RIALTO
ENERGY LIMITED

ABN 17 117 227 086

ANNUAL REPORT

For the year ended 30 June 2007

Corporate Directory

Directors

Ted Jacobson	Non-Executive Chairman
Greg Munyard	Non-Executive
Laurie Brown	Non-Executive
Glenn Whiddon	Non-Executive

Company Secretary

John Arbuckle

Registered Office

Suite 9, 36 Ord Street
West Perth WA 6005
Telephone: (08) 9486 4700
Facsimile: (08) 9322 7577
Email: admin@rialtoenergy.com
Website: www.rialtoenergy.com

Auditors

PKF Chartered Accountants
Level 7, BGC Centre
28 The Esplanade
Perth WA 6000

Bankers

National Australia Bank
226 Main Street
Osborne Park WA 6017

Share Registry

Security Transfer Registrars Pty Ltd
770 Canning Highway
Applecross WA 6153
Telephone: (08) 9315 2333
Facsimile: (08) 9315 2233

Stock Exchange Listing

The Company is listed on the Australian Securities Exchange Ltd (ASX)
Home Exchange: Perth, Western Australia

ASX Code: **RIA**
RIAO

Chairman's Letter

Dear Shareholder

On behalf of your Directors, I am pleased to present you with the Company's 2007 Annual Report and Financial Statements.

Rialto was admitted to the official list of the ASX in July 2006. Since listing, Rialto's shares have traded within a range of 24 cents to 77 cents while the options have traded within a range of 3.5 cents to 29 cents, which indicates market support for our Company.

In April 2006, Rialto farmed into the Exploration Permit WA-291-P, covering some 4,500 km^2 in the Carnarvon Basin offshore Western Australia. Rialto has earned its 30% participating interest by funding 60% of the cost of a 750km 2D seismic survey program which was acquired in the first half of 2007. The seismic volume is expected to be delivered by the end of October 2007, when interpretation will start, in preparation for the development of a prospect and leads inventory.

In May 2007, Rialto was awarded Exploration Permit WA-399-P, also in the Carnarvon Basin offshore Western Australia. The permit is held equally by Rialto (50%) and Carnarvon Petroleum Limited (50% and Operator). Although the block is small, it is very will located near existing oil and gas discoveries. Recent technical work, which is ongoing, has identified a possible attractive drilling prospect called 'Black Tom'. Reprocessing of existing seismic is planned and this will aid in assessing the potential for drilling and possible reserve size.

Rialto has been very active evaluating and pursuing new ventures. We were extremely pleased to be able to participate with Challenger Minerals Inc. in an International Joint Venture program. Through our agreement, Rialto is able to secure a flow of high quality international projects as well as access to critical drilling services. We are now seeing a range of first class, low risk appraisal opportunities with near term drilling potential coupled with the ability to deliver drilling services at a time of extremely tight rig market conditions.

We are so confident that the relationship with Challenger Minerals Inc. will provide Rialto with a substantial platform for growth that we have seized the opportunity to significantly increase our participation in the new projects that we are considering (from 10 to 25%).

I would like to thank my fellow directors and our Chief Executive Officer, Mr Brett Woods, for positioning Rialto so well for what should be a significant growth period. The Board has greatly appreciated the creativity and energy shown by Mr Woods since assuming his role in April 2007. Finally I thank our Shareholders who have supported us during the last 12 months.

Ted Jacobson
Chairman

Directors' Report

The Directors present their report on Rialto Energy Limited for the year ended 30 June 2007.

Directors

The names and details of the Company's Directors in office during the financial period and until the date of this report are as follows. Directors were in office for the entire period unless otherwise stated.

Ted Jacobson, BSc (Hons) – Non-Executive Chairman

Ted Jacobson is a petroleum geophysicist with 36 years' experience in petroleum exploration, principally in the European North Sea, South East Asia and Australia.

He has had extensive involvement in Australian North West Shelf acreage, beginning in 1981 with the initial bid for the Harriet Joint Venture permits. He was responsible for initiating a number of commercial discoveries within the Cooper Basin, Barrow Sub-basin and the Timor Sea.

Mr. Jacobson was a co-founder of Discovery Petroleum N.L. and a co-founder and the technical director of Tap Oil Limited, which grew to a market capitalization of over $400 million under his technical leadership. He is currently the Chief Executive Officer and an Executive Director of Carnarvon Petroleum Limited.

Mr. Jacobson is a member of the Petroleum Exploration Society of Australia and a member of the Australian Institute of Geoscientists (AIG). Mr Jacobson was appointed a director on appointed 16 February 2006 and is a member of Rialto's audit and risk committee.

Other current directorships

Chief Executive Officer and a director of Carnarvon Petroleum Limited (director since 2005), Smart Rich Energy Finance (Holdings) Ltd (since 2007, HKEX listed).

Former directorships in last 3 years

Executive Director of Tap Oil NL (resigned 2005).

Greg Munyard, B.Juris. LL.B – Non-Executive Director

Greg Munyard was Rialto's founding Managing Director until 20 April 2007 when he assumed the role of Non-Executive Director.

He is by training, a corporate solicitor, with over 20 years' experience in the resources industry, principally in oil and gas. He has held positions with CRA Ltd (now Rio Tinto Ltd.) and has worked for small and large oil and gas exploration and production companies. Prior to Rialto, he held senior legal positions with Woodside Energy Ltd. ("Woodside"), where he worked for 17 years.

Mr. Munyard has extensive experience in a broad range of the legal and commercial aspects of the oil and gas industry, in all phases from exploration to production and sales. This has included consideration of country entries, formation and management of joint ventures, acreage acquisition, development and construction activities, risk management, reserves classification, production operations and marketing.

Mr. Munyard has extensive experience in advising on Australia's offshore petroleum legislation and took a lead role in its recent review. He has also lectured and tutored in oil and gas topics at the University of Western Australia's Centre for Mining, Energy and Natural Resources Law.

Mr Munyard was appointed a director on 16 February 2006.

Other current directorships

None.

Former directorships in last 3 years

None.

Laurie Brown, B.Sc(Hons) – (Geology/Geophysics) – Non-Executive Director

Laurie Brown is an exploration geoscientist with over 23 years' international petroleum industry exploration experience.

Mr. Brown joined British Petroleum plc ("BP"), initially as a Research Geoscientist in 1982, transferring to International Exploration a year later. After 17 years with BP, predominantly on international assignments covering the Middle East, Asia, Africa, UK and Australia, he settled in Australia in 1999, taking a lead role in Woodside's then developing International Team. Appointed as a Shell Global Consultant, he led Woodside's technical team in deepwater Mauritania culminating in the initial Chinguetti discovery.

In 2001, Mr. Brown joined Mauritanian joint venturer Fusion Oil & Gas Ltd as Exploration Manager, helping the company to grow its technical expertise and its asset portfolio into a diverse range of largely operated exploration assets in Gabon, Cameroon, Senegal, Guinea-Bissau, Western Sahara as well as Mauritania.

Mr. Brown was appointed Exploration Director of Sterling Oil and Gas Pty Ltd, a wholly owned, Perth based, subsidiary of Sterling Energy plc following its takeover of Fusion in December 2003. He resigned from the board of Sterling Oil and Gas Pty Ltd in January 2006 following the relocation of Sterling's asset management to the UK.

Mr Brown was appointed a director on 16 February 2006 and is a member of Rialto's audit and risk committee.

Other current directorships

Executive director of Kairiki Energy Limited (since 2006).

Former directorships in last 3 years

None.

Glenn Whiddon, B.Ec – Non-Executive Director

Mr Whiddon has a background in banking and corporate advisory working for the Bank of New York in Sydney, Melbourne, Geneva and Moscow. In 1994 he established a boutique merchant bank in Moscow, providing corporate advice and undertaking direct investments.

