shares incorporated in Australia whose shares are publicly traded on the Australian Stock Exchange.

The financial report of the Company for the year ended 30 June 2007 was authorised for issue in accordance with a resolution of the Directors on 26 September 2007.

(a) Basis of Preparation

The financial report is a general purpose financial report which has been prepared in accordance with Australian Accounting Standards ("AASBs") adopted by the Australian Accounting Standards Board ("AASB") and the *Corporations Act 2001*.

The financial report has also been prepared on a historical cost basis, except for investment properties and available-for-sale investments, which have been measured at fair value.

The financial report is presented in Australian dollars.

The Company was incorporated on 8 September 2005. Accordingly, the comparative information included in this report is for the period from incorporation to 30 June 2006.

(b) Statement of Compliance

The financial report complies with Australian Accounting Standards, which include Australian equivalents to International Financial Reporting Standards (AIFRS). The financial report also complies with International Financial Reporting Standards (IFRS).

The Group has elected to apply the following pronouncement to the annual reporting period beginning 1 July 2006:

- Revised AASB 101 *Presentation of Financial Statements* (issued October 2006).

This includes applying the pronouncement to the comparatives in accordance with AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors*. No adjustments to the financial statements were required for the above pronouncement but certain disclosures are no longer required and have therefore been omitted.

Except for the amendments to AASB 101 *Presentation of Financial Statements*, which the Group has early adopted, Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet effective have not been adopted by the Group for the annual reporting period ended 30 June 2007. These are outlined in the table below:

Reference	Title	Summary	Application date of standard	Impact on Group financial report	Application date for Group
AASB 7	*Financial Instruments: Disclosures*	New standard replacing disclosure requirements of AASB 132	1 January 2007	AASB 7 is a disclosure standard so will have no direct impact on the amounts included in the Group's financial statements. However, the amendments will result in changes to the financial instrument disclosures included in the Group's financial report.	1 July 2007

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) Statement of Compliance (continued)

Reference	Title	Summary	Application date of standard	Impact on Group financial report	Application date for Group
AASB 2005-10	Amendments to Australian Accounting Standards [AASB 132, AASB 101, AASB 114, AASB 117, AASB 133, AASB 139, AASB 1, AASB 4, AASB 1023, & AASB 1038]	Amendments arise from the release in August 2005 of AASB 7 *Financial Instruments: Disclosures*	1 January 2007	As above.	1 July 2007
AASB 8	*Operating Segments*	Replaces the presentation requirements of segment reporting in AASB 114 *Segment Reporting*.	1 January 2009	AASB 8 is a disclosure standard so will have no direct impact on the amounts included in the Group's financial statements.	1 July 2009
AASB 2007-3	Amendments to Australian Accounting Standards [AASB 5, AASB 6, AASB 102, AASB 107, AASB 119, AASB 127, AASB 134, AASB 136, AASB 1023, & AASB 1038]	Amendments arise from the release of AASB 8 *Operating Segments*	1 January 2009	As above.	1 July 2009
AASB I-10	Interim Financial Reporting and Impairment	Clarifies that an entity shall not reverse an impairment loss recognised in a previous interim period in respect of goodwill or an investment in either an equity instrument or a financial asset carried at cost.	1 November 2006	As the Group has not recognised an impairment loss on any such assets at an interim period and subsequently reversed the impairment loss in the annual report, this amendment is not expected to have any impact on the Group's financial report.	1 July 2007

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) Statement of Compliance (continued)

Reference	Title	Summary	Application date of standard	Impact on Group financial report	Application date for Group
AASB I-11	AASB 2 - Group and Treasury Share Transactions	Addresses the classification of a share-based payment transaction (as equity or cash settled), in which equity instruments of the parent or another group entity are transferred, in the financial statements of the entity receiving the services.	1 March 2007	As equity instruments of one group entity have not been transferred to make payments on behalf of another group entity, this interpretation is not expected to have any impact on the Group's financial report.	1 July 2007
AASB 2007-1	Amendments to Australian Accounting Standard AASB 2	Amendments arise from the release of AASB Interpretation 11.	1 March 2007	As above.	1 July 2007
AASB I-12	Service Concession Arrangements	This Interpretation gives guidance on the accounting by operators for public-to-private service concession arrangements.	1 January 2008	As the Group is not a party to any service concession arrangements, this interpretation is not expected to have any impact on the Group's financial report.	1 July 2008
AASB 2007-2	Amendments to Australian Accounting Standards [AASB 1, AASB 117, AASB 118, AASB 120, AASB 121, AASB 127, AASB 131, & AASB 139.]	Amendments arise from the release of AASB Interpretation 11.	1 January 2008	As above.	1 July 2008
AASB 2007-4	Amendments to Australian Accounting Standards arising from ED 151 and Other Amendments [AASB 1, 2, 3, 4, 5, 6, 7, 102, 107, 108, 110, 112, 114, 116, 117, 118, 119, 120, 121, 127, 128, 129, 130, 131, 132, 133, 134, 136, 137, 138, 139, 141, 1023 & 1038]	Inserts accounting treatment options that currently exist under IFRSs back into AIFRSs and removes Australian-specific disclosures that were originally added into AIFRSs on first-time adoption from 1 January 2005.	Periods commencing on or after 1 July 2007	Most changes relate to certain Australian-specific disclosures not being required. The entity does not intend to adopt any reinstated options for accounting treatment when the standard is adopted. As such. There will be no future financial impacts on the financial statements.	1 July 2007

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Principles of Consolidation

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Odyssey Energy Limited ("Company" or "Parent Entity") as at 30 June 2007 and the results of all subsidiaries for the year then ended. Odyssey Energy Limited and its subsidiaries together are referred to as the Consolidated Entity or Group.

Subsidiaries are all those entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies, so as to obtain benefits from its activities, generally accompanying a shareholding of more than one-half of the voting rights. The existence and potential effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

The financial statements of the subsidiaries are prepared for the same reporting year as the Parent Entity, using consistent accounting policies. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

Intercompany transactions and balances, income and expenses and profits and losses between Group companies, are eliminated.

Investments in subsidiaries are accounted for at cost in the individual financial statements of the Company.

(d) Segment Reporting

A business segment is a distinguishable component of an entity that is engaged in providing products or services that are subject to risks and returns that are different to those of other business segments. A geographical segment is a distinguishable component of an entity that is engaged in providing products or services within a particular economic environment and is subject to risks and returns that are different from those of segments operating in other economic environments.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) Foreign Currency Translation

Both the functional and presentation currency of the Parent Entity at 30 June 2007 was Australian Dollars.

The following table sets out the functional currency of the subsidiaries of the Group:

Company Name	Functional Currency
OEL Operating (USA), Inc	United States Dollars

Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

Transactions in foreign currencies are initially recorded in the functional currency at the exchange rates ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date.

All exchange differences in the consolidated financial report are taken to the income statement with the exception of differences in foreign currency borrowings that provide a hedge against a net investment in a foreign entity. These are taken directly to equity until the disposal of the net investment, at which time they are recognised in the income statement. Tax charges and tax credits attributable to exchange differences on those borrowings are also recognised in equity.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of the initial transaction. Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rate at the date when the fair value was determined.

Where the functional currency of a subsidiary of the Parent Entity is not Australian Dollars the assets and liabilities of the subsidiary at reporting date are translated into the presentation currency of the Parent Entity at the rate of exchange ruling at the balance sheet date and the income statements are translated by applying the monthly average exchange rate.

Any exchange differences arising on this retranslation are taken directly to a separate component of equity.

On disposal of a foreign entity, the deferred cumulative amount recognised in equity and relating to that particular foreign operation is recognised in the Income Statement.

(f) Revenue Recognition

Revenue is recognised to the extent that it is probable that economic benefits will flow to the Group and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable. The following specific recognition criteria must also be met before revenue is recognised:

Sale of Goods
Revenue is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer and can be measured reliably. Risks and rewards are considered passed to the buyer at the time of delivery of the goods to the customer.

