



ODYSSEY
ENERGY LIMITED

ABN 73 116 151 636

FINANCIAL REPORT
FOR THE HALF-YEAR ENDED
31 DECEMBER 2006

CORPORATE DIRECTORY

Directors

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

Company Secretary

Mr Mark Pearce

Registered and Corporate Office

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Solicitors

Hardy Bowen, Lawyers

Auditor

BDO Chartered Accountants

Bankers

Australia and New Zealand Banking
Group Limited

Stock Exchange Listing

Australian Securities Exchange

ASX Code: ODY

DIRECTORS' REPORT

The Board of Directors of Odyssey Energy Limited present their report on the consolidated entity of Odyssey Energy Limited ("the Company" or "Odyssey") and the entities it controlled during the half-year ended 31 December 2006 ("Consolidated Entity").

DIRECTORS

The names of the Directors of Odyssey in office during the half-year and until the date of this report are:

Mr Ian Middlemas
Mr Mark O'Clery
Mr Mark Pearce

All Directors were in office from the beginning of the half-year until the date of this report.

REVIEW AND RESULTS OF OPERATIONS

Operating Results

Net operating loss after tax for the half-year ended 31 December 2006 was \$1,058,264 (six months ending 7 March 2006: \$156,784).

Review of Operations

During the half year ended 31 December 2006 the Company continued to progress the development of the North Helper Gas Project ("NHGP"), and in July 2006 undertook a major acreage acquisition which increased the Project's size five fold. The Company now has a 30% working interest in approximately 28,000 acres.

Substantial progress was also made in the development of the Company's other project, the Jester-Bloomington Gas Redevelopment Project ("JBGP"). The Company has a 33% working interest in this project, where following on from initial operational success, an additional 16,000 acres was acquired in December 2006, taking the project to over 24,000 acres.

Importantly the JBGP acquisition also included:

- The rights to 53 wells, which at the time of the acquisition were producing at an aggregate rate of approximately 200 thousand cubic feet of gas per day ("mcf/d");
- A network of production infrastructure including compression facilities and 112 kilometres of pipeline and gas gathering systems, which provide direct access to the US domestic gas sales network.

Summaries of activities for each project are provided below.

North Helper Gas Project (ODY Working Interest – 30%)

- Successfully completed the Cordingly Canyon #15-1 well, which has been flow tested at rates in excess of 2.0 million cubic feet per day ("mmcf/d");
- Completed drilling of the first three wells in the in the project's accelerated drilling program, including one Ferron and two dedicated Mancos Shale wells;

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- Commenced drilling of the project's ninth well, the Kenilworth Railroad#15-3 Ferron directional well, which was completed with good gas shows in mid-January;

Review of Operations (continued)

- Commenced completion and testing of the Cordingly Canyon#15-5 (Mancos Shale) well; and
- Continued de-watering and clean-up operations from the Project's 4 Ferron wells unaffected by the 15-3 drilling operations and 15-5 testing operations, with associated sales of approximately 30 million cubic feet of gas ("mmcf").

Jester-Bloomington Gas Redevelopment Project (ODY Working Interest – 33%)

- Completed drilling of the McAlexander#1 well, which has been tested at a stable rate of 411 mcf/d from the shallower of the two reservoirs intersected by the well;
- Acquired the rights to two shut-in wells adjacent to McAlexander#1 (Houck#1 and Travis#1), which were worked-over and tested at stabilised flow rates of 750 mcf/d and 280 mcf/d respectively;
- Commenced an initial work-over program targeting up to 10 wells in the expanded project area and tested the first two of these in January 2007, with Price#1 recording an 8-fold increase in flow rate to over 150 mcf/d, and Patten#1 testing at a rate of 540 mcf/d;

Corporate

- Completed a placement of 12,000,000 shares at \$0.60 each to raise \$7.2 million in new capital (before costs).
- Appointed Mark O'Clery as Managing Director and Mark Pearce as Finance Director of the Company.

New Developments

North Helper Gas Project (ODY Working Interest – 30%)

Dewatering and gas sales from the Ball Park#1, Kenilworth#2 and Cordingly Canyon#15-1, #15-2 and #11-1 wells commenced in Q4 2006 and continued across the pre-Christmas and New Year period despite lost time due to extreme (mid-winter) weather conditions and flow-line freezing. Over this period individual wells produced at rates of up to several hundred MCFD, with brief peaks in line with tested rates.

