



**ODYSSEY**  
ENERGY LIMITED

**ABN 73 116 151 636**

**FINANCIAL REPORT**  
**FOR THE HALF-YEAR ENDED**  
**31 DECEMBER 2007**

## 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

Level 9, BGC Centre  
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### Share Registry

Computershare Investor Services Pty Ltd  
Level 2  
45 St Georges Terrace  
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### Solicitors

Hardy Bowen, Lawyers

### Auditor

BDO Kendalls Audit & Assurance (WA)  
Pty Ltd

### 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 2007 ("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 2007 was \$304,981 (six months ended 31 December 2006: \$1,058,264).

#### Review of Operations

##### *Jester-Bloomington Gas Re-Development Project:*

- **34,000 gross acres located on the southern margin of the Anadarko Basin in SW Oklahoma**
- **Licenses cover parts of Jester-Bloomington, North Bloomington and Willow Fields**
- **61 wells and 120km of pipelines and production infrastructure**
- **Gross Proved and Probable (2P) Reserves of 68 BCF certified in June 2007**
- **Odyssey Working Interest 33%**

After completion of major upgrades to the project's pipeline and gas gathering infrastructure, work-overs on a number of the 56 wells within the existing field areas boosted production early in the report period from 200 thousand cubic feet per day ("mcf/d") to 500 mcf/d. In addition to productivity gains from the primary Brown Dolomite and Granite Wash reservoirs (the subject of the June 2007 Reserves Certification), this work-over program established gas production from the overlying Wellington Limestone – a section largely ignored in the majority of wells in the area, but a prolific producer in two key offsets (Denby # 1 & 2).

Further development of the project commenced in November, with four new wells drilled in the northern "Spring Creek" part of the project area prior to the onset of severe weather conditions in Oklahoma pre-Christmas. All four recorded good gas shows throughout the objective section (including Granite Wash, Brown Dolomite, Panhandle Dolomite (Lower Wellington) and Upper Wellington Limestone), with completion operations commencing between Christmas and New Year.

##### *New Developments:*

In February 2008, the Jester-Bloomington Gas Field Re-Development Project reached a significant new milestone, with production reaching 1.0 million cubic feet of gas equivalent per day ("mcfge/d") as a result of strong gas flows from the new development wells; Eagon#1-7, Eagon#1-18, Dalton Counts#1 and Speed#B-6.

## ODYSSEY ENERGY LIMITED INTERIM FINANCIAL REPORT

In addition to combined gas rates from the wells which were nearly double pre-drill expectation, two of the four new wells have been producing commercial oil (Eagon#1-18 and Speed#B-6 wells). The oil (up to 15 barrels per day) is significant as it establishes the first commercial oil production from the project, and whilst adding 80 to 90 mcfgd to production on an energy equivalent basis, adds more than double this on a value basis; with oil currently trading above US\$90 per barrel.

After staging completions in each of the wells, gas is now being produced from all of the pre-drill objectives, including the Granite Wash, Brown Dolomite, Panhandle Dolomite (Lower Wellington) and Upper Wellington Limestone.

At the time of writing this report, completion operations were continuing with perforation of the Granite Wash section in Dalton Counts#1, to be followed by the Wellington Limestone and optimisation of the completions in both of the Eagon wells.

### **North Helper Gas Project:**

- **29,000 gross acres located in Uinta Basin, Utah**
- **Southern licenses contiguous with Anadarko's Helper Field**
- **9 wells drilled, with 7 de-watering and producing gas from Ferron Coals and 2 testing productivity of the overlying Mancos Shale**
- **Gross Proved and Probable (2P) Reserves of 44 BCF certified in June 2007**
- **Odyssey Working Interest 30%**

During the report period the 7 Ferron wells continued to de-water with associated gas sales. The treatment programs carried out in June and July for reduced near well-bore permeability associated with the well's original fracture stimulation programs (due unbroken gel iron precipitation) were successful, with all wells showing marked increases in fluid in-flow and production. The wells have now entered a conventional de-watering cycle with slow increases in gas rates consistent with Anadarko's production from the adjacent Helper Field.

Recent operations have focused on optimising the de-watering process, with additional frac's placed in Kenilworth Railroad # 2 and # 15-3 in tight sands adjacent to the coals which are gas productive on the eastern side of the Helper Field.