Interest
Interest revenue is recognised as the interest accrues (using the effective interest method, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument) to the net carrying value amount of the financial asset.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) Income Tax

The income tax expense for the year is the tax payable on the current year's taxable income based on the national income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements, and to unused tax losses.

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to apply when the assets are recovered or liabilities are settled, based on those tax rates which are enacted or substantively enacted for each jurisdiction. The relevant tax rates are applied to the cumulative amounts of deductible and taxable temporary differences to measure the deferred tax asset or liability. An exception is made for certain temporary differences arising from the initial recognition of an asset or a liability. No deferred tax asset or liability is recognised in relation to these temporary differences if they arose on goodwill or in a transaction, other than a business combination, that at the time of the transaction did not affect either accounting profit or taxable profit or loss.

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in controlled entities where the Parent Entity is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

Unrecognised deferred income tax assets are reassessed at each balance date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Current and deferred tax balances attributable to amounts recognised directly in equity are also recognised directly in equity.

Deferred tax assets and deferred tax liabilities are offset only if a legally enforceable right exists to set off current tax assets against tax liabilities and the deferred tax liabilities relate to the same taxable entity and the same taxation authority.

The Parent Entity and its wholly owned Australian controlled entities (if any) have not implemented the tax consolidation legislation.

(h) Business Combinations

The purchase method of accounting is used to account for business combinations regardless of whether equity instruments or other assets are acquired. The cost of a business combination is measured as the fair value of the assets given, shares issued or liabilities incurred or assumed at the date of exchange plus costs directly attributable to the business combination. Where equity instruments are issued in a business combination, the fair value of the instruments is their published market price as at the date of exchange unless, in rare circumstances, it can be demonstrated that the published price at the date of exchange is an unreliable indicator of fair value and that other evidence and valuation methods provide a more reliable measure of fair value. Transaction costs arising on the issue of equity instruments are recognised directly in equity.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of the business combination over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets acquired, the difference is recognised directly in the income statement, but only after a reassessment of the identification and measurement of the net assets acquired.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(i) Impairment of Assets

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of its fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets and the asset's value in use cannot be estimated to be close to its fair value. In such cases the asset is tested for impairment as part of the cash-generating unit to which it belongs. When the carrying amount of an asset or cash-generating unit exceeds its recoverable amount, the asset or cash-generating unit is considered impaired and is written down to its recoverable amount.

In assessing the value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Impairment losses relating to continuing operations are recognised in those expense categories consistent with the function of the impaired asset unless the asset is carried at revalued amount (in which case the impairment loss is treated as a revaluation decrease).

An assessment is also made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in profit or loss unless the asset is carried at a revalued amount, in which case the reversal is treated as a revaluation increase. After such a reversal the depreciation charge is adjusted in future years to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

(j) Cash and Cash Equivalents

"Cash and cash equivalents" includes cash on hand, deposits held at call with financial institutions and other short-term highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. For the purposes of the Cash Flow Statement, cash and cash equivalents consist of cash and cash equivalents as defined.

(k) Trade and Other Receivables

Trade receivables are initially recognised and carried at original invoice amount less an allowance for any uncollectible amounts. Trade receivables are due for settlement no more than 30 days from the date of recognition. An allowance for doubtful debts is made when there is objective evidence that the Group will not be able to collect the debts. Bad debts are written off when identified.

Financial assets carried at amortised cost
If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced either directly or through use of an allowance account. The amount of the loss is recognised in profit or loss.

(l) Investments and Other Financial Assets

Financial assets in the scope of AASB 139 *Financial Instruments: Recognition and Measurement* are classified as either financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, or available-for-sale investments, as appropriate. When financial assets are recognised initially they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The Group determines the classification of its financial assets after initial recognition and, when allowed and appropriate, re-evaluates this designation at each financial year-end.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(l) Investments and Other Financial Assets (continued)

(i) Financial assets at fair value through profit or loss
This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss on initial recognition. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term and are held for trading. The policy of management is to so designate a financial asset at fair value through profit or loss if there exists the possibility it will be sold in the short term and the asset is subject to frequent changes in fair value. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if they are either held for trading or are expected to be realised within twelve months of the balance sheet date.

(ii) Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of selling the receivable. They are included in current assets, except for those with maturities greater than twelve months after the balance sheet date which are classified as non-current assets generally. Loans to controlled entities are included in other financial assets. Other loans and receivables are included in receivables in the balance sheet.

(iii) Held-to-maturity investments
Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Group has the positive intention and ability to hold to maturity. Investments intended to be held for an undefined period are not included in this classification. Investments that are indeed to be held-to-maturity, such as bonds, are subsequently measured at amortised cost. This cost is computed as the amount initially recognised minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initially recognised amount and the maturity amount. This calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums and discounts. For investments carried at amortised cost, gains and losses are recognised in profit or loss when the investments are derecognised or impaired, as well as through the amortisation process.

(iv) Available-for-sale financial assets
Available-for-sale financial assets, comprising principally marketable equity securities, are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within twelve months of the balance sheet date.

Purchases and sales of investments are recognised on trade date, the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables and held-to-maturity investments are carried at amortised cost using the effective interest rate method. Realised and unrealised gains and losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are included in the income statement in the period in which they arise. Unrealised gains and losses arising from changes in the fair value of non-monetary securities classified as available-for-sale are recognised in equity in the investments available-for-sale reserve. When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments previously reported in equity are included in the income statement as gains and losses on disposal of investment securities.

Subsequent to initial recognition, investments in subsidiaries are measured at cost. Subsequent to initial recognition, investments in associates are accounted for under the equity method in the consolidated financial statements and the cost method in the company financial statements.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(m) Fair value estimation

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes.

The fair value of financial instruments traded in active markets (such as publicly traded derivatives, and trading and available-for-sale securities) is based on quoted market prices at the balance sheet date. The quoted market price used for financial assets held by the Group is the current bid price; the appropriate quoted market price for financial liabilities is the current ask price.

The fair value of financial instruments that are not traded in an active market (for example, over the counter derivatives) is determined using valuation techniques. The Group uses a variety of methods and makes assumptions that are based on market conditions existing at each balance date. Quoted market prices or dealer quotes for similar instruments are used for long-term debt instruments held. Other techniques, such as discounted cash flows, are used to determine fair value for the remaining financial instruments. The fair value of interest-rate swaps is calculated as the present value of the estimated future cash flows. The fair value of forward exchange contracts is determined using forward exchange market rates at the balance sheet date.

The nominal value less estimated credit adjustments of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

(n) Property, Plant and Equipment

Plant and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset’s carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Plant and equipment are depreciated or amortised on a reducing balance or straight line basis at rates based upon their expected useful lives as follows:

	Life
Plant and equipment	2 - 15 years

The assets’ residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the income statement.

(o) Trade and Other Payables

Trade and other payables are carried at amortised cost and represent liabilities for the goods and services provided to the Group prior to the end of the financial period that are unpaid and arise when the Group becomes obliged to make future payments in respect of the purchase of these goods and services. The amounts are unsecured and are usually paid within 30 days.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(p) Employee Leave Benefits

Liabilities for wages and salaries, including non-monetary benefits and annual leave expected to be settled within twelve months of the reporting date are recognised in provisions in respect of employees' services up to the reporting date, and are measured at the amounts expected to be paid when the liabilities are settled. Liabilities for non-accumulating sick leave are recognised when the leave is taken and measured at the rates paid or payable.

The liability for long service leave is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

Contributions to the defined contribution superannuation fund are recognised as an expense as they become payable. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available.