Despite these base-rates being consistent with the performance of wells in the Helper Field to the south, the NHGP wells are showing evidence that gas-entry is being hampered by reduced near well-bore permeability. This restriction in flow appears 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 are recognised in other producing CBM fields in North America and will be treated using standard techniques developed for Iron-rich coals. Analysis of samples from the field & design of the appropriate injection program has been completed, with the expectation that treatment will commence over the coming weeks.

In addition, completion and fracture stimulation of the new Kenilworth Railroad#15-3 well has commenced.

New Developments (continued)

Jester-Bloomington Gas Redevelopment Project (ODY Working Interest – 33%)

Remediation work has been carried out on 5-wells in the initial 10-well program (with all successful) and has included pump, tubing and metering repairs as well as targeted re-perforation of the Brown Dolomite reservoir. The project has another 47 well bores to remediate in the expanded project area and has two work-over rigs working solely on this effort.

Tie-in of the McAlexander#1 and Travis# wells is also progressing with permitting completed and pipeline construction underway. This new six mile 6 inch line from the central field area will also form a hub for new wells in the project, and may be extended to the Houck#1, McDonald#1 and Francis#1 wells to the west.

Increases in production will be targeted from the expected tie-in of McAlexander#1, Travis#1, Houck#1, McDonald#1 and Francis#1 wells, in conjunction with the above work-overs, over coming weeks.

Post Balance Date Events

- On the 15 February 2007, the Company completed a placement of 6,000,000 Shares to raise \$3.0 million (before costs).

AUDITOR'S INDEPENDENCE DECLARATION

Section 307C of the Corporations Act 2001 requires our auditors, BDO Chartered Accountants, to provide the Directors of Odyssey Energy Limited with an Independence Declaration in relation to the review of the half-year financial report. This Independence Declaration is on page 12 and forms part of this Directors' Report.

Signed in accordance with a resolution of Directors.



MARK O'CLERY
Managing Director

Perth, 2 March 2007

DIRECTORS' DECLARATION

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

In the opinion of the Directors:

- (a) the attached financial statements and notes thereto are in accordance with the Corporations Act 2001, including:
 - (i) section 304 (compliance with accounting standards and Corporations Regulations 2001); and
 - (ii) section 305 (true and fair view);
- (b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

On behalf of the Board



MARK O'CLERY
Managing Director

Perth, 2 March 2007

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

	Half-Year Ended 31 December 2006 \$	Half-Year Ended 7 March 2006 \$
Interest	42,741	54,559
Income on Production	66,463	-
Total income	109,204	54,559
Administration costs	(416,795)	(123,062)
Business development	(21,797)	-
Exploration costs	(585,760)	(88,281)
Finance costs	(143,116)	-
Loss before income tax	(1,058,264)	(156,784)
Income tax expense	-	-
Loss attributable to members of Odyssey Energy Limited	(1,058,264)	(156,784)
Basic loss per share (cents per share)	(2.93)	(0.83)
Diluted loss per share (cents per share)	(2.93)	(0.83)

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

CONDENSED CONSOLIDATED BALANCE SHEET AS AT 31 DECEMBER 2006

	31 December 2006 \$	30 June 2006 \$
	Note	
ASSETS		
Current Assets		
Cash and cash equivalents	658,651	2,438,520
Receivables	123,363	12,089
Total Current Assets	782,014	2,450,609
Non-current Assets		
Property, Plant & Equipment	40,976	-
Exploration expenditure	13,261,074	8,191,866
Total Non-current Assets	13,302,050	8,191,866
TOTAL ASSETS	14,084,064	10,642,475
LIABILITIES		
Current Liabilities		
Trade and other payables	1,217,236	3,429,424
Total Current Liabilities	1,217,236	3,429,424
Non Current Liabilities		
Borrowings	2,925,000	2,925,000
Total Non Current Liabilities	2,925,000	2,925,000
TOTAL LIABILITIES	4,142,236	6,354,424
NET ASSETS	9,941,828	4,288,051
EQUITY		
Issued Capital	3 11,582,187	4,810,647
Reserves	3 (46,160)	13,339
Accumulated losses	(1,594,199)	(535,935)
TOTAL EQUITY	9,941,828	4,288,051