Stage 2 of the completion of the Cordingly Canyon #15-5 Mancos Shale well commenced in November after the initial completion earlier in the year demonstrated gas charge and productivity from just 20 feet of the 4,000+ foot Mancos section. In Stage 2 new frac's totalling 60 feet have been placed between 2,100 and 2,300 feet in the sandy 'Emery' section of the shale, with the aim of establishing commercial flow rates.

Strong initial gas flows seen in the post-frac clean-up declined in December as weather conditions deteriorated impeding access to the well and increasing production line pressures (due to down-time at both Anadarko and the project's compression facilities). Flow rates are expected to stabilise when the worst of this year's winter passes and the well-site can be accessed on a regular basis, enabling the impact of dedicated well-site compression and artificial lift to be seen through the well producing optimally.

## CORPORATE

During the half-year the Company:

- Completed a placement of 10m shares to raise \$4.0m (before costs) following shareholder approval;
- Announced a rights issue - the timing and structure of which is now being reassessed in light of current market conditions and volatility; and
- Assessed a number of new business opportunities in the oil and gas sector.

Over the coming months, the Company will increase its focus on a variety of corporate opportunities in an effort to increase shareholder value in the short to medium term.

## POST BALANCE DATE EVENTS

- i) On 14 February 2008, the Company announced a significant production increase at the Jester-Bloomington Project, including the establishment of the first commercial oil production from the project. Effective from this date, the Jester-Bloomington Project has been re-classified from an Exploration and Evaluation asset to Oil and Gas Properties.

## AUDITOR'S INDEPENDENCE DECLARATION

Section 307C of the Corporations Act 2001 requires our auditors, BDO Kendalls Audit & Assurance (WA) Pty Ltd, 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 13 and forms part of this Directors' Report.

Signed in accordance with a resolution of Directors.



**MARK O'CLERY**  
Managing Director

Perth, 13<sup>th</sup> March 2008

## 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, 13<sup>th</sup> March 2008**

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

	Half-Year Ended 31 December 2007	Half-Year Ended 31 December 2006
	\$	\$
Interest	35,140	42,741
Income from Production	77,171	66,463
<b>Total revenue</b>	<b>112,311</b>	<b>109,204</b>
Administration costs	(192,370)	(416,795)
Business development	(49,926)	(21,797)
Exploration costs	(47,875)	(585,760)
Finance costs	(127,121)	(143,116)
<b>Total expenses</b>	<b>(417,292)</b>	<b>(1,167,468)</b>
Income tax expense	-	-
<b>Loss attributable to members of Odyssey Energy Limited</b>	<b>(304,981)</b>	<b>(1,058,264)</b>
Basic loss per share (cents per share)	(0.60)	(2.93)
Diluted loss per share (cents per share)	(0.60)	(2.93)

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

## CONDENSED CONSOLIDATED BALANCE SHEET AS AT 31 DECEMBER 2007

		31 December 2007 \$	30 June 2007 \$
	Note		
<b>ASSETS</b>			
<b>Current Assets</b>			
Cash and cash equivalents		2,912,431	1,216,430
Trade and other receivables		83,614	77,592
<b>Total Current Assets</b>		<b>2,996,045</b>	<b>1,294,022</b>
<b>Non-current Assets</b>			
Property, plant & equipment		29,929	34,656
Exploration expenditure	3	16,668,442	15,050,168
<b>Total Non-current Assets</b>		<b>16,698,371</b>	<b>15,084,824</b>
<b>TOTAL ASSETS</b>		<b>19,694,416</b>	<b>16,378,846</b>
<b>LIABILITIES</b>			
<b>Current Liabilities</b>			
Trade and other payables		2,262,537	1,998,797
<b>Total Current Liabilities</b>		<b>2,262,537</b>	<b>1,998,797</b>
<b>Non Current Liabilities</b>			
Borrowings		2,824,900	2,925,000
<b>Total Non Current Liabilities</b>		<b>2,824,900</b>	<b>2,925,000</b>
<b>TOTAL LIABILITIES</b>		<b>5,087,437</b>	<b>4,923,797</b>
<b>NET ASSETS</b>		<b>14,606,979</b>	<b>11,455,049</b>
<b>EQUITY</b>			
Issued capital	4	18,260,159	14,387,833
Reserves	4	(1,444,301)	(1,028,886)
Accumulated losses		(2,208,879)	(1,903,898)
<b>TOTAL EQUITY</b>		<b>14,606,979</b>	<b>11,455,049</b>