(q) Contributed Equity

Ordinary shares are classified as equity. Issued and paid up capital is recognised at the fair value of the consideration received by the Company.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

(r) Dividends

Provision is made for the amount of any dividend declared on or before the end of the year but not distributed at balance date.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(s) Earnings per Share (EPS)

Basic earnings per share is calculated by dividing the profit/loss attributable to equity holders of the Company, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the year, adjusted for bonus elements in ordinary shares issued during the year.

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

(t) Exploration and evaluation expenditure

Expenditure on exploration and evaluation is accounted for in accordance with the 'area of interest' method and with AASB 6 *Exploration for and Evaluation of Mineral Resources*, which is the Australian equivalent of IFRS 6.

Exploration licence acquisition costs are capitalised and subject to impairment testing every six months. All exploration and evaluation costs, including general permit activity, geological and geophysical costs and new venture activity costs are expensed as incurred except where:

- the expenditure relates to an exploration discovery that, at balance date, has not been recognised as an area of interest, as assessment of the existence or otherwise of economically recoverable reserves is not yet complete; or
- an area of interest is recognised, and it is expected that the expenditure will be recouped through successful exploitation of the area of interest, or alternatively, by its sale.

The costs of drilling exploration wells are initially capitalised pending the results of the well. Costs are expensed where the well does not result in the successful discovery of economically recoverable hydrocarbons and the recognition of an area of interest. Areas of interest are recognised at the field level. Subsequent to the recognition of an area of interest, all further costs relating to the area of interest are capitalised.

Each potential or recognised area of interest is reviewed every six months to determine whether economic quantities of reserves have been found or whether further exploration and evaluation work is underway or planned to support the continued carry forward of capitalised costs.

Data licenses acquired are carried initially at cost and are amortised on a straight line basis over the number of wells in the drilling program to which the acquisition related. Where a determination is made that there is no further value to be extracted from the data licenses then any unamortised balance is written off.

Once management has determined the existence of economically recoverable reserves for an area of interest, deferred costs are reclassified from intangible to tangible assets on the balance sheet. Tangible deferred costs are amortised using a units-of-production method, based on the ratio of actual production to remaining proved and probable reserves (2P) as estimated by independent petroleum engineers.

The recoverability of the carrying amount of the exploration and evaluation assets is dependent on successful development and commercial exploitation, or alternatively, sale of the respective areas of interest.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(u) Goods and Services Tax

Revenues, expenses and assets are recognised net of the amount of GST except:

- when the GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and

- receivables and payables are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the balance sheet.

Cash flows are included in the Cash Flow Statement on a gross basis and the GST components of cash flows arising from investing and financing activities, which are recoverable from, or payable to, the taxation authority are classified as operating cash flows.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the taxation authority.

(v) Share Based Payments

Equity settled transactions:

The Group provides benefits to Directors, employees, consultants and other advisors of the Group in the form of share-based payments, whereby the Directors, employees, consultants and other advisors render services in exchange for shares or rights over shares (equity-settled transactions).

The cost of these equity-settled transactions is measured by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined by an external valuer using a binomial model.

In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the market price of the shares of the Company if applicable.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant recipient becomes fully entitled to the award (the vesting period).

The cumulative expense recognised for equity-settled transactions at each reporting date until vesting date reflects (i) the extent to which the vesting period has expired and (ii) the Group's best estimate of the number of equity instruments that will ultimately vest. No adjustment is made for the likelihood of market performance conditions being met as the effect of these conditions is included in the determination of fair value at grant date. The income statement charge or credit for a period represents the movement in cumulative expense recognised as at the beginning and end of that period.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is only conditional upon a market condition.

If the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified. In addition, an expense is recognised for any modification that increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the recipient, as measured at the date of modification.

If an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award and designated as a replacement award on the date that it is granted, the cancelled and new award are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect, if any, of outstanding options is reflected as additional share dilution in the computation of earnings per share (see Note 18).

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(w) Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

When the Group expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the income statement net of any reimbursement.

(x) Convertible Notes

Convertible notes that can be converted to share capital at the option of the holder, where the number of shares issued does not vary with changes in their fair value, are accounted for as compound financial instruments. Transaction costs that relate to the issue of a compound financial instrument are allocated to the liability and equity components in proportion to the allocation of proceeds. The equity component of the convertible notes is calculated as the excess of the issue proceeds over the present value of the future interest and principal payments, discounted at the market rate of interest applicable to similar liabilities that do not have a conversion option. The interest expense recognised in the income statement is calculated using the effective interest method.

(y) Going Concern

For the year ended 30 June 2007, the Group has incurred losses of $1,367,963 and experienced net cash outflows of $765,661 from operations, as disclosed in the income statement and cash flow statement, respectively. During the year, the Group's projects were independently assessed to have net proved and probable gas reserves of 29Bcf.

The Board has resolved that it intends to undertake a placement, subject to shareholder approval, of 10 million shares at $0.40 to raise $4.0 million before costs, to provide funding to undertake a proposed drilling and completion program at Oklahoma and general working capital.

The Board has also resolved to undertake a rights issue to all existing and new shareholders on a 1 for 3 basis for a listed option exercisable at $0.50 on or before 31 December 2009, at an issue price of $0.03 per option.

Accordingly, the Directors have prepared the financials on a going concern basis. As such, the financial statements do not include any adjustments as to the recoverability and classification of recorded asset amounts or to the amounts and classification of liabilities that might be necessary should the entity not continue as a going concern.

(z) Critical Accounting Estimates, Assumptions and Judgements

In applying the Group's accounting policies, management continually evaluates judgements, estimates and assumptions based on experience and other factors, including expectations of future events that may have an impact on the Group. All judgements, estimates and assumptions made are believed to be reasonable based on the most current set of circumstances available to management. Actual results may differ from the judgements, estimates and assumptions. Significant judgements, estimates and assumptions made by management in the preparation of these financial statements are outlined below:

Critical accounting estimates and assumptions

(1) Impairment of assets

In determining the recoverable amount of assets, in the absence of quoted market prices, estimations are made regarding the present value of future cash flows. For oil and gas properties, expected future cash flow estimation is based on reserves, future production profiles, commodity prices and costs. The carrying value of oil and gas properties, exploration and evaluation and other plant and equipment as at 30 June 2007 is $15,084,824 (2006: $8,191,866).

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(z) Critical Accounting Estimates, Assumptions and Judgements (continued)

(2) Reserve estimates

Estimates of recoverable quantities of proven and probable reserves reported include judgemental assumptions regarding commodity prices, exchange rates, discount rates and production and transportation costs for future cash flows. It also requires interpretation of complex and difficult geological and geophysical models in order to make an assessment of the size, shape, depth and quality of reservoirs, and their anticipated recoveries. The economic, geological and technical factors used to estimate reserves may change from period to period. Changes in reported reserves can impact asset carrying values, the provision for restoration and the recognition of deferred tax assets, due to changes in expected future cash flows. Reserves are integral to the amount of depreciation, depletion and amortisation charged to the income statement and the calculation of inventory.

Critical judgements in applying the Group's accounting policies

(1) Exploration and evaluation

The group's accounting policy for exploration and evaluation assets is set out at Note 1(t). The application of this policy requires management to make certain estimates and assumptions as to future events and circumstances, in particular, the assessment of whether economic quantities of reserves have been found. Any such estimates and assumptions may change as new information becomes available. If, after having capitalised expenditure under the policy, the Group concludes that it is unlikely to recover the expenditure by future exploitation or sale, then the relevant capitalised amount will be written off to the income statement.