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

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE HALF-YEAR ENDED 31 DECEMBER 2006

	Attributable to equity holder of the parent				Total equity
	Issued Capital \$	Currency Translation Reserve \$	Share based payment Reserve \$	Accumulated Losses \$	\$
Balance at 8 September 2005	-	-	-	-	-
Net income recognised directly in equity	-	-	-	-	-
Net loss for the period	-	-	-	(156,784)	(156,784)
Total recognised income and expenditure for the half year attributable to members of Odyssey Energy Limited					
Energy Limited	-	-	-	(156,784)	(156,784)
Currency translation reserve	-	(17,237)	-	-	(17,237)
Issue of shares	5,150,002	-	-	-	5,150,002
Share issue costs	(340,855)	-	-	-	(340,855)
Cost of share based payments	-	-	30,420	-	30,420
Balance at 7 March 2006	4,809,147	(17,237)	30,420	(156,784)	4,665,546
Total recognised income and expenditure for the half year attributable to members of Odyssey Energy Limited					
Energy Limited	-	-	-	(1,058,264)	(1,058,264)
Currency translation reserve	-	(670,384)	-	-	(670,384)
Issue of shares	7,200,000	-	-	-	7,200,000
Share issue costs	(428,460)	-	-	-	(428,460)
Cost of share based payments	-	-	610,885	-	610,885
Balance at 1 July 2006	4,810,647	(17,081)	30,420	(535,935)	4,288,051
Net income recognised directly in equity	-	-	-	-	-
Net loss for the period	-	-	-	(1,058,264)	(1,058,264)
Total recognised income and expenditure for the half year attributable to members of Odyssey Energy Limited					
Energy Limited	-	-	-	(1,058,264)	(1,058,264)
Currency translation reserve	-	(670,384)	-	-	(670,384)
Issue of shares	7,200,000	-	-	-	7,200,000
Share issue costs	(428,460)	-	-	-	(428,460)
Cost of share based payments	-	-	610,885	-	610,885
Balance at 31 December 2006	11,582,187	(687,465)	641,305	(1,594,199)	9,941,828

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

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

	Half-Year Ended 31 December 2006 \$	Half-Year Ended 7 March 2006 \$
Cash flows from operating activities		
Payments to suppliers and employees	(538,562)	(126,814)
Receipts from customers	29,269	-
Interest received	42,741	54,559
Interest paid	(143,115)	-
Net cash outflow from operating activities	(609,667)	(72,255)
Cash flows from investing activities		
Acquisition of Property, Plant etc	(10,670)	-
Exploration expenditure	(7,931,072)	(1,768,433)
Net cash outflow from investing activities	(7,941,742)	(1,768,433)
Cash flows from financing activities		
Proceeds from issue of shares	7,200,000	5,150,002
Proceeds from borrowings	800,000	-
Repayment of borrowings	(800,000)	-
Transaction costs from issue of shares	(428,460)	(340,855)
Net cash inflow from financing activities	6,771,540	4,809,147
Net increase/(decrease) in cash and cash equivalents held	(1,779,869)	2,968,459
Cash and cash equivalents at 1 July	2,438,520	-
Cash and cash equivalents at 31 December	658,651	2,968,459

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 31 DECEMBER 2006

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This general purpose financial report for the interim half-year reporting period ended 31 December 2006 has been prepared in accordance with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001*.

This interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report of Odyssey Energy Limited for the year ended 30 June 2006 and any public announcements made by Odyssey Energy Limited and its controlled entities during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

(a) Basis of preparation of half-year financial report

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

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

In the current year, the Group has adopted all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board (the AASB) that are relevant to its operations and effective for annual reporting periods beginning on or after 1 July 2006. The adoption of these new and revised standards has not resulted in any significant changes to the Group's accounting policies or to the amounts reported for the current or prior periods.

2. SEGMENT INFORMATION

The Company operates predominantly in one industry, the oil and gas exploration industry, and in one geographic location, namely the United States of America.