Mr Whiddon was the CEO and founding director of Grove Energy Limited, an oil and gas exploration company listed on the Toronto Venture Exchange ("TSXV") and the Alternative Investment Market of London Stock Exchange plc ("AIM").

Mr Whiddon was appointed a director on 21 November 2005 and is Chairman of Rialto's audit and risk committee.

Other current directorships

Non- Executive Director of Oklo Uranium Ltd (since 2007) and Segue Resources Ltd (since 2005), Non-Executive Director of Statesman Resources Ltd (since 2004, TSXV listed company), and Non-Executive Director of UMC Energy plc (since 2007, AIM listed company).

Former directorships in last 3 years

Non-Executive Director of Omegacorp Ltd (resigned 2007) and Executive Director of Grove Energy Ltd (resigned 2007, AIM and TXSV listed company).

Company Secretary

Mr John Arbuckle is a CPA with extensive experience in the mining industry in Australia and overseas. His recent positions have included Chief Financial Officer and Company Secretary of Mount Gibson Iron Limited and Chief Financial Officer of Perilya Limited, where he guided both companies through difficult start up phases. Prior to this he held senior financial management roles with Rio Tinto Limited, North Limited and Anaconda Nickel Limited. He has considerable experience in developing financial and risk management strategies for mining companies and the implementation of accounting controls and systems.

Mr Arbuckle is also a director and the company secretary of Segue Resources Ltd, company secretary of Carpathian Resources Ltd and a director of Prosperity Resources Ltd.

Auditor

Mr Neil Smith is the signing partner for Rialto Energy Limited. Mr Smith is a partner of PKF Chartered Accountants. PKF Chartered Accountants did not provide any non-audit services to the Company during the financial period. The auditor's independence declaration is attached later in this Annual Report.

Principal Activities

The principal activities of the Company during the financial period were the identification of suitable oil and gas exploration and production opportunities and raising capital to fund those opportunities.

Review and Results of Operations

WA-291-P

In April 2006 Rialto farmed into Exploration Permit WA-291-P ("Permit") covering some 4,500 km^2 in the Carnarvon Basin offshore Western Australia. Rialto will earn a 30% interest from a subsidiary of Tap Oil Ltd, Tap (Shelfal) Pty Ltd, which will retain a 70% interest and operatorship. Rialto will earn its 30% interest by funding 60% of a planned 2D seismic survey program to a maximum amount of $900,000 for Rialto's share, paying at an equity level thereafter.

The Permit is located in the under-explored Beagle Sub-basin within the greater Northern Carnarvon Basin. The Beagle Sub-basin is the northern most of the four major Mesozoic to Cainozoic depocentres that together contribute to the offshore Carnarvon Basin. The Carnarvon Basin is Australia's premier hydrocarbon province, having overtaken the Gippsland Basin in terms of production and remaining reserves, with over 750 wells drilled since the first well was drilled in 1953.

Rialto entered into a contract with Petroleum Geo-Services (PGS) for the acquisition and processing of a 750km 2D seismic survey in the northern portion of the Permit. Seismic acquisition operations commenced on 4 April 2007 and were completed on 3 May 2007. Processing of the seismic is underway, and it is expected that the seismic volumes will be delivered in October 2007. Following the seismic processing, the data will be interpreted and evaluated with the aim of delivering as soon as possible a risked and ranked prospect inventory for consideration of possible drilling targets.

WA-399-P

In May 2007, Rialto was awarded Exploration Permit WA-399-P, also in the Carnarvon Basin offshore Western Australia. The Permit is held equally by Rialto (50%) and Carnarvon Petroleum Limited (50% and Operator).

The permit covers an area of approximately 50km^2 located between the Pyrenees and Macedon oil and gas fields and the Leatherback oil accumulation.

On 3 July 2007, BHP Billiton Limited and its co-venturer Apache Corporation Limited, announced approval of the Pyrenees oil and gas project in Retention Lease WA-12-R, directly adjacent to WA-399-P. This is likely to increase confidence that any discoveries in WA-399-P can be commercialised.

Recent technical work on the Permit has identified a possible attractive drilling prospect called 'Black Tom'. While the technical work is ongoing, existing seismic indicates that this has the potential to contain approximately 50 million barrels of recoverable oil at the prospective upper Barrow level. Reprocessing of existing seismic is planned and this will aid in assessing the potential for drilling and possible reserve size.

New Ventures

On 16 April 2007, Rialto announced that it had entered into an international joint venture agreement with Challenger Minerals Inc ("CMI"), the oil and gas subsidiary of GlobalSantaFe Corporation ("GlobalSantaFe"), one of the world's largest drilling contractors.

The agreement provides to Rialto with access to:
- a range of high quality exploration, development or production opportunities in areas of interest to Rialto, with a guaranteed right to participate; and
- offshore drilling expertise and drilling management services, thus significantly enhancing the ability to deliver on projects in the current tightly constrained drilling services market.

Under the agreement, Rialto has the right and option for the next 3 years, but not the obligation, to acquire and participate as a co-venturer in global offshore oil and gas opportunities that become available to CMI through its extensive worldwide network.

Rialto recently extended its agreement and now is assured of at least 25% of available equity and may acquire more by agreement on a case by case basis. CMI obtains equity in projects where the provision of drilling services can facilitate entry. CMI has successfully deployed this strategy in recent years and now holds equity interests in a range of oil and gas fields globally. These fields are currently producing at a gross rate of approximately 40,000 barrels of oil per day and approximately 70 million cubic feet of gas per day.

Operating Results

The operating loss of the Company after providing for income tax of nil (2006: nil) was $1,104,817 (2006: $288,186).

Significant Changes in the State of Affairs

There were no changes in the state of affairs of the Company other than those referred to elsewhere in this report of the financial statements or notes thereto.

Significant Events After Balance Date

In September 2007, the Company announced that it had increased to 25% from 10% its participating interest in the international joint venture agreement with Challenger Minerals Inc. ("CMI").

The amended agreement with CMI provides to Rialto:
- a guaranteed right for the next 3 years to an increased level of participating interest as a joint venturer with CMI in a range of high quality exploration, development or production opportunities in areas of interest to Rialto; and
- access to offshore drilling expertise and drilling management services, thus significantly enhancing the ability to deliver on projects in the current tightly constrained drilling services market.

On 26 September 2007, the Company announced that it had reached agreement to place 2,910,000 ordinary fully paid shares at an issue price of $0.40 to raise $1,164,000 before expenses to fund its increase in the CMI JV from 10% to 25%.

There have been no other events subsequent to balance date which are sufficiently material to warrant disclosure.

Likely Developments and Expected Results

Likely developments in the operations of the economic entity are included elsewhere in this Annual Report. Disclosure of any further information has not been included in this report because, in the reasonable opinion of the Directors, to do so would be likely to prejudice the business activities of the Company.

Environmental Regulation and Performance

There are no particular and significant environmental regulations that affected the performance of the Company's operations.

Proceedings on Behalf of the Company

No person has applied to the Court under section 237 of the Corporations Act 2001 for leave to bring proceedings on behalf of the Company, or to intervene in any proceedings to which the Company is a party, for the purpose of taking responsibility on behalf of the Company for all or part of those proceedings.

No proceedings have been brought or intervened in on behalf of the Company with leave of the Court under section 237 of the Corporations Act 2001.

Remuneration Report (Audited)

Remuneration of directors and executives is referred to as compensation throughout this report. Key management personnel have authority and responsibility for planning, directing and controlling the activities of the Company including directors of the Company and other executives. They include the five most highly remunerated section 300A directors and executives for the Company. Compensation levels for directors and key management personnel of the Company are competitively set to attract and retain appropriately qualified and experienced directors and executives.

The Board is responsible for compensation policies and practices. The Board, where appropriate, seeks independent advice on remuneration policies and practices, including compensation packages and terms of employment.