(2) United States of America tax losses

The Group has not recognised a deferred tax asset of $4,515,050 (2006: $1,800,115) in respect of tax losses and temporary differences associated with its operations in the US. In accordance with the recognition criteria outlined in AASB 112 Income Taxes, the Group has exercised its judgement in deciding that it is not probable that sufficient future Taxable income will be available to utilise the tax losses.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

	Consolidated		Company	
	2007	**2006**	**2007**	**2006**
	$	**$**	**$**	**$**
2. REVENUE AND EXPENSES				
(a) Revenue				
Income from Production	118,577	-	-	-
Interest revenue	91,868	98,800	91,665	98,800
	210,445	98,800	91,665	98,800
(b) Finance costs				
Interest expense on convertible notes	(263,250)	(65,813)	(263,250)	(65,813)
Interest expense on borrowings	(11,491)	-	(11,491)	-
Debt placement and establishment fees	-	(149,906)	-	(149,906)
Total finance costs	(274,741)	(215,719)	(274,741)	(215,719)
(c) Employee Expenses				
Share based payments expense	(610,885)	(30,420)	(610,885)	(30,420)
(d) Depreciation Expense				
Depreciation of plant and equipment	(7,815)	-	(4,374)	-

3. INCOME TAX

(a) Recognised in the income statement

	Consolidated 2007	Consolidated 2006	Company 2007	Company 2006
Current income tax				
Current income tax benefit	(2,972,928)	(2,023,175)	(223,530)	(89,962)
Deferred income tax				
Origination and reversal of temporary differences	2,727,004	1,800,115	12,069	(163,098)
Deferred tax assets not previously brought to account	20,361	-	20,361	-
Deferred tax assets not brought to account	225,563	223,060	191,100	253,060
	-	-	-	-

(b) Reconciliation between tax expense and accounting loss before income tax

	Consolidated 2007	Consolidated 2006	Company 2007	Company 2006
Accounting loss before income tax	(1,367,963)	(535,935)	(1,253,085)	(635,935)
At the domestic income tax rate of 30% (2006: 30%)	(410,389)	(160,780)	(375,926)	(190,780)
Expenditure not allowable for income tax purposes	184,826	39,526	184,826	39,526
Deferred tax assets not previously brought to account	20,361	-	20,361	-
Capital allowances	(20,361)	(20,361)	(20,361)	(20,361)
Deferred tax assets not brought to account	225,563	141,615	191,100	171,615
Income tax expense reported in the income statement	-	-	-	-

	Consolidated		Company	
	2007	**2006**	**2007**	**2006**
	%	**%**	**%**	**%**
Effective Tax Rate	0	0	0	0

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

3. INCOME TAX (CONTINUED)

(c) Deferred income tax

Deferred income tax at 30 June 2007 relates to the following:

	Consolidated		Company	
	2007	2006	2007	2006
	$	$	$	$
Deferred Tax Liabilities				
Exploration and evaluation assets	4,515,050	1,800,115	-	-
Deferred Tax Assets used to offset Deferred Tax Liabilities	(4,515,050)	(1,800,115)	-	-
	-	-	-	-
Deferred Tax Assets				
Accrued expenditure	12,600	15,675	12,600	15,675
Borrowing costs	26,983	35,978	26,983	35,978
Capital raising costs	61,084	81,445	61,084	81,445
Loans to controlled entities	-	-	30,000	30,000
Tax losses available to offset against future taxable income	4,863,006	1,890,077	313,492	89,962
Deferred tax assets used to offset deferred tax liabilities	(4,515,050)	(1,800,115)	-	-
Deferred tax assets not brought to account	(448,623)	(223,060)	(444,159)	(253,060)
	-	-	-	-

The benefit of deferred tax assets not brought to account will only be brought to account if:-

(i) future assessable income is derived of a nature and of an amount sufficient to enable the benefit to be realised;
(ii) the conditions for deductibility imposed by tax legislation continue to be complied with; and
(iii) no changes in tax legislation adversely affect the Company in realising the benefit.

(d) Tax Consolidation

The Board has not yet resolved to consolidate eligible entities within the Consolidated Entity for tax purposes. The Board will review this position annually, before lodging of that year's income tax return.

4. CURRENT ASSETS – Trade and Other Receivables

Trade Receivables	61,649	-	-	-
GST receivable	15,943	12,089	15,943	12,089
	77,592	12,089	15,943	12,089

5. NON-CURRENT ASSETS – Property, Plant & Equipment

(a) Office furniture and equipment:

Cost	42,471	-	11,921	-
Accumulated depreciation	(7,815)	-	(4,374)	-
Net carrying amount	34,656	**-**	7,547	**-**

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

5. NON-CURRENT ASSETS – Property, Plant & Equipment (continued)

(b) Reconciliation

	Consolidated 2007 $	Consolidated 2006 $	Company 2007 $	Company 2006 $
Carrying amount at beginning of period, net of accumulated depreciation		-		-
Additions	42,471	-	11,921	-
Depreciation charge for the period	(7,815)	-	(4,374)	-
Carrying amount at end of period, net of accumulated depreciation and impairment	**34,656**	**-**	**7,547**	**-**

6. NON - CURRENT ASSETS – Other financial assets

	Consolidated 2007 $	Consolidated 2006 $	Company 2007 $	Company 2006 $
Loan to a controlled entity (a)	-	-	14,946,969	4,905,057
Impairment	-	-	-	(100,000)
	-	-	14,946,969	4,805,057
Investment in Subsidiary	-	-	1	1
Impairment	-	-	(1)	(1)
	-	-	-	-
Balance at end of year	-	-	14,946,969	4,805,057

(a) Terms & Conditions:
The loans to controlled entities were undertaken on commercial terms and conditions, except that:
a) There is no fixed time for repayment of loans between the parties; and
b) No interest is payable on the loans.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

7. NON-CURRENT ASSETS – Exploration expenditure

The Group has oil and gas exploration costs carried forward in respect of areas of interest:

	Consolidated		Company	
	2007	**2006**	**2007**	**2006**
	$	**$**	**$**	**$**
Areas of interest:				
North Helper Gas Project	12,548,402	8,011,909	-	-
Jester-Bloomington Gas Redevelopment Project	2,501,766	179,957	-	-
	15,050,168	8,191,866	-	-
Reconciliation:				
Balance at the beginning of year	8,191,866	-		-
Acquisition of interests in new oil and gas leases	3,004,328	6,580,600		-
Other amounts capitalised	3,853,974	1,611,266		-
Balance at end of year	15,050,168	8,191,866		-

The recoverability of the carrying amount of the exploration and evaluation assets is dependent on the successful development and commercial exploitation, or alternatively the sale, of the respective areas of interest.

8. CURRENT LIABILITIES – Trade and Other Payables

Accounts Payable (a)	1,956,797	1,112,409	22,857	-
Milestone Payment (b)	-	2,191,481	-	-
Accruals	42,000	125,534	42,000	125,534
	1,998,797	3,429,424	64,857	125,534

(a) Terms & Conditions

Trade creditors are non interest bearing and are normally settled on 30 days terms.

(b) Milestone Payment

Pursuant to the terms of the Purchase and Sale Agreement between Marion Energy Inc ("Marion") and the Group, within 90 days of 5 wells at the North Helper Gas Project producing and generating sales, a further US$1.6 million was payable to Marion. This milestone was met and the associated payment made during the 2007 financial year.

9. NON-CURRENT LIABILITIES – Borrowings

Convertible Notes – Unsecured (a)	2,925,000	2,925,000	2,925,000	2,925,000

(a) Terms & Conditions of Convertible Notes

On 23 March 2006, the Company issued 4,500,000 Convertible Notes each with a face value of $0.65. Other key terms and conditions are:

(i) The notes are unsecured;
(ii) Coupon rate of 9%, payable 3 monthly in arrears, with shares able to be issued in lieu of cash payments of interest at the option of the Company;
(iii) Redeemable by the Company after 2 ½ years from date of issue;
(iv) Convertible into ordinary shares on a one for one basis any time after 4 December 2006; and
(v) Repayable after 5 years.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

	Consolidated 2007 $	Consolidated 2006 $	Company 2007 $	Company 2006 $
10. CONTRIBUTED EQUITY AND RESERVES				
(a) Issued and paid up capital:				
48,000,002 (2006 : 30,000,002) fully paid ordinary shares	14,387,833	4,810,647	14,387,833	4,810,647

Effective 1 July 1998, the corporations legislation in place abolished the concepts of authorised capital and par value shares. Accordingly, the Parent Entity does not have authorised capital nor par value in respect of its issued shares.