The above Condensed 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 2007

	Attributable to equity holder of the parent				Total equity
	Issued Capital	Currency Translation Reserve	Share Based Payment Reserve	Accumulated Losses	
	\$	\$	\$	\$	\$
<b>Balance at 1 July 2006</b>	<b>4,810,647</b>	<b>(17,081)</b>	<b>30,420</b>	<b>(535,935)</b>	<b>4,288,051</b>
Currency translation reserve	-	(670,384)	-	-	(670,384)
Income and expense recognised directly in equity	-	(670,384)	-	-	(670,384)
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	-	(670,384)	-	(1,058,264)	(1,728,648)
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
<b>Balance at 31 December 2006</b>	<b>11,582,187</b>	<b>(687,465)</b>	<b>641,305</b>	<b>(1,594,199)</b>	<b>9,941,828</b>
<b>Balance at 1 July 2007</b>	<b>14,387,833</b>	<b>(1,670,191)</b>	<b>641,305</b>	<b>(1,903,898)</b>	<b>11,455,049</b>
Currency translation reserve	-	(415,415)	-	-	(415,415)
Income and expense recognised directly in equity	-	(415,415)	-	-	(415,415)
Net loss for the period	-	-	-	(304,981)	(304,981)
Total recognised income and expenditure for the half year attributable to members of Odyssey Energy Limited	-	(415,415)	-	(304,981)	(720,396)
Issue of shares	4,100,100	-	-	-	4,100,100
Share issue costs	(227,774)	-	-	-	(227,774)
Cost of share based payments	-	-	-	-	-
<b>Balance at 31 December 2007</b>	<b>18,260,159</b>	<b>(2,085,606)</b>	<b>641,305</b>	<b>(2,208,879)</b>	<b>14,606,979</b>

The above Condensed 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 2007

	Half-Year Ended 31 December 2007	Half-Year Ended 31 December 2006
	\$	\$
<b>Cash flows from operating activities</b>		
Payments to suppliers and employees	(334,019)	(567,831)
Receipts from customers	100,338	29,269
Interest received	35,141	42,741
GST refunds received	26,736	29,269
Interest paid	(127,120)	(143,115)
<b>Net cash outflow from operating activities</b>	<b>(298,924)</b>	<b>(609,667)</b>
<b>Cash flows from investing activities</b>		
Acquisition of property, plant and equipment	-	(10,670)
Exploration expenditure	(1,783,649)	(7,931,072)
<b>Net cash outflow from investing activities</b>	<b>(1,783,649)</b>	<b>(7,941,742)</b>
<b>Cash flows from financing activities</b>		
Proceeds from issue of shares	4,000,000	7,200,000
Proceeds from borrowings	-	800,000
Repayment of borrowings	-	(800,000)
Transaction costs from issue of shares	(221,426)	(428,460)
<b>Net cash inflow from financing activities</b>	<b>3,778,574</b>	<b>6,771,540</b>
<b>Net increase/(decrease) in cash and cash equivalents held</b>	<b>1,696,001</b>	<b>(1,779,869)</b>
Cash and cash equivalents at 1 July	1,216,430	2,438,520
<b>Cash and cash equivalents at 31 December</b>	<b>2,912,431</b>	<b>658,651</b>

The above Condensed 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 2007

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This general purpose financial report for the interim half-year reporting period ended 31 December 2007 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 2007 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 annual financial report for the year ended 30 June 2007, 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 2007. 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.

#### (b) Going concern

These financial statements have been prepared on a going concern basis. Whilst there are uncertainties as to the exact timing and form of additional fund raising necessary to fund the current level of activities of the Consolidated Entity and Company for at least the next 12 months, the directors have reasonable expectations that they can raise additional cash resources, due to:

- Increased levels of production and revenues from operations;
- Independent reserves certification of the Company's two projects; and
- Reduced capital expenditure on existing projects.

Accordingly, the Directors have prepared the financial statements 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.