The compensation structures explained below are designed to attract suitably qualified candidates, reward the achievement of strategic objectives, and achieve the broader outcome of creation of value for shareholders. The compensation structures take into account a number of factors, including length of service, particular experience of the individual concerned, and overall performance of the Company.

Non-Executive Directors

The Non-executive directors receive a fixed fee for their services of $36,000 per annum (including statutory superannuation). The Chairman receives $50,000 per annum (including statutory superannuation).

There is no direct link between remuneration paid to any non-executive directors and corporate performance. There are no termination or retirement benefits for non-executive directors (other than statutory superannuation).

Fixed Compensation

Fixed compensation consists of base compensation (which is calculated on a total cost basis and includes any FBT charges related to employee benefits), as well as employer contributions to superannuation funds. Compensation levels are reviewed annually by the Board where applicable.

Service Contracts

The Company had entered into an employment agreement with Mr Munyard. The agreement entitled Mr Munyard to receive a salary of $200,000 per annum (including statutory superannuation). The Company agreed to terminate this agreement in April 2007 and Mr Munyard reverted to being a Non-Executive Director.

The Company entered into an employment agreement with Mr Brett Woods to act as Chief Executive Officer. The agreement entitles Mr Woods to receive a salary of $250,000 per annum (including statutory superannuation). The Company or Mr Woods may terminate this agreement by providing 3 months' written notice. Mr Woods was also provided with 1,500,000 unlisted options.

Remuneration

Details of the remuneration of the directors of the Company and key management personnel are set out in the following table.

The key management personnel of the Company include the directors and the following executive officers:

- Mr Brett Woods – Chief Executive Officer (employed 6 March 2007); and
- Mr John Arbuckle - Company Secretary/Financial Controller.

2007	Short-term Benefits			Post-employment benefits	Share-based Payment	
Name	Salary and Fees $	Cash Bonus $	Non-Monetary Benefit $	Super-annuation $	Options $	Total $
Directors						
T Jacobson	50,000	-	-	-	-	50,000
G Munyard (a)	210,861	-	-	13,282	-	224,143
L Brown (b)	82,313	-	-	-	-	82,313
G Whiddon	36,000	-	-	-	-	36,000
Executives						
B Woods (c)	95,399	-	-	3,996	131,203	230,598
J Arbuckle	62,860	-	-	-	-	62,860
Totals	537,433	-	-	17,278	131,203	685,914

(a) Mr Munyard received $203,761 in respect of salary until he ceased in the role as Managing Director on 20 April 2007. He then received $7,100 for directors' fees for the period 20 April 2007 to 30 June 2007.

(b) Mr Brown received $36,000 for directors' fees and $46,313 for services rendered outside of his duties as a director.

(c) Mr Woods commenced with the Company on 6 March 2007 as a consultant Exploration Manager. On 20 April 2007 he was appointed Chief Executive Officer and became a full time employee. During the period 6 March 2007 to 30 June 2007 he was paid $51,000 for consulting fees and $44,399 in salary.

The following factors and assumptions were used in determining the fair value of options on grant date:

Grant Date	Expiry Date	Fair value per option	Exercise Price	Estimated Volatility	Risk Free Interest Rate
18 May 2007	31 March 2012	$0.228	$0.35	60%	5.90%
18 May 2007	31 March 2013	$0.224	$0.45	60%	5.90%
18 May 2007	31 March 2014	$0.217	$0.60	60%	5.90%

In respect of the options granted to Mr Woods, one third of each class vested immediately at the grant date, one third of each class vest on 1 April 2008 and one third of each class on 1 April 2009.

All options refer to options over ordinary shares of Rialto Energy Limited which are exercisable on a one for one basis.

2006	Short-term Benefits			Post-employment benefits	Share-based Payment	
Name	Salary and Fees $	Cash Bonus $	Non-Monetary Benefit $	Super-annuation $	Options $	Total $
Directors						
T Jacobson	16,667	-	-	-	-	16,667
G Munyard	-	-	-	66,667	-	66,667
L Brown (a)	58,286	-	-	-	-	58,286
G Whiddon	12,000	-	-	-	-	12,000
R Downey	-	-	-	-	-	-
J Arbuckle	-	-	-	-	-	-
Executives						
J Arbuckle	11,040	-	-	-	-	11,040
Totals	97,993	-	-	66,667		164,660

(a) Mr Brown received $12,000 for directors' fees and $46,286 for services rendered outside of his duties as a director.

Meetings of Directors

The following directors' meetings were held during the year and the number of meetings attended by each of the directors during the year were:

	Directors' meetings held	Directors' meetings attended
Directors		
Ted Jacobson	5	4
Greg Munyard	5	5
Laurie Brown	5	5
Glenn Whiddon	5	3

Directors' Interests in the Shares and Options of the Company

As at the date of this report, the relevant interest of each director in the shares and options of Rialto Energy Limited were:

	Ordinary Shares		Options	
Name	**Direct**	**Indirect**	**Direct**	**Indirect**
T Jacobson	-	1,000,000	-	900,000
G Munyard	961,000	7,000	856,417	3,500
L Brown	431,667	800,000	80,000	800,000
G Whiddon	403,463	-	200,000	-

Options over Unissued Capital

At 30 June 2007, the following options were on issue:

Number	Exercise Price	Expiry Date
12,525,000	$0.60	30 June 2011
250,000	$0.60	30 June 2009
500,000	$0.35	31 March 2012
500,000	$0.45	31 March 2013
500,000	$0.60	31 March 2014

Since balance date there has been no options granted or issued.

During or since the end of the financial period no options were exercised.

Officers' Indemnities and Insurance

The Company has, during the financial period, entered into an agreement with the Directors and certain officers to indemnify these individuals against any claims and related expenses which arise as a result of work completed in their respective capabilities.

During the financial period, neither the Company, nor any of its related bodies corporate, provided any insurance for any Director, officer or auditor of the Company or a related body corporate.

Non-Audit Services

The Company may decide to employ the auditor on assignments additional to their statutory audit duties where the auditor's expertise and experience with the Company and/or Group are important.

Details of the amount paid or payable to the auditor (PKF) for the audit and non-audit services provided during the year are set out in note 15.

Directors' Report

The Board of directors has considered the position and, in accordance with the advice received from the audit committee, is satisfied that the provision of the non-audit services is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001. The directors are satisfied that the provision of non-audit services by the auditor did not compromise the auditor independence requirements of the Corporations Act 2001 for the following reasons:

- All non audit services have been reviewed by the audit committee to ensure they do not impact the impartiality and objectivity of the auditor;
- None of the services undermine the general principles relating to auditor independence as set out in Professional Statement APES110, including reviewing or auditing the auditor's own work, acting in a management or a decision-making capacity for the Group, acting as advocate for the Group or jointly sharing economic risk and rewards.

Dividends

No dividend has been paid since the end of the financial period and no dividend is recommended for the current year.

Auditor's Independence Declaration

A copy of the Auditor's Independence Declaration as required under section 307C of the Corporations Act 2001 is set out on page 15.

Signed in accordance with a resolution of the Directors

Ted Jacobson
Chairman

Perth, 27 September 2007

Chartered Accountants
& Business Advisers

AUDITOR'S INDEPENDENCE DECLARATION
TO THE DIRECTORS OF RIALTO ENERGY LIMITED

As lead engagement partner for the audit of Rialto Energy Limited for the year ended 30 June 2007, I declare that, to the best of my knowledge and belief, there have been:

(i) no contraventions of the independence requirements of the *Corporations Act 2001* in relation to the audit; and

(ii) no contraventions of any applicable code of professional conduct in relation to the audit.