(b) Movements in ordinary share capital since 8 September 2005 to 30 June 2007 were as follows:-

Date	Details	Number of Shares	Issue Price	$
8 September 2005	**Opening Balance**	**-**		**-**
8 September 2005	Incorporation	2	1.00	2
27 September 2005	Seed Capital	5,000,000	0.03	150,000
23 November 2005	Public Offer	25,000,000	0.20	5,000,000
	Issue Costs	-		(339,355)
30 June 2006	**Closing Balance**	**30,000,002**		**4,810,647**
1 July 2006	**Opening Balance**	**30,000,002**		**4,810,647**
29 September 2006	Share placement	12,000,000	0.60	7,200,000
	Share Issue Costs			(428,801)
15 February 2007	Share placement	6,000,000	0.50	3,000,000
	Issue Costs			(194,013)
30 June 2007	**Closing Balance**	**48,000,002**		**14,387,833**

	Consolidated 2007 $	Consolidated 2006 $	Company 2007 $	Company 2006 $
(c) Reserves:				
Share Based Payment Reserve (Note 10 (d) & (f))				
- 300,000 $0.20 options	30,420	30,420	30,420	30,420
- 850,000 $0.60 options	260,185	-	260,185	-
- 1,400,000 $1.00 options	350,700	-	350,700	-
Foreign currency translation reserve (Note 10 (e) & (f))	(1,670,191)	(17,081)	-	-
	(1,028,886)	13,339	641,305	30,420

(d) Movements in the share based payment reserve since 8 September 2005 to 30 June 2007 were as follows:-

Date	Details	2007 Number of Options	2006 Number of Options	2007 $	2006 $
8 September 2005	**Opening Balance**	**-**	**-**	**-**	**-**
23 November 2005	Issued to Director[1]	-	300,000	-	30,420
30 June 2006	**Closing Balance**	**-**	**300,000**	**-**	**30,420**
1 July 2006	**Opening Balance**	**300,000**	**-**	**30,420**	**-**
29 September 2006	Issued to Directors[1]	850,000	-	260,185	-
29 September 2006	Issued to Directors & Consultants[1]	1,400,000	-	350,700	-
30 June 2007	**Closing Balance**	**2,550,000**	**300,000**	**641,305**	**30,420**

(1) See Note 24 for details regarding the grant of options.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

10. CONTRIBUTED EQUITY (continued)

(e) Movements in the foreign currency translation reserve during the year to 30 June 2007 were as follows:-

	Consolidated		Company	
	2007	2006	2007	2006
	$	$	$	$
Balance at the beginning of year	(17,081)	-	-	-
Currency translation differences	(1,653,110)	(17,081)	-	-
Balance at end of year	(1,670,191)	(17,081)	-	-

(f) Nature and Purpose of reserves

Option Premium Reserve
The option premium reserve is used to record the fair value of share based payments made by the Company.

Foreign Currency Translation Reserve
The foreign currency translation reserve is used to record exchange differences arising from the translation of the financial statements of foreign subsidiaries.

(g) Rights attaching to Shares

General
The ordinary shares ("Shares") are ordinary shares and rank equally in all respects with all ordinary shares in the Company.

The rights attaching to the Shares arise from a combination of the Company's Constitution, statute and general law. Copies of the Company's Constitution are available for inspection during business hours at its registered office.

Reports and Notices
Shareholders are entitled to receive all notices, reports, accounts and other documents required to be furnished to shareholders under the Company's Constitution, the Corporations Act and the Listing Rules.

Voting
Subject to any rights or restrictions at the time being attached to any class or classes of shares, at a general meeting of the Company on a show of hands, every ordinary Shareholder present in person, or by proxy, attorney or representative (in the case of a company) has one vote and upon a poll, every Shareholder present in person, or by proxy, attorney or representative (in the case of a company) has one vote for any Share held by the Shareholder.

A poll may be demanded by the Chairperson of the meeting, any 5 Shareholders entitled to vote in person or by proxy, attorney or representative or by any one or more Shareholders holding not less than 5% of the total voting rights of all Shareholders having the right to vote.

Variation of Shares and Rights Attaching to Shares
Shares may be converted or cancelled with member approval and the Company's share capital may be reduced in accordance with the requirements of the Corporations Act.

Class rights attaching to a particular class of shares may be varied or cancelled with the consent in writing of holders of 75% of the shares in that class or by a special resolution of the holders of shares in that class.

Unmarketable Parcels
The Company may procure the disposal of Shares where the member holds less than a marketable parcel of Shares within the meaning of the Listing Rules (being a parcel of shares with a market value of less than $500). To invoke this procedure, the Directors must first give notice to the relevant member holding less than a marketable parcel of Shares, who may then elect not to have his or her Shares sold by notifying the Directors.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

10. CONTRIBUTED EQUITY (continued)

Changes to the Constitution
The Company's Constitution can only be amended by a special resolution passed by at least three quarters of the members present and voting at a general meeting of the Company. At least 28 days written notice specifying the intention to propose the resolution as a special resolution must be given.

(h) Terms and conditions of Unlisted Options

The Unlisted Options are granted based upon the following terms and conditions:

- Each Unlisted Option entitles the holder to subscribe for one Share upon exercise of each Unlisted Option.
- The Unlisted Options have exercise prices and expiry dates as follows:
  - $0.20 Unlisted Options expire 31 December 2008
  - $0.60 Unlisted Options expire 30 June 2009
  - $1.00 Unlisted Options expire 31 December 2009
- The Unlisted Options are exercisable at any time prior to the Expiry Date.
- Shares issued on exercise of the Unlisted Options rank equally with the then shares of the Company.
- Application will be made by the Company to ASX for official quotation of the Shares issued upon the exercise of the Unlisted Options.
- If there is any reconstruction of the issued share capital of the Company, the rights of the Optionholders may be varied to comply with the ASX Listing Rules which apply to the reconstruction at the time of the reconstruction.
- No application for quotation of the Unlisted Options will be made by the Company.
- Subject to the proposed transferee being a party which is within the class of parties in section 708 of the Corporations Act to which disclosure is not required, the Unlisted Options are transferable.

11. FRANKING ACCOUNT

In respect to the payment of dividends (if any) by the Company in subsequent financial years, no franking credits are currently available, or are likely to become available in the next 12 months.

12. KEY MANAGEMENT PERSONNEL DISCLOSURES

(a) Details of Key Management Personnel

Current Directors

Ian Middlemas	Chairman (non executive)
Mark O'Clery	Managing Director (appointed Managing Director on 3 July 2006)
Mark Pearce	Finance Director (appointed Finance Director on 3 July 2006)

The Company was incorporated on 8 September 2005, with all directors being appointed from that date.

Other than Directors, there were no key management personnel of the Company or Group during the year.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

12. KEY MANAGEMENT PERSONNEL DISCLOSURES (Continued)

(b) Compensation of Key Management Personnel

Non-Executives
The Board policy is to remunerate non-executive directors at market rates for comparable companies for time, commitment and responsibilities. The Board determines payments to the non-executive directors and reviews their remuneration annually, based on market practice, duties and accountability. Independent external advice is sought when required. The maximum aggregate amount of fees that can be paid to non-executive directors is subject to approval by shareholders at a General Meeting. Fees for non-executive directors are not linked to the performance of the Group or shareholder wealth. However, to align directors' interests with shareholder interests, the directors are encouraged to hold shares in the Company and have in limited circumstances received options.

During the 2006 financial year, Mr O'Clery received options as consideration for becoming a director prior to the Initial Public Offering ("IPO"). As the options were not issued until the IPO was successfully completed, and given the nature and size of the Company's activities at the time of grant, no further performance requirements were considered necessary and there was no other incentive based remuneration paid to directors or executives.

