



ABN 17 117 227 086

**Half-Year Financial Report
31 December 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

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West Perth WA 6005
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Facsimile: (08) 9486 7403
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Web: 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

Securities Exchange Listing

Rialto Energy Limited ("the Company") is listed on the Australian Securities Exchange ("ASX")
Home Exchange: Perth, Western Australia

ASX Code: **RIA**
RIAO

RIALTO ENERGY LIMITED – HALF YEAR REPORT

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RIALTO ENERGY LIMITED – HALF YEAR REPORT

DIRECTORS' REPORT

Your directors submit their report for the half-year ended 31 December 2007.

DIRECTORS

The names of Rialto Energy Limited's ("Rialto" or "Company") directors in office during the half-year and until the date of this report are as below. Directors were in office for this entire period unless otherwise stated.

Ted Jacobson
Greg Munyard
Laurie Brown
Glenn Whiddon

REVIEW AND RESULTS OF OPERATIONS

Operations

WA-291-P Carnarvon Basin (Rialto 30%)

Following the acquisition of a 750 km 2D seismic survey in the first half of 2007, Rialto has received all completed products (ie. the seismic volumes) from the Operator (Tap Oil Limited). Following some remedial work by the seismic contractor, the Joint Venture has now begun interpretation of the new 2D seismic volumes.

The seismic quality is good and preliminary interpretation indicates that the exploration targets that were being pursued before the seismic was acquired appear to be supported by the new data.

An initial prospects and leads summary is expected by end of first half 2008.

WA-399-P Exmouth Basin (Rialto 50%)

Seismic reprocessing commenced during the last Quarter of 2007 and is ongoing, with the current multiple vintage datasets been integrated into one coherent dataset.

The Joint Venture is aiming to accelerate a drilling campaign if the Black Tom lead matures as a drilling prospect.

New Premises

Rialto moved to new premises in West Perth late in 2007. Located at 1186 Hay Street, these will enable Rialto to expand its operations, as anticipated in 2008.


The Company incurred a loss for the half year of \$1,516,241 (2006: \$267,790). The loss included share based remuneration for options issued to directors and management of \$490,210 and fees paid to Challenger Minerals Inc to increase Rialto's percentage to 25% of \$446,357.

RIALTO ENERGY LIMITED – HALF YEAR REPORT

AUDITOR'S INDEPENDENCE DECLARATION

We have obtained an independence declaration from our auditor's, PKF Chartered Accountants, which is included on page 5.

Signed in accordance with a resolution of the directors



Ted Jacobson
Chairman

Perth, 13 March 2008

AUDITOR'S INDEPENDENCE DECLARATION

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

- (a) no contraventions of the auditor independence requirements of the Corporations Act 2001 in relation to the review; and
- (b) no contraventions of any applicable code of professional conduct in relation to the review.



PKF
Chartered Accountants



Neil Smith
Partner

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

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RIALTO ENERGY LIMITED – HALF YEAR REPORT

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

	Notes	31 December 2007 \$	31 December 2006 \$
Continuing Operations			
Other Income	4	49,211	99,080
Other expenses	4	(1,565,452)	(366,870)
Loss from continuing operations before income tax and finance costs		(1,516,241)	(267,790)
Finance costs		-	-
Loss before income tax		(1,516,241)	(267,790)
Income tax expense	5	-	-
Loss from continuing operations after tax		(1,516,241)	(267,790)
Earnings per share (cents per share)			
- basic; for loss for the half-year		(7.293)	(1.486)
- diluted; for loss for the half-year		(7.293)	(1.486)

RIALTO ENERGY LIMITED – HALF YEAR REPORT

CONDENSED BALANCE SHEET AS AT 31 DECEMBER 2007

	Notes	31 December 2007 \$	30 June 2007 \$
ASSETS			
Current Assets			
Cash and cash equivalents	6	1,711,039	1,738,924
Trade and other receivables		83,690	66,506
Total Current Assets		<u>1,794,729</u>	<u>1,805,430</u>
Non-Current Assets			
Exploration and evaluation		881,001	833,601
Property, plant and equipment		4,945	3,355
Deferred tax asset		264,300	250,080
Total Non-Current assets		<u>1,150,246</u>	<u>1,087,036</u>
TOTAL ASSETS		<u>2,944,975</u>	<u>2,892,466</u>
LIABILITIES			
Current liabilities			
Trade and other payables		90,259	145,455
Total Current Liabilities		<u>90,259</u>	<u>145,455</u>
Non-Current Liabilities			
Deferred tax liabilities		264,300	250,080
Total Non-Current Liabilities		<u>264,300</u>	<u>250,080</u>
TOTAL LIABILITIES		<u>354,559</u>	<u>395,535</u>
NET ASSETS		<u>2,590,416</u>	<u>2,496,931</u>
EQUITY			
Contributed equity	8	4,878,247	3,758,731
Reserves		621,413	131,203
Accumulated losses		(2,909,244)	(1,393,003)
TOTAL EQUITY		<u>2,590,416</u>	<u>2,496,931</u>

