



ALTO ENERGY INTERNATIONAL LIMITED

ABN 22 073 653 175

FINANCIAL REPORT

FOR THE HALF YEAR ENDED

31 DECEMBER 2006

ALTO ENERGY INTERNATIONAL LIMITED
ABN 22 073 653 175

DIRECTORS' REPORT

Your directors submit the financial report of the consolidated entity for the half-year ended 31 December 2006.

Directors

The names of directors who held office during or since the end of the half-year are:

Mr C Morgan	<i>Chairman</i>	
Mr J Trimble	<i>Managing Director</i>	
Mr A Grist	<i>Non- Executive Director</i>	
Mr A Boss	<i>Non-Executive Director</i>	<i>(Appointed 13 November 2006)</i>
Mr S Keenihan	<i>Non-Executive Director</i>	<i>(Appointed 13 November 2006)</i>
Mr G Channon	<i>Former Managing Director</i>	<i>(Resigned 4 October 2006)</i>
Mr A Dimsey	<i>Former Executive Director</i>	<i>(Resigned 13 November 2006)</i>

Principal activity

The principal activity of the consolidated entity during the period was exploration and evaluation of mineral interests and oil and gas leases.

There has been no significant change in the nature of these activities during the half year.

Results and review of operations

During the financial period the consolidated entity continued its exploration activities.

The profit of the consolidated entity for the financial period after provision for income tax was \$449,374 (2005: loss \$1,484,447).

The profit for the half year included a gain on disposal of exploration assets in the United States of America of \$1,304,501.

Cash assets at 31 December 2006 of \$4,401,908 increased from \$2,422,258 as at 30 June 2006, after operations, predominantly due to cash received in respect of equity issued of \$2,500,000 in addition to the cash received on the sale of exploration assets of approximately \$2 million.

Deferred exploration assets as at 31 December 2006 of \$6,068,897 (30 June 2006: \$4,400,000) includes equity issued of \$1,260,000, to acquire a 12.5% interest in the Arkoma Basin Exploration Project, approved by shareholders on 21 December 2006.

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DIRECTORS' REPORT (continued)

Auditor's Declaration

The lead auditor's independence declaration under section 307C of the Corporations Act 2001 is set out on page 4 for the half year ended 31 December 2006.

This report is signed in accordance with a resolution of the Board of Directors.

Dated this 15th day of March 2007.



JIM TRIMBLE
Director



Horwath Audit (WA) Pty Ltd
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15th March 2007

Private and Confidential

The Board of Directors
Alto Energy International Ltd
BGC Centre, Level 12
PERTH WA 6000

AUDITOR'S INDEPENDENCE DECLARATION

This declaration is made in connection with my review of the financial report of Alto Energy International Limited and controlled entities for the half-year ended 31 December 2006 and in accordance with the provisions of the Corporations Act 2001.

We declare that, to the best of our knowledge and belief, there have been:

- No contraventions of the auditor independence requirements of the Corporations Act 2001 in relation to this review;
- No contraventions of the Code of Professional Conduct of the Institute of Chartered Accountants in Australia in relation to this review.

Yours sincerely
HORWATH AUDIT (WA) PTY LTD

A handwritten signature in black ink that reads "Horwath" on the top line and "Peter Toll" on the bottom line.

PETER TOLL
Director

ALTO ENERGY INTERNATIONAL LIMITED
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CONSOLIDATED INCOME STATEMENT
FOR THE HALF YEAR ENDED 31 DECEMBER 2006

	Note	Consolidated Entity	
		31 December 2006 \$	31 December 2005 \$
Revenue from continuing operations			
Interest revenue		54,436	72,300
Oil and gas sales		76,588	24,534
Other income			
Gains on disposal of non-current assets		1,304,501	-
Foreign exchange gains		-	62,708
		1,435,525	159,542
Expenses			
Director and personnel expenses		(403,806)	(412,409)
Depreciation and amortisation	2	(100,753)	(4,282)
Professional and consulting fees		(209,554)	(61,598)
Office Administration		(119,331)	(40,966)
Travel and accommodation		(95,513)	(138,033)
Registry and statutory fees		(44,099)	(3,518)
Impairment of oil and gas properties		-	(1,265,547)
Other expenses from ordinary activities	2	(12,480)	(2,641)
Profit/(loss) from ordinary activities before income tax expense	2	449,989	(1,769,452)
Income tax benefit/(expense) relating to ordinary activities		(615)	285,005
		449,374	(1,484,447)
Net profit/(loss) attributable to members of Alto Energy International Limited		449,374	(1,484,447)
Basic earnings/(loss) per share (cents per share)	3	0.38	(4.0)
Diluted earnings/(loss) per share (cents per share)	3	0.38	(4.0)

The Consolidated Income Statements is to be read in conjunction
with the notes to the financial statements set out on pages 9 to 22.