PKF

PKF
Chartered Accountants

Neil Smith
Partner

Dated at Perth, Western Australia this 28th day of September 2007

Tel: 61 8 9278 2222 | Fax: 61 8 9278 7700 | www.pkf.com.au
West Australian Partnership | ABN 39 542 778 278
Level 7, BGC Centre | 28 The Esplanade | Perth | Western Australia 6000 | Australia
PO Box Z5066 | St Georges Terrace | Perth | Western Australia 6831

Corporate Governance Statement

The Company has adopted systems of control and accountability as the basis for the administration of corporate governance. The Board is committed to administering the policies and procedures with openness and integrity, pursuing the true spirit of corporate governance commensurate with the Company's needs. To the extent they are applicable, the Company has adopted the Ten Essential Corporate Governance Principles and Best Practice Recommendations ("Recommendations") as published by the ASX Corporate Governance Council.

Further information about the Company's corporate governance practices is set out on the Company's website at www.rialtoenergy.com. In accordance with the recommendations of the ASX, information published on the Company's website includes charters (for the board and its sub-committees), codes of conduct and other policies and procedures relating to the board and its responsibilities.

As the Company's activities develop in size, nature and scope, the size of the Board and the implementation of other corporate governance arrangements will be given further consideration.

The Board is responsible for:

(a) Charting the direction, strategies and financial objectives of the Company and ensuring appropriate resources are available;

(b) Monitoring the implementation of those policies and strategies and the achievement of those financial objectives and performance against the strategic plan and budgets;

(c) Monitoring compliance with control and accountability systems, significant disclosures to the market regulatory requirements and ethical standards;

(d) Ensuring the preparation of accurate financial reports and statements;

(e) Reporting to Shareholders and the investment community on the performance and state of the Company;

(f) Ensuring that appropriate audit arrangements are in place;

(g) Reviewing on a regular and continuing basis:
- Executive succession planning (in particular for the Managing Director); and
- Executive development activities; and

(h) Ensuring that effective and appropriate reporting systems that are in place will, in particular, assure the Board that proper financial, operational, compliance and risk management controls function adequately.

In performing the responsibilities set out above the Board acts at all times:

(a) In a manner designed to create and build sustainable value for Shareholders; and

(b) In accordance with the duties and obligations imposed upon them by the Company's Constitution and by law.

To assist in the execution of its responsibilities, the Board has established an Audit and Risk Committee and an Audit and Risk Committee Charter. The Audit and Risk Committee Charter is available on the Company's website. The members of the Audit and Risk Committee during the year were:

- Glenn Whiddon (Chair and non-executive director)
- Ted Jacobson (non-executive director)
- Laurie Brown (non-executive director)

The Board must convene regular meetings with such frequency as is sufficient to appropriately discharge its responsibilities.

The Board annually review the effectiveness of the Board, its committees, individual directors, and senior executives. All directors have an opportunity to contribute to the review process. The performance criteria take into account each director's contribution to setting the direction, strategy and financial objectives of the Company, and monitoring compliance with regulatory requirements and ethical standards.

Delegated Authority

The Managing Director or Chief Executive Officer is responsible for running the affairs of the Company under delegated authority from the Board and to implement the policies and strategy of the Board. In carrying out his responsibilities the Managing Director or Chief Executive Officer must report to the Board in a timely manner and ensure all reports to the Board present a true and fair view of the Company's financial condition and operational results.

Each director has the right of access to all relevant Company information and to the Company's executives and, subject to prior consultation with Chairman, may seek independent professional advice from a suitably qualified adviser at the Company's expense. The director must consult with an adviser suitably qualified in the relevant field and obtain the Chairman's approval of the fee payable for the advice before proceeding with the consultation. A copy of the advice received by the director is made available to all other members of the Board.

The Managing Director or Chief Executive Officer has declared, in writing to the Board, that the financial reporting risk management and associated compliance and controls have been assessed and found to be operating efficiently and effectively, and that the Company's financial reports are founded on a sound system of risk management and internal compliance and control which implements the policies adopted by the Board.

Code of Conduct

The Company's Corporate Code of Conduct is available on the Company's website. This Corporate Code of Conduct sets out the principles and standards expected of the Board, management and employees of the Company when dealing with each other, shareholders and the broad community.

Securities Dealing Policy

The Board has adopted a policy and procedure on dealing in the Company's securities by directors, officers and employees, which prohibits dealing in the Company's securities when those persons possess inside information. It also provides that the written acknowledgement of the Chairman should be obtained prior to trading.

The board sets out below its "if not, why not" report in relation to those matters of corporate governance where the Company's practices depart from the Recommendations:

Principle 2 Recommendation 2.4

There is no separate nomination committee. The full Board considers those matters and issues arising that would usually fall to a nomination committee. The Board considers that no efficiencies or other benefits would be gained by establishing a separate nomination committee. Candidates for the Board are considered and selected by reference to a number of factors which include, but are not limited to, their relevant experience and achievements, compatibility with other Board members, credibility within the Company's scope of activities, and intellectual and physical ability to undertake Board duties and responsibilities. Directors are initially appointed by the full Board, subject to election by shareholders at the next general meeting.

Principle 9 Recommendation 9.2

There is no separate remuneration committee. Due to the small size and structure of the Board, a separate remuneration committee is not considered to add any efficiency to the process of determining the levels of remuneration for the directors and key executives. The Board considers that it is more appropriate to set aside time at Board meetings each year to specifically address matters that would ordinarily fall to a remuneration committee. When considering matters of remuneration, the Board functions in accordance with the Remuneration Committee Charter.

In addition, all matters of remuneration will continue to be determined in accordance with Corporations Act 2001 requirements, especially in respect of related party transactions. That is, no directors participate in any deliberations regarding his or her own remuneration or related issues.

Income Statement
For the year ended 30 June 2007

	Notes	2007 $	2006 $
Continuing Operations			
Other income	3	183,499	9,334
Other expenses	3	(1,288,316)	(297,520)
Loss before income tax		(1,104,817)	(288,186)
Income tax expense	4	-	-
Loss attributable to members of Rialto Energy Limited	13	(1,104,817)	(288,186)

		Cents per share	Cents per Share
Earnings per share (cents per share)			
- basic loss per share	14	(5.91)	(8.88)
- diluted loss per share	14	(5.91)	(8.88)

Balance Sheet
As at 30 June 2007

	Notes	2007 $	2006 $
ASSETS			
Current Assets			
Cash and cash equivalents	5	1,738,924	2,868,100
Trade and other receivables	6	66,506	18,446
Total Current Assets		**1,805,430**	**2,886,546**
Non-Current Assets			
Exploration and evaluation	7	833,601	-
Property, plant and equipment	8	3,355	2,170
Deferred tax asset	4	250,080	-
Total Non-Current Assets		**1,087,036**	**2,170**
TOTAL ASSETS		**2,892,466**	**2,888,716**
LIABILITIES			
Current Liabilities			
Trade and other payables	9	145,455	127,615
Other	10	-	2,015,983
Total Current Liabilities		**145,455**	**2,143,598**
Non-Current Liabilities			
Deferred tax liabilities	4	250,080	-
Total Non-Current Liabilities		**250,080**	**-**
TOTAL LIABILITIES		**395,535**	**2,143,598**
NET ASSETS		**2,496,931**	**745,118**
EQUITY			
Issued capital	11	3,758,731	1,033,304
Reserves	12	131,203	-
Accumulated losses	13	(1,393,003)	(288,186)
TOTAL EQUITY		**2,496,931**	**745,118**

Statement of Changes in Equity

For the year ended 30 June 2007

	Attributable to equity holders of the entity			Total equity
	Issued capital $	Reserves $	Accumulated Losses $	$
At 21 November 2005	-	-	-	-
Issue of shares	1,150,000	-	-	1,150,000
Transaction costs of issuing shares	(116,696)	-	-	(116,696)
Loss for the period	-	-	(288,186)	(288,186)
At 30 June 2006	**1,033,304**	**-**	**(288,186)**	**745,118**
Issue of shares	2,925,000			2,925,000
Transactions costs of issuing shares	(199,573)			(199,573)
Issue of options to employees		131,203		131,203
Loss for the year			(1,104,817)	(1,104,817)
At 30 June 2007	**3,758,731**	**131,203**	**(1,393,003)**	**2,496,931**