RIALTO ENERGY LIMITED – HALF YEAR REPORT

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

	Notes	31 December 2007 \$	31 December 2006 \$
Cash flows from operating activities			
Payments to suppliers and employees		(1,146,453)	(460,605)
Interest received		49,211	99,080
Net cash flows from/(used in) operating activities		<u>(1,097,242)</u>	<u>(361,525)</u>
Cash flows from operating activities			
Purchase of property, plant and equipment		(2,759)	(909)
Payment for exploration expenditure		(47,400)	-
Net cash flows from/(used in) investing activities		<u>(50,159)</u>	<u>(909)</u>
Cash flows from financing activities			
Proceeds from issue of shares		1,164,000	909,017
Payments for capital raisings		(44,484)	(199,572)
Net cash flows from/(used in) financing activities		<u>1,119,516</u>	<u>709,445</u>
Net increase/(decrease) in cash and cash equivalents		(27,885)	347,011
Cash and cash equivalents at beginning of period		1,738,924	2,868,100
Cash and cash equivalents at end of period	6	<u>1,711,039</u>	<u>3,215,111</u>

RIALTO ENERGY LIMITED – HALF YEAR REPORT

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

	<i>Attributable to equity holders of the entity</i>			<i>Total equity</i>
	Contributed Equity \$	Reserves \$	Accumulated Losses \$	\$
At 1 July 2006	1,033,304	-	(288,186)	745,118
Loss for the period	-	-	(267,790)	(267,790)
Issue of shares	2,925,000	-	-	2,925,000
Transaction costs of issuing shares	(199,573)	-	-	(199,573)
At 31 December 2006	3,758,731	-	(555,976)	3,202,755
At 1 July 2007	3,758,731	131,203	(1,393,003)	2,496,931
Loss for the period	-	-	(1,516,241)	(1,516,241)
Issue of options	-	490,210	-	490,210
Issue of shares	1,164,000	-	-	1,164,000
Transaction costs of issuing shares	(44,484)	-	-	(44,484)
At 31 December 2007	4,878,247	621,413	(2,909,244)	2,590,416

RIALTO ENERGY LIMITED – HALF YEAR REPORT

1. CORPORATE INFORMATION

The financial report of Rialto Energy Limited for the half-year ended 31 December 2007 was authorised for issue in accordance with a resolution of the directors on 13 March 2008. Rialto Energy Limited is a company incorporated in Australia and limited by shares which are publicly traded on the Australian Securities Exchange.

The nature of the operations and principal activities of the Company are described in note 3.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The half-year financial report does not include all of the notes of the type normally included within the annual financial report and therefore cannot be expected to provide as full an understanding of the financial performance, financial position and financing and investing activities of the consolidated entity as the full financial report.

The half-year financial report should be read in conjunction with the annual Financial Report of Rialto Energy Limited as at 30 June 2007.

It is also recommended that the half-year financial report be considered together with any public announcements made by Rialto Energy Limited and its controlled entities during the half-year ended 31 December 2007 in accordance with the continuous disclosure obligations arising under the Corporations Act 2001 and the Australian Securities Exchange Listing Rules.

(a) Basis of Preparation

The half-year financial report is a general purpose financial report, which has been prepared in accordance with the requirement of the Corporations Act 2001, applicable Accounting Standards, including AASB 134 "Interim Financial Reporting", and other mandatory professional reporting requirements. The half-year financial report has been prepared on a historical cost basis, except where stated.

For the purpose of preparing the half-year financial report, the half-year has been treated as a discrete reporting period.

(b) Going concern

The Financial Report has been prepared on the basis of a going concern. The Company's ability to continue as a going concern is contingent upon raising additional capital to fund exploration commitments, other principal activities and for use as working capital. If additional capital is not raised, the going concern basis may not be appropriate with the result that the Company may have to realise its assets and extinguish its liabilities other than in the ordinary course of business and at amounts different from those stated in the Financial Report.

No allowance for such circumstances has been made in the Financial Report.