As the size and nature of the Company's activities have grown considerably, the roles of the Board members have changed and with the appointment of executives in July 2006, remuneration arrangements were reviewed in the 2007 financial year.

Executives
The remuneration policy for executives is to provide a fixed remuneration component and a specific equity related component. The board believes that this remuneration policy is appropriate given the stage of development of the Company and the activities which it undertakes and is appropriate in aligning director objectives with shareholder and business objectives.

The remuneration policy in regard to setting the terms and conditions for the executive directors has been developed by the board taking into account market conditions and comparable salary levels for companies of a similar size and operating in similar sectors.

The Company is a growing listed company with most of its funds allocated to specific exploration and development activities. As a result, the Board chose to issue incentive options to the executives as a key component of the incentive portion of his remuneration, in order to retain the services of the executives and to provide an incentive linked to the performance of the Company. The Board considers that the executives' experience in the resources industry will greatly assist the Company in progressing the projects to the next stage of development. As such, the Board believes that the number of options granted to the executives is commensurate to their value to the Company. There are no additional performance criteria on the shares or options as:

- the Incentive Options granted to the executives had exercise prices equal to, or greater than, the issue price of the shares when announced; and

- given the speculative nature of the Company's activities and the small management team responsible for its running, it is considered the performance of the executives and the performance and value of the Company are closely related. As such, the options granted will generally only be of benefit if the executives performs to the level whereby the value of the Company increases sufficiently to warrant exercising the options granted.

As the Company has only been incorporated since September 2005 and is in the development stage of an inherently risky industry, the remuneration policy does not currently take into account current or prior year earnings or shareholder wealth. However the Board believes that the granting of options to executive directors has provided the executives with an incentive to generate shareholder wealth.

General
Directors receive a superannuation guarantee contribution required by the government, which is currently 9% and do not receive any other retirement benefit. Some individuals, however, may choose to sacrifice part of their salary to increase payments towards superannuation. All remuneration paid to directors is valued at cost to the company and expensed.

All remuneration paid to directors is valued at cost to the company and expensed.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

12. KEY MANAGEMENT PERSONNEL DISCLOSURES (Continued)

(c) Remuneration of Key Management Personnel

Details of the nature and amount of each element of the emolument of each director of the Company for the year ended 30 June 2007 are as follows:

		Short-term Salary & Fees	**Other** (3)	**Post-employment** Superannuation benefits	**Share based Payments** Value of Unlisted Options(2)	**Total**	**Performance Related**
		$	$	$	$	$	%
Directors							
Mr Ian Middlemas (Chairman)	2007	36,000	-	-	-	36,000	-
Mr Mark O'Clery (Managing Director)	2007	-	302,860	-	333,960	636,820	52.43%
Mr Mark Pearce (Finance Director)	2007	30,000	-	-	139,150	169,150	82.27%
Total Remuneration – Directors	2007	66,000	302,860	-	473,110	841,970	

		Short-term Salary & Fees	**Other** (3)	**Post-employment** Superannuation benefits	**Share based Payments** Value of Unlisted Options(2)	**Total**	**Performance Related**
		$	$	$	$	$	%
Directors							
Mr Ian Middlemas (Chairman)	2006	21,000		-	-	21,000	-
Mr Mark O'Clery (Managing Director)	2006	7,500	55,800	-	30,420	93,720	32.5
Mr Mark Pearce (Finance Director)	2006	10,000		-	-	10,000	-
Total Remuneration – Directors	2006	38,500	55,800	-	30,420	124,720	

Notes

(1) During the year, no remuneration was paid in the form of a long-term incentive bonus, non-monetary benefit, prescribed benefit or other benefit to key management personnel. Additional disclosure in relation to remuneration policies is contained in the Remuneration Report.

(2) The fair value of the options has been independently calculated at the date of grant using a Binominal model (see Note 10(h) for terms and conditions of Unlisted Options).

(3) This relates to consulting fees paid to Mark O'Clery during the period in the capacity as a contractor to the Company.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

12. KEY MANAGEMENT PERSONNEL DISCLOSURES (Continued)

(c) Remuneration of Key Management Personnel (continued)

Fair Value of Options

Options granted as part of director and executive emoluments have been independently valued using the Binomial Option Valuation model, which takes account of factors including the option exercise price, the current level and volatility of the underlying share price, the risk-free interest rate, expected dividends on the underlying share, current market price of the underlying share and the expected life of the option.

See below for the assumptions used for grants made during the financial years ended 30 June 2006 and 30 June 2007:

	$0.20 Options	**$0.60 Options**	**$1.00 Options**
Exercise price	$0.20	$0.60	$1.00
Price of shares on date of grant	$0.20	$0.61	$0.61
Price of shares at 30 June 2007	$0.83	$0.83	$0.83
Dividend yield	-	-	-
Volatility	75%	74%	74%
Risk-free interest rate	4.90%	5.75%	5.75%
Issue Date	23 Nov 2005	29 Sep 2006	29 Sep 2006
Expiry date	31 Dec 2008	30 June 2009	31 Dec 2009
Expected life of option	3.10 years	2.75 years	3.25 years
Fair value at grant date	$0.1014	$0.3061	$0.2505

The dividend yield reflects the assumption that the current dividend payout will remain unchanged. The expected life of the options is based on historical data and is not necessarily indicative of exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome.

(d) Unlisted Option holdings and transactions

2007	**Opening Balance (#)**	**Granted as remuneration (#)**	**Exercised (#)**	**Other changes (#)**	**Held at 30 June 2007 (#)**	**Vested and exercisable at 30 June 2007 (#)**
Directors						
Mr Ian Middlemas	-	-	-	-	-	-
Mr Mark O'Clery	300,000	1,200,000	-	-	1,500,000	1,500,000
Mr Mark Pearce	-	500,000	-	-	500,000	500,000

2006	**Opening Balance (#)**	**Granted as remuneration (#)**	**Exercised (#)**	**Other changes (#)**	**Held at 30 June 2006 (#)**	**Vested and exercisable at 30 June 2006 (#)**
Directors						
Mr Ian Middlemas	-	-	-	-	-	-
Mr Mark O'Clery	-	300,000	-	-	300,000	300,000
Mr Mark Pearce	-	-	-	-	-	-

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

12. KEY MANAGEMENT PERSONNEL DISCLOSURES (Continued)

(e) Equity holdings and transactions

2007	Opening Balance (#)	Purchases (#)	Received on exercise of options (#)	Other Changes (#)	Sales (#)	Held at 30 June 2007 (#)
Directors						
Mr Ian Middlemas	2,900,000	-	-	-	-	2,900,000
Mr Mark O'Clery	200,000	300,000	-	-	-	500,000
Mr Mark Pearce	716,000	300,000	-	-	-	1,016,000

2006	Opening Balance (#)	Purchases (#)	Received on exercise of options (#)	Other Changes (#)	Sales (#)	Held at 30 June 2006 (#)
Directors						
Mr Ian Middlemas	-	2,900,000	-	-	-	2,900,000
Mr Mark O'Clery	-	200,000	-	-	-	200,000
Mr Mark Pearce	-	716,000	-	-	-	716,000

No shares were granted to Key Management Personnel during the reporting year as compensation.

The shares were issued on terms and conditions no more favourable than those dealing at arm's length with an unrelated person.

(f) Other transactions

Apollo Group Pty Ltd, a company of which Mr Mark Pearce is a Director and beneficial shareholder, was paid $196,130 (2006: $114,990) for the provision of serviced office facilities, assistance with the preparation of disclosure documents and administration services during the year. The amount is based on a monthly retainer due and payable in advance and is able to be terminated by either party with one month's notice. This item has been recognised as an expense in the Income Statement.