Cash Flow Statement
For the year ended 30 June 2007

	Notes	2007 $	2006 $
Cash flows from operating activities			
Payments to suppliers and employees		(1,180,331)	(188,178)
Interest income		177,686	9,334
Net cash flows from/(used in) operating activities	23	**(1,002,645)**	**(178,844)**
Cash flows from investing activities			
Purchase of property, plant and equipment		(2,375)	(2,343)
Payment for exploration expenditure		(833,601)	-
Net cash flows from/(used in) investing activities		**(835,976)**	**(2,343)**
Cash flows from financing activities			
Proceeds from borrowings		-	2,015,983
Proceeds from issue of shares		909,017	1,150,000
Payments for capital raising		(199,572)	(116,696)
Net Cash flows from/(used in) financing activities		**709,445**	**3,049,287**
Net increase in cash and cash equivalents		(1,129,176)	2,868,100
Cash and cash equivalents at beginning of period		2,868,100	-
Cash and cash equivalents at end of period	5	**1,738,924**	**2,868,100**

1. Corporate Information

The financial report of Rialto Energy Limited for the year ended 30 June 2007 was authorised for issue in accordance with a resolution of the directors on 27 September 2007.

Rialto Energy Limited is a company limited by shares incorporated in Australia. The nature of the operation and principal activities of the Company are described in the attached Directors' Report.

2. Statement of Accounting Policies

The principal accounting policies adopted in the preparation of the financial report are set out below.

The financial report is a general purpose financial report which has been prepared in accordance with Australian Accounting Standards (AASBs), which include Australian equivalents to International Financial Reporting Standards ("IFRS") (including Australian Accounting Interpretations) adopted by the Australian Accounting Standards Board (AASB), Urgent Issues Group and the Corporations Act 2001.

(A) Basis of Accounting

These financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets, financial assets and liabilities (including derivative instruments) at fair value through profit or loss.

The preparation of the financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed where appropriate.

(B) Changes to Australian Accounting Standards

Australian Accounting Standards that have recently been amended but are not yet required to be mandatorily adopted have not been applied for the reporting period ended 30 June 2007. The application of these revised accounting standards would not have a material effect on the company's current accounting policies adopted.

(C) Revenue Recognition

Revenue is measured at fair value of the consideration received or receivable. Amounts disclosed as revenue are net of returns, trade allowances and duties and taxes paid. The following specific recognition criteria must also be met before revenue is recognised:

- Interest income is recognised as it accrues.

(D) Income Tax

The income tax expense or revenue for the period is the tax payable on the current period's taxable income based on the notional income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences between the tax bases of asses 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 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 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.

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.

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

(E) Cash and Cash Equivalents

Cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

(F) Trade and Other Receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost, less provision for doubtful debts. Trade receivables are due for settlement no more than 120 days from the date of recognition.

Collectibility of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off. A provision for doubtful receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the income statement.

(G) Property, Plant and Equipment

Property, plant and equipment is stated at cost less accumulated depreciation and impairment losses. The cost of self-constructed assets includes the cost of materials, direct labour, the initial estimate, where relevant, of the costs of dismantling and removing the items and restoring the site on which they are located, and an appropriate proportion of production overheads.

Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

Leased Assets

Leases in terms of which the Company assumes substantially all the risks and rewards of ownership are classified as finance leases. Property, plant and equipment acquired by way of finance lease is stated at an amount equal to the lower of its fair value and the present value of the minimum lease payments at inception of the lease, less accumulated depreciation and impairment losses.

Subsequent Costs

The Company recognises in the carrying amount of an item of property, plant and equipment the cost of replacing part of such an item when that cost is incurred if it is probable that the future economic benefits embodied within the item will flow to the consolidate entity and the cost of the item can be measured reliably. All other costs are recognised in the income statement as an expense as incurred.

Depreciation

(G) Property, Plant and Equipment (continued)

Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. The estimated useful live in the current and comparative periods are as follows:

- Plant and equipment over 3 to 8 years

The residual value, the useful life and the depreciation method applied to an asset are reassessed at least annually.

Derecognition

Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the income statement in the period the item is derecognised.

(H) Acquisitions of Assets

The purchase method of accounting is used to account for all acquisitions of assets (including business combinations) regardless of whether equity instruments or other assets are acquired. Cost 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 acquisition. Where equity instruments are issued in an acquisition, the value of the instruments is the 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 measure initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Company'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 of the subsidiary 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.

(I) Exploration and Evaluation Expenditure

Exploration and evaluation expenditure, including the costs of acquiring the licences/permits, are capitalised as exploration and evaluation assets on an area of interest basis. Costs incurred before the Company has obtained the legal rights to explore an area are recognised in the income statement.

Exploration and evaluation assets are only recognised if the rights of the area of interest are current and either:

(i) the expenditures are expected to be recouped through successful development and exploitation or from sale of the area of interest; or

(ii) activities in the area of interest have not at the reporting date, reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves, and active and significant operations in, or in relation to, the area of interest are continuing.

Exploration and evaluation assets are assessed for impairment if (i) sufficient data exists to determine technical feasibility and commercial viability, and (ii) facts and circumstances suggest that the carrying amount exceeds the recoverable amount (see impairment accounting policy (I)). For the purposes of impairment testing, exploration and evaluation assets are allocated to cash-generating units to which the exploration activity relates. The cash generating unit shall not be larger than the area of interest.

Once the technical feasibility and commercial viability of the extraction of oil or gas in an area of interest are demonstrable, exploration and evaluation assets attributable to that area of interest are first tested for impairment and then reclassified to oil and gas property and development assets within property, plant and equipment.

When an area of interest is abandoned or the directors decide that it is not commercial, any accumulated costs in respect of that area are written off in the financial period the decision is made.

(J) Impairment of Assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset’s carrying amount exceeds its recoverable amount.

The recoverable amount is the higher of an asset’s fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units).

(K) Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in the income statement over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Company has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

(L) Trade and Other Payables

These amounts represent liabilities for goods and services provided to the Company prior to the end of the financial year and which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition.

(M) Equity

Ordinary shares are classified as equity.

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. Incremental costs directly attributable to the issue of new shares or options, or for the acquisition of a business, are included in the cost of the acquisition as part of the purchase consideration.

(N) Goods and Service Tax (GST)

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

- Where the GST incurred on the 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
- Receivable and payable are stated with the amount of GST included.

The amount of GST recoverable from the taxation authority is included as part of the receivables in the Balance Sheet. The amount of GST payable to the taxation authority is included as part of the payables in the Balance Sheet.

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

(O) Employee Benefits

Liabilities for wages and salaries, including non-monetary benefits, annual leave and accumulating sick leave expected to be settled within 12 months of the reporting date are recognised in other payables 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.

(P) Earnings Per Share

Basic Earnings Per Share – is calculated by dividing the profit 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 financial period, adjusted for bonus elements in ordinary shares issued during the period.

Diluted Earnings Per Share – adjusts the figures used in the determination of basic earnings per share to take into account the after income 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.

(Q) Share-Based Payments

The Company provides benefits to employees of the Company in the form of share options. The fair value of options granted is recognised as an employee expense with a corresponding increase in equity. The fair value is measured at grant date and spread over the period during which the employees become unconditionally entitled to the options. The fair value of the options granted is measured using a black scholes valuation model, taking into account the terms and conditions upon which the options were granted.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, on the date on which the relevant employees become fully entitled to the award ("vesting date"). The amount recognised as an expense is adjusted to reflect the actual number that vest.

(Q) Share-Based Payments (continued)

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

(R) Joint Ventures

The proportionate interests in the assets, liabilities and expenses of a joint venture activity have been incorporated in the financial statements under the appropriate headings.