ALTO ENERGY INTERNATIONAL LIMITED
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CONSOLIDATED BALANCE SHEET
AS AT 31 DECEMBER 2006

	Note	Consolidated Entity	
		31 December 2006 \$	30 June 2006 \$
Current Assets			
Cash and cash equivalents		4,401,908	2,422,258
Trade and other receivables		68,435	41,194
Other current assets		34,668	8,973
Total Current Assets		4,505,011	2,472,425
Non-Current Assets			
Property, plant and equipment		35,771	42,859
Oil and gas exploration expenditures	6	6,068,897	4,400,000
Total Non-Current Assets		6,104,668	4,442,859
Total Assets		10,609,679	6,915,284
Current Liabilities			
Payables		160,313	236,678
Provisions		-	28,536
Total Current Liabilities		160,313	265,214
Non -Current Liabilities			
Provisions		66,978	72,593
Deferred tax liability		563,054	563,054
Total Non- Current Liabilities		630,032	635,647
Total Liabilities		790,345	900,861
Net Assets		9,819,334	6,014,423
Equity			
Issued capital	4	19,593,655	15,993,205
Option reserve	5	283,317	259,763
Foreign currency translation reserve		(210,057)	58,411
Accumulated losses		(9,847,581)	(10,296,956)
Total Equity		9,819,334	6,014,423

The Consolidated Balance Sheet is to be read in conjunction
with the notes to the financial statements set out on pages 9 to 22.

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CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE HALF YEAR ENDED 31 DECEMBER 2006

	\$	\$	\$	\$	\$
	Share Capital Ordinary	Option Reserve	Accumulated Losses	Foreign currency Translation Reserve	Total Equity
Balance at 1.7.2005	5,178,584	169,436	(543,184)	5,294	4,810,310
Foreign currency translation adjustment	-	-	-	4,266	4,266
Loss attributable to members of the consolidated entity	-	-	(1,484,447)	-	(1,484,447)
Total recognised income and expense	-	-	(1,484,447)	4,266	(1,480,181)
Employee Share Options	-	20,640	-	-	20,640
Adjustments	(3,044)	3,044	-	-	-
Balance at 31.12.05	5,175,540	193,120	(2,027,630)	9,560	3,350,590
Balance at 1.7.2006	15,993,205	259,763	(10,296,956)	58,411	6,014,423
Foreign currency translation adjustment	-	-	-	(268,468)	(268,467)
Loss attributable to members of the consolidated entity	-	-	449,374	-	449,374
Total recognised income and expense	-	-	449,374	(268,468)	180,906
Contributions of equity net of issue costs	3,600,450	-	-	-	3,600,450
Employee Share Options	-	23,554	-	-	23,554
Balance at 31.12.06	19,593,655	283,317	(9,847,581)	(210,057)	9,819,334

The Consolidated Statement of Changes in Equity is to be read in conjunction with
the notes to the financial statements set out in pages 9 to 22.

ALTO ENERGY INTERNATIONAL LIMITED
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CONSOLIDATED CASH FLOW STATEMENT
FOR THE HALF YEAR ENDED 31 DECEMBER 2006

	Note	Consolidated Entity	
		31 December 2006	31 December 2005
		\$	\$
Cash Flows From Operating Activities			
Payments in the course of operations		(985,879)	(653,440)
Payments for exploration and evaluation		(1,528,029)	(239,220)
Interest received		54,608	72,300
Other receipts from operations		49,565	-
Net cash used in operating activities		(2,409,735)	(820,360)
Cash Flows From Investing Activities			
Payments for plant and equipment		-	(917)
Deferred expenditures		-	(191,075)
Proceeds on disposal of non current assets		2,046,934	-
Net cash from/(used in) investing activities		2,046,934	(191,992)
Cash Flows From Financing Activities			
Proceeds from the issue of share capital		2,500,000	-
Capital raising costs		(159,550)	-
Net cash provided by financing activities		2,340,450	-
Net increase/(decrease) in cash held		1,977,649	(1,012,352)
Cash and cash equivalents at beginning of financial period		2,422,258	2,703,561
Exchange rate adjustments		2,001	-
Cash and cash equivalents at end of financial period		4,401,908	1,691,209

The Consolidated Cash Flow Statement is to be read in conjunction with
the notes to the financial statements set out on pages 9 to 22.

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

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

The significant policies which have been adopted in the preparation of this financial report are:

(a) Basis of preparation

The half-year consolidated financial statements are a general purpose financial report prepared in accordance with the requirements of the *Corporations Act 2001*, Accounting Standard AASB 134: Interim Financial Reporting, Urgent Issues Group Interpretations and other authoritative pronouncements of the Australian Accounting Standards Board. Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 34 Interim Financial Reporting.