(g) Employment contracts with Directors and Executives

No employment contracts have been entered into with any directors or executives of the Company. By way of a Board resolution, Mr O'Clery receives a daily rate of $1,500 ($1,950 whilst travelling internationally) and Mr Pearce receives a retainer of $30,000 per annum. Their services are able to be terminated without notice.

Mr Pearce is a director and beneficial shareholder of Apollo Group Pty Ltd, which provided a fully serviced office, administration services (including company secretarial) and other services for a fixed monthly retainer of $15,000 for the year to 30 June 2007. This arrangement is able to be terminated by one month's notice by either party.

On 27 September 2006, shareholders approved the granting of Unlisted Incentive Options to Messrs O'Clery and Pearce. Further details regarding the Unlisted Incentive Options are outlined in the *Information on Directors' Interests in Securities of Odyssey* section of this report.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

13. CONTROLLED ENTITIES

All controlled entities are included in the consolidated financial statements. The parent entity does not guarantee to pay the deficiency of its controlled entities in the event of a winding up of any controlled entity. The financial year-end of the controlled entities is the same as that of the parent entity.

Name of controlled entity	Place of incorporation	% of Shares held 2007	% of Shares held 2006
OEL Operating (USA), Inc	USA	100	100

The abovenamed investments in controlled entities have a carrying value at balance date of nil.

14. RELATED PARTIES

Transactions with Related Parties in the Consolidated Group

The consolidated group consists of Odyssey Energy Limited (the ultimate parent entity in the wholly owned group) and its controlled entities (see Note 13).

Odyssey Energy Limited entered into the following transactions during the year with related parties in the wholly owned group:

Entity Name
- OEL Operating (USA), Inc

Transaction Type
- Loans with controlled entities are disclosed in Note 6.
- Remuneration of Key Management Personnel is disclosed in Note 12.
- Equity holdings of Key Management Personnel are disclosed in Notes 12(d) and 12(e).

These transactions were undertaken on commercial terms and conditions, except that:

(i) There was no fixed repayment of loans between the related parties; and
(ii) No interest was payable on the loans.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

	Consolidated		Company	
	2007	2006	2007	2006
	$	$	$	$
15. REMUNERATION OF AUDITORS				
Amounts received or due and receivable by BDO Kendalls Audit & Assurance (WA) for:				
- an audit or review of the financial reports of the Company	20,020	16,020	20,020	16,020
- other services in relation to the Company – investigating Accountants Report for a disclosure document	4,807	4,257	4,807	4,257
Total Auditors' Remuneration	**24,827**	**20,277**	**24,827**	**20,277**

16. EMPLOYEE BENEFITS

	2007	2006
The number of full time equivalent people employed by the Consolidated Entity at balance date	1	1

17. SEGMENT INFORMATION

The Group operates in one segment, being the oil and gas sector in the United States of America.

	Consolidated	
	2007	2006
18. EARNINGS PER SHARE		
Basic loss per share (cents)	(3.31)	(2.30)
Diluted loss per share (cents)	(3.31)	(2.30)

The following reflects the income and share data used in the calculations of basic and diluted earnings per share:

	Consolidated 2007 $	Consolidated 2006 $
Net loss used in calculating basic and diluted earnings per share	(1,367,963)	(535,935)

	Number of Shares 2007	Number of Shares 2006
Weighted average number of ordinary shares and potential ordinary shares used in calculating basic earnings per share	41,276,712	23,260,135
Effect of dilutive securities (see below)	-	-
Adjusted weighted average number of ordinary shares and potential ordinary shares used in calculating basic and diluted earnings per share	41,276,712	23,260,135

Non-dilutive securities

As at balance date, 2,550,000 unlisted options (which represent 2,550,000 potential ordinary shares) and 4,500,000 Convertible Notes (which represent 4,500,000 potential ordinary shares) were not dilutive as they would decrease the loss per share.

Conversions, calls, subscriptions or issues after 30 June 2007

On the 17 July 2007, 154,000 Convertible Notes were converted to fully paid ordinary shares.

There have been no other conversions to, calls of, or subscriptions for ordinary shares or issues of potential ordinary shares since the reporting date and before the completion of this financial report.

See Note 23 for details regarding post balance date events.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

19. CASH FLOW STATEMENT

(a) Reconciliation of net loss after income tax expense to net cash outflow from operating activities

	Consolidated 2007 $	Consolidated 2006 $	Company 2007 $	Company 2006 $
Net loss after income tax expense	(1,367,963)	(535,935)	(1,253,085)	(635,935)
Adjustment for non-cash income and expense items				
Impairment of loans to controlled entities	-	-	-	100,000
Share based payments	610,885	30,420	610,885	30,420
Depreciation	7,815	-	4,374	-
Changes in assets and liabilities				
Change in receivables	(65,503)	(12,089)	(3,854)	(12,089)
Change in payables	49,105	125,534	(60,676)	125,534
Net cash outflow from operating activities	(765,661)	(392,070)	(702,356)	(392,070)

(b) Reconciliation of Cash Assets

	Consolidated 2007 $	Consolidated 2006 $	Company 2007 $	Company 2006 $
Cash at bank and on hand	1,216,430	2,438,520	1,159,516	2,438,520

(c) Credit Standby Arrangements with Banks

At balance date, the Company had no used or unused financing facilities.

(d) Incorporation of OEL Operating (USA), Inc

Odyssey Energy Limited incorporated OEL Operating (USA), Inc on 29 September 2005 for USD$1, therefore, there is no effect on the cash flow statement.

20. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise cash and short-term deposits. The main purpose of these financial instruments is to finance the Group's operations. The Group has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations. It is, and has been throughout the period under review, the Group's policy that no trading in financial instruments shall be undertaken. The main risks arising from the Group's financial instruments are cash flow interest rate risk, liquidity risk, foreign currency risk and credit risk.

Historically, the Group has not implemented strategies to mitigate these financial risks. As discussed in the *Review of Operations* the Group's activities have increased significantly during the financial year, with the acquisition of the US oil and gas projects. As the Group's activities have only recently commenced in the US, there has been, and remains, uncertainty as to the timing and amount of cash inflows and outflows. Accordingly, no hedging policies have been put in place. The Directors will review this policy periodically going forward.

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed in Note 1 to the financial statements.

20. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

(a) Cash flow interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's cash and short-term deposits with a floating interest rate.

These financial assets with variable rates expose the Group to cash flow interest rate risk. All other financial assets and liabilities, in the form of receivables and payables are non-interest bearing.

The Group currently does not engage in any hedging or derivative transactions to manage interest rate risk.

(b) Foreign currency risk

As a result of operations in the United States, the Group's balance sheet can be affected by movements in the US$/A$ exchange rates.

The Group also has transactional currency exposures. Such exposure arises from sales or purchases by an operating unit in currencies other than the unit's functional currency.

The Group currently does not engage in any hedging or derivative transactions to manage foreign currency risk.

(c) Commodity price risk

The Group is exposed to crude oil and natural gas commodity price risk. These prices can be volatile and are influenced by factors beyond the Group's control.

(d) Credit risk

Wherever possible, the Group trades only with recognised, creditworthy third parties.

It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures.

In addition, receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant.

There are no significant concentrations of credit risk within the Group.

With respect to credit risk arising from the other financial assets of the Group, which comprise cash, the Group's exposure to credit risk arises from default of the counter party, with a maximum exposure equal to the carrying amount of these instruments.

Since the Group trades only with recognised third parties, there is no requirement for collateral.