(S) Comparatives

The company was incorporated on 21 November 2005 and therefore the prior period comparative information is for the period 21 November 2005 to 30 June 2006.

	2007 $	2006 $
3. Revenue and Expenses		
Other income		
Finance income - Banks	177,686	9,334
Other	5,813	-
Total other income	183,499	9,334
Expenses		
Depreciation		
Plant and equipment	1,190	173
Total depreciation	1,190	173
Employee benefit and director compensation expense	491,851	164,660
Expense of share-based payments	131,203	-
	623,054	164,660
CMI Joint Venture Participation Fee	302,985	-

	2007 $	2006 $
4. Income Tax		
Major components of income tax expense for the years Ended 30 June 2006 and 2005 are:		
Income Statement		
Current income tax		
- Current income tax charge	-	-
- Adjustments in respect of current income tax of previous years	-	-
Deferred income tax		
- Relating to origination and reversal of temporary differences	-	-
Income tax expense reported in income statement	-	-
A reconciliation of income tax expense applicable to accounting profit before income tax at the statutory income tax rate to income tax expense at the Company's effective income tax rate for the years ended 30 June 2007 and 2006 is as follows:		
Accounting loss from continuing operations before income tax	(1,104,817)	(288,186)
At the statutory income tax rate of 30% (2006: 30%)	(331,445)	(86,456)
- Expenditure not allowable for income tax purposes	39,360	-
- Tax losses not brought to account as a deferred tax asset	292,085	86,456
Income tax expense reported in income statement	-	-

4. Income Tax (cont.)

	Balance Sheet		Income Statement	
	2007	**2006**	**2007**	**2006**
	$	**$**	**$**	**$**
Deferred income tax				-
Deferred income tax at 30 June relates to the following:				
Deferred income tax liabilities				
- Capitalised expenditure deductible for tax purposes	250,080	-	250,080	-
	250,080	-		
Deferred income tax assets				
- Tax losses	250,080	-	(250,080)	-
	250,080	-		
Net deferred tax asset/(liability)	-	-		
- Deferred income tax expense/(benefit)			-	-

	2007	2006
	$	**$**
Unrecognised deferred tax assets		
Deferred tax assets have not been recognised in respect of the following items:		
- Tax losses	1,261,802	288,186
Potential tax benefit at 30%	378,540	86,456

The tax losses do not expire under current tax legislation. Deferred tax assets have not been recognised in respect of these items because it is not probable that future taxable profit will be available against which the Company can utilise benefits.

	2007 $	2006 $
5. Cash and cash equivalents		
Cash at bank and on hand	548,834	2,868,100
Deposits at call	1,190,090	-
	1,738,924	**2,868,100**

The weighted average interest rate for the year was 6.1%.

	2007 $	2006 $
6. Trade and other receivables		
GST receivable	64,027	18,446
Prepayments	1,501	-
Other	978	-
	66,506	**18,446**
7. Exploration and evaluation		
Expenditure incurred during the year	**833,601**	**-**
8. Property, plant and equipment		
Computer equipment – at cost	4,719	2,343
Less: Accumulated depreciation	(1,364)	(173)
Total property, plant and equipment	**3,355**	**2,170**

8. Property, plant and equipment (cont.)

	Computer Equipment $	Total $
Reconciliations - 2007		
Cost		
Balance at 1 July 2006	2,343	2,343
Additions	2,376	2,376
Balance at 30 June 2007	4,719	4,719
Accumulated depreciation		
Balance at 1 July 2006	173	173
Depreciation expense	1,191	1,191
Balance at 30 June 2007	1,364	1,364
Net book value at 30 June 2007	**3,355**	**3,355**
Reconciliations - 2006		
Cost		
Balance at 1 July 2005	-	-
Additions	2,343	2,343
Balance at 30 June 2006	2,343	2,343
Accumulated depreciation		
Balance at 1 July 2005	-	-
Depreciation expense	173	173
Balance at 30 June 2006	173	173
Net book value at 30 June 2006	**2,170**	**2,170**

	2007 $	2006 $
9. Trade and other payables		
Trade creditors and accruals	**145,455**	**127,615**

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

	2007 $	2006 $
10. Other		
Loans from IPO investors	**-**	**2,015,983**

11. Issued Capital

a) Share capital

	2007 $	2006 $
Ordinary shares fully paid	3,758,731	1,033,304

b) Movements in ordinary shares on issue

	Number	$
Balance at 1 July 2005	-	-
Issued during the year	9,650,000	1,150,000
Costs incurred in capital raising	-	(116,696)
Balance at 30 June 2006	9,650,000	1,033,304
Issued on 12 July 2006 as per IPO	9,750,000	2,925,000
Costs incurred in capital raising	-	(199,573)
Balance at 30 June 2007	**19,400,000**	**3,758,731**

c) Terms and conditions of issued capital

Ordinary shares have the right to receive dividends as declared, and in the event of winding up the Company, to participate in the proceeds from the sale of all surplus assets in proportion to the number of and amounts paid up on shares held.

Ordinary shares entitle their holder to one vote, either in person or by proxy, at a meeting of the Company.

	2007 $	2006 $
12. Reserves		
Option reserve	**131,203**	**-**

The purpose of the reserve is to record share based payment transactions.

	2007 $	2006 $
13. Accumulated Losses		
Balance at the beginning of the financial year	288,186	-
Net loss attributable to members	1,104,817	288,186
Balance at the end of the financial year	**1,393,003**	**288,186**

14. Earnings Per Share

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

	2007 $	2006 $
Losses used in calculating basic and diluted earnings per share	1,104,817	288,186

	2007 Number	2006 Number
Weighted average number of ordinary shares used in calculating basic and diluted earnings per share	18,705,479	3,246,154

	2007 $	2006 $

15. Auditor's Remuneration

Amounts received or due and received by PKF for:

	2007 $	2006 $
An audit or review of the financial report of the Company.	18,176	4,500
Completion of Investigating Accountants Report for the IPO prospectus.	-	4,500
Taxation advice	4,045	-
Total remuneration	22,221	9,000

16. Contingent Assets and Liabilities

There are no material contingent assets or liabilities as at 30 June 2007.

17. Subsequent Events

In September 2007, the Company announced that it had increased to 25% from 10% its participating interest in the international joint venture agreement with Challenger Minerals Inc. ("CMI").

The amended agreement with CMI provides to Rialto:

- a guaranteed right for the next 3 years to an increased level of participating interest as a joint venturer with CMI in a range of high quality exploration, development or production opportunities in areas of interest to Rialto; and
- access to offshore drilling expertise and drilling management services, thus significantly enhancing the ability to deliver on projects in the current tightly constrained drilling services market.

There have been no other events subsequent to balance date which are sufficiently material to warrant disclosure.

On 26 September 2007, the Company announced that it had reached agreement to place 2,910,000 ordinary fully paid shares at an issue price of $0.40 to raise $1,164,000 before expenses to fund its increase in the CMI JV from 10% to 25%.

18. Segment Reporting

The Company operates in one business and geographical segment being oil and gas exploration in Australia.

19. Commitments

The Company is party to a farmin agreement with Tap (Shelfal) Pty Ltd whereby in consideration of Tap agreeing to assign a 30% farmin interest to Rialto, Rialto agrees to pay:

(a) 60% of the costs of the acquisition and processing of 2D seismic on the Permit until the total gross costs of these operations exceed $1,500,000; and

(b) its 30% share of the costs incurred in relation to any seismic operations once these total costs exceed $1,500,000.

At balance date, the Company had incurred $833,601.

The Company has the following obligations in respect of the Challenger Minerals Inc joint venture:

- later than one year but not later that five years US$1,250,000

20. Financial Risk Management Objectives and Policies

The Company's principal financial instruments comprise cash and short-term deposits. The main purpose of these financial instruments is to fund the Company's operations.