(c) Significant accounting policies

The half-year financial statements have been prepared using the same accounting policies as used in the annual financial statements for the year ended 30 June 2007, except for the adoption of amending standards mandatory for annual periods beginning on or after 1 July 2006. The Company has complied with the following accounting standards:

- AASB 101 (revised October 2006) Presentation of the financial statements
- AASB 7 Financial Instruments: Disclosures
- AASB 2005-10 Amendments of Australian Accounting Standards (AASB 132, 101, 114, 117, 133, 139, 1, 4, 1023, and 1038)

RIALTO ENERGY LIMITED – HALF YEAR REPORT

- AASB 2007-1 Amendments of Australian Accounting Standards arising from the Interpretation 11 (AASB 2)
- AASB 2007-4 Amendments of Australian Accounting Standards arising from ED 151 and Other Amendments
- AASB 2007-7 Amendments of Australian Accounting Standards (AASB 1, AASB2, AASB 4, AASB5, AASB107, & AASB 128)
- Interpretation 10 Interim Financial Reporting Impairment
- Interpretation 11 AASB 2- Group and Treasury Share Transactions

3. SEGMENT INFORMATION

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

	31 December 2007	31 December 2006
	\$	\$

4. REVENUE, INCOME AND EXPENSES

(a) Revenue, Income and Expenses from Continuing Operations

<i>Other income</i>		
Finance income	49,211	99,080
Total other income	<u>49,211</u>	<u>99,080</u>

Included in Other expenses:

Depreciation – plant and equipment	1,169	538
Employee benefit and director compensation expense	292,384	161,002
Expense of share based payments	490,210	-
CMI Joint Venture Participation Fee Increase from 10% to 25%	446,357	-

5. INCOME TAX

The major components of income tax expense for the half-year ended 31 December 2007 are:

Consolidated Income Statement

<i>Current Income tax</i>		
Current income tax charge	-	-
Adjustments in respect of current income tax of previous years	-	-
<i>Deferred income tax</i>		
Relating to origination and reversal of temporary differences	-	-
Income tax expense reported in the consolidated income statement	<u>-</u>	<u>-</u>

RIALTO ENERGY LIMITED – HALF YEAR REPORT

31 December 2007	30 June 2007
\$	\$

6. CASH AND CASH EQUIVALENTS

For the purposes of the half-year condensed cash flow statement, cash and cash equivalents are comprised of the following:

Cash at bank and in hand	76,817	548,834
Short term deposits	1,634,222	1,190,090
	<u>1,711,039</u>	<u>1,738,924</u>

7. COMMITMENTS AND CONTINGENCIES

Since the last annual reporting date, there have been no material changes to any contingent liabilities or contingent assets.

The Company is party to a farmin agreement with Tap (Shelfal) Pty Ltd whereby in consideration of Tap agreeing to assign a 30% farmin agreement 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 \$881,001. The Company does not have any obligations for amounts in excess of \$900,000, however, there are potential commitments.

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

- Less than one year – US\$625,000
- Later than one year but not later than five years - US\$625,0000

31 December 2007	30 June 2007
\$	\$

8. CONTRIBUTED EQUITY

Ordinary shares (i)	<u>4,878,247</u>	<u>3,758,731</u>
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(i) Ordinary shares

Full paid ordinary shares carry one vote per share and carry the right to dividends.

<i>Movement in ordinary shares on issue</i>	Number	\$
At 1 January 2007	19,400,000	3,758,731
Issued during period	-	-
Transaction costs on share issue	-	-
At 30 June 2007	<u>19,400,000</u>	<u>3,758,731</u>
Issued on 4 October 2007 for cash	2,910,000	1,164,000
Transaction costs on share issue	-	(44,484)
At 31 December 2007	<u>22,310,000</u>	<u>4,878,247</u>

RIALTO ENERGY LIMITED – HALF YEAR REPORT

9. EVENTS AFTER THE BALANCE SHEET DATE

No matters or circumstances have arisen since the end of the half year which have significantly affected or may significantly affect the operations or the state of affairs of the consolidated entity in the future financial years.

RIALTO ENERGY LIMITED – HALF YEAR REPORT

DIRECTORS' DECLARATION

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

In the opinion of the directors:

- (a) the financial statements and notes of the consolidated entity are in accordance with the *Corporations Act 2001*, including:
 - i. giving a true and fair view of the financial position as at 31 December 2007 and the performance for the half-year ended on that date of the consolidated entity; and
 - ii. complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the Corporations Regulations 2001; and
- (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



Ted Jacobson
Chairman

Perth, 13 March 2008



Chartered Accountants
& Business Advisers

INDEPENDENT AUDITOR'S REVIEW REPORT TO THE MEMBERS OF RIALTO ENERGY LIMITED

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Rialto 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.

Directors' Responsibility for the Half-Year Financial Report

The directors of the company are responsible for the preparation and fair presentation of the half-year financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing 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 Australian Auditing Standard on Review Engagements ASRE 2410 *Review of an Interim Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the company's financial position as at 31 December 2007 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Rialto 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.

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

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



PKF
Chartered Accountants



Neil Smith
Partner

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