(e) Liquidity risk

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank loans if required.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

21. FINANCIAL INSTRUMENTS

(a) Interest Rate Risk Exposure

The Group's exposure to interest rate risk and the effective weighted average interest rate for each class of financial assets and financial liabilities is set out below:

CONSOLIDATED	Weighted Average Effective Interest Rate	Floating Interest Rate	Non-Interest Bearing	Total
2007		**$**	**$**	**$**
Financial Assets				
Cash and deposits	4.96%	1,216,430	-	1,216,430
Receivables		-	77,592	77,592
Total Financial Assets		1,216,430	77,592	1,294,022
Financial Liabilities				
Payables		-	1,998,797	1,998,797
Convertible Notes	9.0%	2,925,000	-	2,925,000
Total Financial Liabilities		2,925,000	1,998,797	4,923,797
2006		**$**	**$**	**$**
Financial Assets				
Cash and deposits	3.5%	2,438,520	-	2,438,520
Receivables		-	12,089	12,089
Total Financial Assets		2,438,520	12,089	2,450,609
Financial Liabilities				
Payables		-	3,429,424	3,429,424
Convertible Notes	9.0%	2,925,000	-	2,925,000
Total Financial Liabilities		2,925,000	3,429,424	6,354,424

PARENT ENTITY	Weighted Average Effective Interest Rate	Floating Interest Rate	Non-Interest Bearing	Total
2007		**$**	**$**	**$**
Financial Assets				
Cash and deposits	5.01%	1,159,516	-	1,159,516
Receivables			15,943	15,943
Other financial assets			14,946,969	14,946,969
Total Financial Assets		1,159,516	14,962,912	16,122,428
Financial Liabilities				
Payables			64,857	64,857
Convertible Notes	9.0%	2,925,000	-	2,925,000
Total Financial Liabilities		2,925,000	64,857	2,989,857

21. FINANCIAL INSTRUMENTS (continued)

(a) Interest Rate Risk Exposure

PARENT ENTITY	**Weighted Average Effective Interest Rate**	**Floating Interest Rate**	**Non-Interest Bearing**	**Total**
2006		**$**	**$**	**$**
Financial Assets				
Cash and deposits	3.5%	2,438,520	-	2,438,520
Receivables		-	12,089	12,089
Other financial assets		-	4,805,057	4,805,057
Total Financial Assets		2,438,520	4,817,146	7,255,666
Financial Liabilities				
Payables		-	125,534	125,534
Convertible Notes	9.0%	2,925,000	-	2,925,000
Total Financial Liabilities		2,925,000	125,534	3,050,534

(b) Net Fair Value of Financial Assets and Liabilities

The net fair value of cash, cash equivalents and non-interest bearing monetary financial assets and financial liabilities approximates their carrying value.

The net fair value of other monetary financial assets and financial liabilities is based upon market prices and approximates carrying value.

22. COMMITMENTS AND CONTINGENCIES

(a) Commitments

The Group has no commitments for expenditure. However, it should be noted that the Group intends to conduct exploration and appraisal activities on its oil and gas leases.

(b) Contingencies

At balance date the Group has no contingent assets or liabilities.

23. SUBSEQUENT EVENTS

The Board has resolved that it intends to undertake a placement, subject to shareholder approval, of 10 million shares at $0.40 to raise $4.0 million before costs, to provide funding to undertake a proposed drilling and completion program at Oklahoma and general working capital.

The Board has also resolved to undertake a rights issue to all existing and new shareholders on a 1 for 3 basis for a listed option exercisable at $0.50 on or before 31 December 2009, at an issue price of $0.03 per option.

Other than as outlined above, as at the date of this report there are no matters or circumstances which have arisen since 30 June 2007 that have significantly affected or may significantly affect:

(a) the operations, in financial years subsequent to 30 June 2007, of the Company;

(b) the results of those operations, in financials years subsequent to 30 June 2007, of the Company; or

(c) the state of affairs, in financial years subsequent to 30 June 2007, of the Company.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

24. SHARE BASED PAYMENT

At balance date, no continuing share based payment arrangement was in existence. However, during the year, the following options were issued to Mr Mark O'Clery (a director), Mr Mark Pearce (a director) and to key employees and consultants (or their nominees) of the Company.

The following table illustrates the number (No.) and weighted average exercise prices (WAEP) of and movements in share options issued during the year:

	2007 No.	2006 No.	2007 WAEP	2006 WAEP
Outstanding at beginning of year	300,000	-	-	-
Granted during the year	2,250,000	300,000	$0.77	$0.20
Exercised during the year	-	-	-	-
Outstanding and exercisable at end of year	2,550,000	300,000	$0.77	$0.20

The outstanding balance as at 30 June 2007 is represented by:

- 300,000 unlisted options over ordinary shares with an exercise price of $0.20 each that expire on 31 December 2008. These vested upon grant.
- 850,000 unlisted options over ordinary shares with an exercise price of $0.60 each that expire on 30 June 2009. These vested upon grant.
- 1,400,000 unlisted options over ordinary shares with an exercise price of $1.00 each that expire on 31 December 2009. These vested upon grant.

The weighted average remaining contractual life for the share options outstanding as at 30 June 2007 is 2.2 years.

The weighted average fair value of options granted during the year was $0.27 (2006: $0.10).

The fair value of the equity-settled share options granted is estimated as at the date of grant using a binomial model taking into account the terms and conditions upon which the options were granted.

The following table lists the inputs to the model used for the year ended 30 June 2007:

	2007 $0.60 Unlisted Options	2007 $1.00 Unlisted Options	2006 $0.20 Unlisted Options
Exercise price	$0.60	$1.00	$0.20
Price of shares on date of grant	$0.60	$1.00	$0.20
Dividend yield	-	-	-
Volatility	74%	74%	75%
Risk-free interest rate	5.75%	5.75%	4.90%
Issue date	29 Sep 2006	29 Sep 2006	23 Nov 2005
Expiry date	30 June 2009	31 Dec 2009	31 Dec 2008

DIRECTORS' DECLARATION

In accordance with a resolution of the directors of Odyssey Energy Limited, I state that:

(1) In the opinion of the directors:

(a) the financial statements and notes of the Company and of the Consolidated Entity are in accordance with the Corporations Act 2001 including:

(i) giving a true and fair view of the Company's and Consolidated Entity's financial position as at 30 June 2007 and of their performance for the year ended on that date; and

(ii) complying with accounting standards and the Corporations Act 2001; and

(b) there are reasonable grounds to believe that the Consolidated Entity will be able to pay its debts as and when they become due and payable.

(2) This declaration has been made after receiving the declarations required to be made to the directors in accordance with section 295A of the Corporations Act 2001 for the financial year ending 30 June 2007.

On behalf of the Board.

MARK O'CLERY
Managing Director

Perth, 26 September 2007

BDO Kendalls

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INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF ODYSSEY ENERGY LIMITED

We have audited the accompanying financial report of Odyssey Energy Limited, which comprises the balance sheet as at 30 June 2007, and the income statement, statement of changes in equity and cash flow statement for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation and fair presentation of the 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 control 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. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements,* that compliance with the Australian equivalents to International Financial Reporting Standards ensures that the financial report, comprising the consolidated financial statements and notes, complies with International Financial Reporting Standards.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, provided to the directors of Odyssey Energy Limited on 26 September 2007, would be in the same terms if provided to the directors as at the date of this auditor's report.

Auditor's Opinion on the Financial Report

In our opinion:

(a) the financial report of Odyssey Energy Limited is in accordance with the *Corporations Act 2001*, including:

  (i) giving a true and fair view of the company's and consolidated entity's financial position as at 30 June 2007 and of its performance for the year ended on that date; and

  (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*; and

(b) the consolidated financial statements and notes also complies with International Financial Reporting Standards as disclosed in Note 1.

Inherent Uncertainty Regarding Continuation as a Going Concern

Without qualification to the opinion expressed above, attention is drawn to the following matter. As a result of the matters described in Note 1, there is significant uncertainty whether Odyssey Energy Limited and controlled entities will be able to continue as a going concern.

BDO Kendalls Audit & Assurance (WA) (formerly BDO)

BDO Kendalls

BG McVeigh
Partner

Perth, Western Australia
Dated this 26th day of September 2007