The Company has various other financial instruments such as trade debtors and trade creditors, which arise directly from its operations.

The main risks arising from the Company's financial instruments are interest rate risk, liquidity risk and credit risk. The board reviews and agrees policies for managing each of these risks and they are summarised below.

The Company also monitors the market price risk arising from all financial instruments. The magnitude of this risk that has arisen over the year is discussed in note 21.

Interest Rate Risk

The Company's exposure to market risk for changes in interest rates relates primarily to the Company's cash and short-term deposits. The Company manages this risk by monitoring market interest rates.

Credit Risk

The Company trades only with recognised, creditworthy third parties.
It is the Company 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 based with the result that the Company's exposure to bad debts is nil.

21. Financial Instruments

Interest Rate Exposure

The Company's exposure to interest rate risk, which is the risk that a financial instruments value will fluctuate as a result of changes in market interest rates, and the effective weighted average interest rate for each class of financial assets and financial liabilities is set out below:

2007	**Floating Interest Rate $**	**Non-Interest Bearing $**	**Total 2007 $**
Financial Assets			
Cash and cash equivalents	1,738,924	-	1,738,924
Receivables	-	66,506	66,506
	1,738,924	66,506	1,805,430
Weighted average interest rate	6.10%		
Financial Liabilities			
Trade and other payables	-	145,455	145,455
	-	145,455	145,455

2006	**Floating Interest Rate $**	**Non-Interest Bearing $**	**Total 2006 $**
Financial Assets			
Cash and cash equivalents	2,868,100	-	2,868,100
Receivables	-	18,446	18,446
	2,868,100	18,446	2,886,546
Weighted average interest rate	4.89%		
Financial Liabilities			
Trade and other payables	-	127,615	127,615
Borrowings	-	2,015,983	2,015,983
	-	2,143,598	2,143,598

22. Key Management Personnel Disclosures

(a) The following were key management personnel of the Company at any time during the reporting period and unless otherwise indicated were key management personnel for the entire period

Directors
Ted Jacobson
Greg Munyard
Laurie Brown
Glenn Whiddon
Executives
Brett Woods (Chief Executive Officer)
John Arbuckle (Company Secretary)

(b) Key management personnel compensation

	2007 $	2006 $
Short-term employee benefits	537,433	97,993
Post-employment benefits	17,278	66,667
Share-based payments	131,203	-
	685,914	164,660

(c) Individual directors and executives compensation disclosures

Information regarding individual directors and executives compensation is provided in the Remuneration Report section of the Directors' Report.

Apart from details disclosed in this note, no director has entered into a material contract with the Company since the end of the previous financial year and there was not material contracts involving directors' interests existing at year end.

(d) Other key management personnel transactions with the Company

A number of key management persons, or their related parties, hold positions in other entities that result in them having control or significant influence over the financial or operating policies of those entities.

22. Key Management Personnel Disclosures (continued)

A number of these entities transacted with the Company in the reporting period. The terms and conditions of the transactions with management persons and their related parties were no more favourable than those available, or which might reasonably be expected to be available, on similar transactions on an arms-length basis.

The aggregate amounts recognised during the year relating to key management personnel and their related parties were as follows:

	2007 $	2006 $
Key management persons		
Ted Jacobson (i)	50,000	16,667
Laurie Brown (ii)	82,313	58,286
Glenn Whiddon (iii) and (vi)	152,126	29,608
Brett Woods (iv)	51,000	-
John Arbuckle (v) and (vi)	178,986	28,648

(i) Mr Jacobson's services as a director were provided by Jacobson Geophysical Services Pty Ltd as trustee for the Teejay Trust for which the Company was charged $50,000 (2006: $16,667).

(ii) Mr Brown's services as a director were provided by LJB Consulting Pty Ltd for which the Company was charged $36,000. LJB Consulting Pty Ltd was also paid consulting fees of $43,313 (2006: $46,286) for services rendered by Mr Brown outside of his duties as a director.

(iii) Mr Whiddon's services as a director were provided by SCP Lagral for which the Company was charged $36,000 (2006: $12,000).

(iv) Mr Woods' services as a Exploration Manager (prior to his appointment as a fulltime employee) were provided by Waverley Energy Pty Ltd for which the Company was charged $51,000.

(v) Mr Arbuckle's services as company secretary and financial controller were provided by Maybach Consulting Pty Ltd for which the Company was charged $62,860.

(vi) During the financial period Westwind Capital Pty Ltd to which Mr Whiddon is a director and shareholder and Mr Arbuckle is a director, charged the Company $76,126 for the provision of administrative and office services, provided on normal commercial terms and conditions, and $40,000 in corporate advisory fees during the IPO process.

22. Key Management Personnel Disclosures (continued)

(e) Options and Rights Holdings

	Balance 1 July 2006	Granted as Remuneration	Options Exercised	Net Change Other	Balance 30 June 2007
Directors					
T Jacobson	800,000	-	-	100,000	900,000
G Munyard	800,000	-	-	59,917	859,917
L Brown	800,000	-	-	80,000	880,000
G Whiddon	200,000	-	-	-	200,000
Executives					
B Woods	-	1,500,000		-	1,500,000
J Arbuckle	-	-		3,500	3,500
	2,600,000	1,500,000	-	243,417	4,343,417

Net change other refers to options that have been purchased or sold during the financial period.

(f) Shareholdings

	Balance 1 July 2006	Options Exercised	Net Change Other	Balance 30 June 2007
Directors				
T Jacobson	800,000	-	200,000	1,000,000
G Munyard	800,000	-	168,000	968,000
L Brown	800,000	-	431,667	1,231,667
G Whiddon	200,000	-	-	200,000
Executives				
B Woods	-	-	-	-
J Arbuckle	-	-	-	-
	2,600,000	-	799,667	3,399,667

Net change other refers to shares that have been purchased or sold during the financial year.

23. Reconciliation of Cash Flows from Operating Activities

(a) Cash flows from operating activities

	2007 $	2006 $
Loss for the year	(1,104,817)	(288,186)
Non-cash flows in profit:-		
- Depreciation	1,190	173
- Share based remuneration	131,203	-
Changes in assets and liabilities:-		
- Decrease/(increase) in trade receivables	(48,060)	(18,446)
- Increase/(decrease) in trade creditors & accruals	17,840	127,615
Net cash from operating activities	(1,002,644)	(178,844)

24. Share Based Payments

Share based payments are provided to employees and others at the discretion of the Board.

The issue to each individual director, consultant or advisor is controlled by the Board and the ASX Listing Rules. Terms and conditions of the payments, including the grant date, vesting date, exercise price and expiry date are determined by the Board, subject to shareholder approval where required.

On 18 May 2007, the following options were granted over ordinary shares:

- 500,000 options with a fair value of $0.228 each with an exercise price of $0.35 each and exercisable until 31 March 2012. Of these one third vest immediately, one third vest on 1 April 2008 and one third vest on 1 April 2009;
- 500,000 options with a fair value of $0.224 each with an exercise price of $0.45 each and exercisable until 31 March 2013. Of these one third vest immediately, one third vest on 1 April 2008 and one third vest on 1 April 2009; and
- 500,000 options with a fair value of $0.217 each with an exercise price of $0.60 each and exercisable until 31 March 2014. Of these one third vest immediately, one third vest on 1 April 2008 and one third vest on 1 April 2009

These options are not listed and may not be traded. No options were granted in the 2006 financial year.

24. Share Based Payment (Continued)

The fair value of the options are estimated at the date of grant using the binomial model. The following table gives the assumptions made in determining the fair value of the options granted in the year to 30 June 2007.

	Expiry 31/3/12	**Expiry 31/3/13**	**Expiry 31/3/14**
Dividend yield (%)	-	-	-
Expected volatility (%)	60	60	60
Risk-free interest rate (%)	5.90	5.90	5.90
Expected life of option (years)	4.87	5.87	6.87
Option exercise price ($)	0.35	0.45	0.60
Share price at grant date ($)	0.39	0.39	0.39

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.