### 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.

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

### 3. EXPLORATION & EVALUATION EXPENDITURE

	Consolidated 31 December 2007 \$	Consolidated 30 June 2007 \$
Balance at the beginning of year	15,050,168	8,191,866
Expenditure during the period	1,618,274	6,858,302
Balance at end of period	<b>16,668,442</b>	<b>15,050,168</b>

### 4. EQUITY SECURITIES ISSUED

#### (a) Issued and paid up capital:

58,154,002 (30 June 2007 – 48,000,002) fully paid ordinary shares	<b>18,260,159</b>	<b>14,387,833</b>
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#### (b) Reserves:

##### Options

300,000 (30 June 2007 – 300,000) \$0.20 unlisted options	30,420	30,420
850,000 (30 June 2007 – 850,000) \$0.60 unlisted options	260,185	260,185
1,400,000 (30 June 2007 – 1,400,000) \$1.00 unlisted options	350,700	350,700
	<b>641,305</b>	<b>641,305</b>

##### Foreign Currency Translation

Balance at the beginning of period	(1,670,191)	(17,081)
Currency translation differences	(415,415)	(1,653,110)
Balance at end of period	<b>(2,085,606)</b>	<b>(1,670,191)</b>

##### Total Reserves

<b>(1,444,301)</b>	<b>(1,028,886)</b>
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#### (c) Movements in ordinary share capital during the six month periods ended 31 December 2006 and 2007 were as follows:-

Date	Details	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	<b>42,000,002</b>		<b>11,582,187</b>

Date	Details	Number of Shares	Issue Price \$	\$
1 Jul 07	Opening Balance	48,000,002		14,387,833
17 Jul 07	Conversion of Convertible Notes	154,000	0.65	100,100
	Share issue expenses	-	-	(1,320)
14 Nov 07	Issue of Shares	10,000,000	0.40	4,000,000
	Share issue expenses	-	-	(226,454)
31 Dec 07	Closing Balance	<b>58,154,002</b>	-	<b>18,260,159</b>

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

### 4. EQUITY SECURITIES ISSUED (CONT.)

(d) Movements in options during the six month periods ended 31 December 2006 and 2007 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		<b>300,000</b>	<b>850,000</b>	<b>1,400,000</b>		<b>641,305</b>

#### Notes

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

There were no movements in options during the six month period ended 31 December 2007.

### 5. 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.

### 6. DIVIDENDS PAID OR PROVIDED FOR

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

### 7. SUBSEQUENT EVENTS AFTER BALANCE DATE

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

- i) On 14 February 2008, the Company announced a significant production increase at the Jester-Bloomington Project, including the establishment of the first commercial oil production from the project. Effective from this date, the Jester-Bloomington Project has been re-classified from an Exploration and Evaluation asset to Oil and Gas Properties.



BDO Kendalls

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13 March 2008

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

Dear Sirs

**DECLARATION OF INDEPENDENCE BY BRAD MCVEIGH TO THE DIRECTORS  
OF ODYSSEY ENERGY LIMITED**

As lead auditor of Odyssey Energy Limited for the half year ended 31 December 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 review; and
- any applicable code of professional conduct in relation to the review.

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

**BG McVeigh**  
Director

**BDO Kendalls Audit and Assurance (WA) Pty Ltd**  
Perth, Western Australia on the 13th of March 2008



BDO Kendalls

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

We have reviewed the accompanying half-year financial report of Odyssey Energy Limited, which comprises the condensed balance sheet as at 31 December 2007, and the condensed income statement, condensed statement of changes in equity and condensed cash flow statement for the half-year ended on that date, a statement of accounting policies, 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 2007 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of 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*.

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

- (a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2007 and of its performance for the half-year ended on that date; and
- (b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and Corporations Regulations 2001.

### **Material Uncertainty Regarding Continuation as a Going Concern**

Without qualifying our conclusion, we draw attention to Note 1 in the interim financial report. 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 and therefore whether it will realise its assets and extinguish its liabilities in the normal course of business and at amounts stated in the financial report.

### **BDO Kendalls Audit & Assurance (WA) Pty Ltd**



**BG McVeigh**  
Director

Perth, Western Australia  
Dated this 13th day of March 2008