3. EQUITY SECURITIES ISSUED

	Consolidated 31 December 2006 \$	Consolidated 30 June 2006 \$
(a) Issued and paid up capital:		
42,000,000 (30 June 2006 – 30,000,002) fully paid ordinary shares	11,582,187	4,810,647
(b) Reserves:		
Options		
300,000 (30 June 2006 – 300,000) \$0.20 options unlisted options	30,420	30,420
850,000 (30 June 2006 – nil) \$0.60 unlisted options	260,185	-
1,400,000 (30 June 2006 – nil) \$1.00 unlisted options	350,700	-
	<u>641,305</u>	<u>30,420</u>
Foreign Currency Translation		
30 June 2006	(17,081)	(17,081)
31 December 2006	(670,384)	-
	<u>(687,465)</u>	<u>(17,081)</u>
Total Reserves	<u>(46,160)</u>	<u>13,339</u>

NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 31 DECEMBER 2006

3. EQUITY SECURITIES ISSUED (CONT.)

(c) Movements in ordinary share capital during the past six months were as follows:-

Date	Details	Notes	Number of Shares	Issue Price \$	\$
1 Jul 06	Opening Balance		30,000,002		4,810,647
29 Sep 06	Issue of Shares		12,000,000	0.60	7,200,000
	Share issue expenses		-	-	(428,460)
31 Dec 06	Closing Balance		42,000,002		11,582,187

(d) Movements in options during the past six months were as follows:-

Date	Details	Notes	Number of \$0.20 Options	Number of \$0.60 Options	Number of \$1.00 Options	Issue Price \$	\$
1 July 06	Opening Balance		300,000			-	30,420
29 Sep 06	Issue of Options	(i)		850,000		0.3061	260,185
	Issue of Options	(ii)			1,400,000	0.2505	350,700
31 Dec 06	Closing Balance		300,000	850,000	1,400,000		641,305

Notes

- (i) Options issued to Directors and their related parties
- (ii) Options issued to Directors and their related parties and contractors of the Company

4. CONTINGENT ASSETS AND LIABILITIES

At the last annual reporting date, the Consolidated Entity did not have any contingent assets or liabilities. There has been no material change in contingent assets and liabilities of the Consolidated Entity during the half year.

5. DIVIDENDS PAID OR PROVIDED FOR

No dividend has been paid or provided for during the half-year.

6. SUBSEQUENT EVENTS AFTER BALANCE DATE

Other than listed below, there were no significant events occurring after balance date requiring disclosure.

- i) On the 15 February 2007, the Company completed a placement of 6,000,000 Shares to raise \$3.0 million (before costs).



Chartered Accountants
& Advisers

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2 March 2007

The Directors
Odyssey Energy Limited
C/- 28 The Esplanade
PERTH WA 6000

Dear Sirs

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

To the best of my knowledge and belief, there have been no contraventions of:

- the auditor independence requirements of the Corporation Act 2001 in relation to the review; and
- any applicable code of professional conduct in relation to the review.

Yours faithfully

BDO
Chartered Accountants

B G McVeigh
Partner





Chartered Accountants
& Advisers

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INDEPENDENT AUDITORS REVIEW REPORT TO THE MEMBERS OF ODYSSEY ENERGY LIMITED

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Odyssey Energy Limited, which comprises the condensed balance sheet as at 31 December 2006, and the condensed income statement, condensed statement of changes in equity and condensed cash flow statement for the half-year ended on that date, other selected explanatory notes and the directors' declaration of the consolidated entity comprising the disclosing entity and the entities it controlled at the half-year end or from time to time during the half-year in order for the disclosing entity to lodge the half-year financial report with the Australian Securities and Investments Commission.

Directors' Responsibility for the Half-Year Financial Report

The directors of the disclosing entity are responsible for the preparation and fair presentation of the half-year financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the half-year financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of an Interim Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the disclosing entity's financial position as at 31 December 2006 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Odyssey Energy Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.



Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, provided to the directors of Odyssey Energy Limited on 2 March 2006, would be in the same terms if provided to the directors as at the date of this auditor's review report.

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Odyssey Limited is not in accordance with the *Corporations Act 2001* including:

- (a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2006 and of its performance for the half-year ended on that date; and
- (b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and Corporations Regulations 2001.

BDO

Chartered Accountants



BG McVeigh

Partner

Perth, Western Australia

Dated this 2nd day of March 2007