No other features of options granted were incorporated into the measurement of fair value.

During the year ended 30 June 2007, nil options were exercised over ordinary shares.

Movement in number of share options held by directors, consultants and advisors:

	2007 No.	**2006 No.**
Outstanding at the beginning of the year	-	-
Granted during the year	1,500,000	-
Forfeited during the year	-	-
Exercised during the year	-	-
Expired during the year	-	-
Outstanding at the end of the year	1,500,000	-
Exercisable at the end of the year	1,500,000	-

The weighted average contractual life for the share options outstanding as at 30 June 2007 is 5.5 years (2006: nil).

Share options issued and outstanding at the end of the year have the following exercise prices:

Expiry Date	Exercise price	2007 No.	2006 No.
31 March 2012	0.35	500,000	-
31 March 2013	0.45	500,000	-
31 March 2014	0.60	500,000	-
		1,500,000	-

Expenses reflected in the Income Statement are as follows:

	2007 $	2006 $
Share options granted in 2007 – equity settled	131,203	-

25. Joint Ventures

The Company has an interest in the following joint venture:

Project	Activities	Equity Interest 2007 %	Equity Interest 2006 %	Carrying Value 2007 $	Carrying Value 2006 $
WA-291-P	Oil and Gas	30	30	938,987	-
WA-399-P	Oil and Gas	50	-	-	-
CMI JV	Oil and Gas	10	-	-	-

The Company's aggregate interests in the assets and liabilities of this joint venture is reflected in the following asset and liability categories in the financial statements. The contingent liabilities and commitments in respect thereto are referred to in notes 16 and 19 respectively:

	2007 $	2006 $
Current Assets		
Cash and cash equivalents	155,447	--
Receivables	978	-
	156,425	-
Non-Current Assets		
Exploration and evaluation	833,601	-
Current Liabilities		
Trade and other payables	51,039	-
Share of net assets employed in joint ventures	938,987	-

Directors' Declaration

In the opinion of the Directors:

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

   i. giving a true and fair view of the Company's financial position as at 30 June 2007 and of its performance for the year ended on that date; and

   ii. complying with Accounting Standards and Corporations Regulations 2001;

(b) There are reasonable grounds to believe that the Company will be able to pay it debts as and when they become due and payable; and

(c) This declaration has been made after receiving the declarations required to be made to the directors in accordance with Sections 295A of the Corporations Act 2001 for the financial period ending 30 June 2007 and is made in accordance with a resolution of the Directors.

Ted Jacobson
Chairman

Perth, Western Australia
27 September 2007

PKF

Chartered Accountants
& Business Advisers

INDEPENDENT AUDIT REPORT

TO THE MEMBERS OF RIALTO ENERGY LIMITED

Report on the Financial Report and AASB 124 remuneration disclosures contained in the directors report

We have audited the accompanying financial report of Rialto Energy Limited and its Controlled Entity, 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 and 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.

We have also audited the remuneration disclosures contained in the directors' report. As permitted by the Corporations Regulations 2001, the company has disclosed information about remuneration of directors and executives ('remuneration disclosures') required by accounting standard AASB 124 *Related Party Disclosures*, under the heading "remuneration report" in pages 9 to 13 of the directors' report and not in the financial report.

Directors' Responsibility for the Financial Report and AASB 124 remuneration disclosures contained in the directors 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 controls 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.

The directors' of the company are also responsible for the remuneration disclosures contained in the directors' report.

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. Our responsibility is to also express an opinion on the remuneration disclosures contained in the directors' report based on our audit

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Tel: 61 8 9278 2222 | Fax: 61 8 9278 7700 | www.pkf.com.au
West Australian Partnership | ABN 39 542 778 278
Level 7, BGC Centre | 28 The Esplanade | Perth | Western Australia 6000 | Australia
PO Box Z5066 | St Georges Terrace | Perth | Western Australia 6831

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 and the remuneration disclosures in the directors' report.

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

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

Auditor's Opinion
In our opinion the financial report of Rialto Energy Limited is in accordance with the *Corporations Act 2001*, including:
(i) giving a true and fair view of the Company 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*.

Report on Other In Legal and Regulatory Requirements

Auditors opinion on the AASB 124 remuneration disclosures contained in the directors' report.

In our opinion the remuneration disclosures that are contained in pages 9 to 13 of the directors' report comply with Accounting Standard AASB 124.

PKF

PKF
Chartered Accountants

Neil Smith
Partner

Dated in Perth, Western Australia, dated this 28th day of September 2007

Shareholders Information

As at 12 September 2007

1. The total number of issued fully paid ordinary shares was 19,400,000

2. The distribution of holdings was:

	Shares	Options
1 - 1,000	2,817	-
1,001 - 5,000	802,985	610,500
5,001 - 10,000	218,300	92,929
10,001 - 100,000	2,165,124	384,571
100,001- and over	7,323,124	-
Total	10,512,350	1,088,000
Voting rights	Full	None

3. The number of holders of less than a marketable parcel of fully paid shares is 3.

4. Substantial shareholders (ie. shareholders who hold 5% or more of the issued capital):

	Number of Shares	Percentage Held
Vogue Overseas SA	1,300,000	6.70
Professional Trading Services SA	1,146,001	5.91

5. Top 20 Shareholders

	Number of Shares	Percentage Held
Vogue Overseas SA	1,300,000	6.70
Professional Trading Services SA	1,146,001	5.91
Jacobson Geophysical Services Pty Ltd	800,000	4.12
Zenix Nominees Pty Ltd	750,000	3.87
Toltec Holdings Pty Ltd	703,666	3.63
Mr Gregory John Munyard	600,000	3.09
Canaccord Capital (Australia) Pty Ltd	600,000	3.09
HSBC Custody Nominees Aust Ltd	567,917	2.93
LJB Consulting Pty Ltd	466,667	2.41
Mr Lawrence Brown and Mrs Lynda Brown	431,667	2.23
Mr Lawrence Brown and Mrs Jill Brown	426,202	2.20
GJ, MA & CH Munyard	361,000	1.86
Mr Glenn Ross Whiddon	336,796	1.74
LJB Consulting Pty Ltd	333,333	1.72
Mr David Addison Brown	333,333	1.72
Citicorp Nominees Pty Ltd	300,000	1.55
Calm Holdings Pty Ltd	250,000	1.29
Tyche Investments Pty Ltd	250,000	1.29
Mr Martin William Brown	207,285	1.07
Ms Maria Ann Munyard	207,000	1.07
	10,370,867	53.49

6. Top 20 Optionholders

	Number of Options	Percentage Held
Jacobson Geophysical Services Pty Ltd	800,000	6.39
Zenix Nominees Pty Ltd	750,000	5.99
LJB Consulting Pty Ltd	633,333	5.06
Mr Gregory John Munyard	600,000	4.79
Canaccord Capital (Australia) Pty Ltd	600,000	4.79
Toltec Holdings Pty Ltd	511,676	4.09
Mr Kenneth Robinson	321,500	2.57
UBS Nominees Pty Ltd	319,000	2.55
Ms Judy Christine Tan	300,000	2.40
Vogue Overseas SA	300,000	2.40
GJ, MA & CH Munyard	256,417	2.05
Mr Scott James Wilson	250,000	2.00
Ms Maria Ann Munyard	203,500	1.62
Clodene Pty Ltd	188,333	1.50
Ms Rosalind Gilsenan	170,000	1.36
LJB Consulting Pty Ltd	166,667	1.33
Mr Guy Leclezio	160,000	1.28
Mr Anthony de Nicola	150,000	1.20
Mr Ciaran John Lavin	143,834	1.15
Mr Glenn Ross Whiddon	133,334	1.06
	6,957,594	55.58