It is recommended that this financial report be read in conjunction with the annual financial report for the year ended 30 June 2006 and its controlled entities. The half-year report does not include full disclosures of the type normally included in the annual financial report.

Historical Cost Convention

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, certain classes of property, plant and equipment and investment property.

Critical accounting estimates

The preparation of financial statements in conformity with A-IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group'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 in note 1(v).

Australian Accounting Standards that have recently been issued or amended but are not yet effective have not been adopted for the annual reporting period ended 31 December 2006. There are no anticipated changes to Alto's accounting policies in future periods as a result of these changes. Below is a summary of recently amended or issued Accounting Standards relevant to the consolidated entity:

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NOTES TO THE FINANCIAL STATEMENTS
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1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(a) Basis of preparation (continued)

AASB Amendment	Affected Standard(s)	Nature of Change to Accounting Policy	Application Date of Standard for Alto
2005-10	AASB 132: Financial Instruments: Disclosure and Presentation AASB 101: Presentation of Financial Statements AASB 114: Segment Reporting AASB 117: Leases AASB 133: Earnings per Share AASB 139: Financial Instruments: Recognition and Measurement AASB 1: First-time adoption of AIFRS AASB 4: Insurance Contracts AASB 1023: General Insurance Contracts and AASB 1038: Life Insurance Contracts	No change to accounting policy required. Therefore no impact.	1 July 2007
New standard	AASB 7: Financial Instruments: Disclosures	No change to accounting policy required. Therefore no impact.	1 July 2007

(b) Principles of consolidation

The consolidated financial statements comprise the financial statements of Alto Energy International Limited and its subsidiaries at 31 December 2006. The financial statements of subsidiaries are prepared for the same reporting period as the parent entity, using consistent accounting policies. Subsidiaries are consolidated from the date on which control is transferred to the group and cease to be consolidated from the date on which control is transferred out of the group.

In preparing the consolidated financial statements, all inter-company transactions and balances have been eliminated in full.

Reverse Acquisition

In accordance with AASB 3 "Business Combinations", when Alto Energy International Limited (the legal parent) acquired the Alto Energy Limited group (being Alto Energy Limited and its controlled entity, Alto Energy Inc) (the legal subsidiary), the acquisition was deemed to be a reverse acquisition since the substance of the transaction is that the existing shareholders of Alto Energy Limited have effectively acquired Alto Energy International Limited. Under reverse acquisition accounting, the consolidated financial statements are prepared as if Alto Energy Limited had acquired Alto Energy International Limited and its controlled entities, not vice versa as represented by the legal position.

- In reverse acquisition accounting, the cost of the business is deemed to have been incurred by the legal subsidiary (the acquirer for accounting purposes) in the form of equity instruments issued to the owners of the legal parent (the acquiree for accounting purposes). However, due to the fact

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

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(b) Principles of consolidation (continued)

that the fair value of the equity instruments of the legal subsidiary (Alto Energy Limited) was not clearly evident at the date at which the control was passed, the alternative method was elected (per AASB 3, para B6), where the cost of the business combination was determined as the total fair value of all the issued equity instruments of the legal parent (Alto Energy International Limited) immediately prior to the business combination.

- In the separate financial statements of the legal parent (Alto Energy International Limited), the investment in legal subsidiary (Alto Energy Limited) was accounted for at cost.

As a consequence:

- an exercise is performed to fair value the assets and liabilities of the legal acquirer, Alto Energy International Limited;
- the cost of investment held by the legal parent (Alto Energy International Limited) in the legal subsidiary (Alto Energy Limited) is reversed on consolidation and the cost of reverse acquisition is eliminated on consolidation against the consolidated equity and reserves of Alto Energy International Limited and its consolidated entities at the date when control is passed. The effect of this is to restate the consolidated equity and reserves balances to reflect those of Alto Energy Limited at the date of acquisition;
- the amount recognised as issued equity instruments are determined by adding to the issued equity of the legal subsidiary immediately before the business combination, the cost of the combination; and
- the consolidated financial statements are issued under the name of the legal parent (Alto Energy International Limited) but are a continuation of the financial statements of the deemed acquirer (Alto Energy Limited) under the reverse acquisition rules. Hence the comparative figures on the consolidated financial statements are that of Alto Energy Limited and its controlled subsidiary for the half-year ended 31 December 2005.

(c) Foreign currencies

Functional and Presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in Australian dollars, which is Alto Energy International Limited's functional and presentation currency.

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except when deferred in equity as qualifying cash flow hedges and qualifying net investment hedges.

Translation differences on non-monetary financial assets and liabilities are reported as part of the fair value gain or loss. Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss. Translation differences on non-monetary financial assets such as equities classified as available-for-sale financial assets are included in the fair value reserve in equity.

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

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) Foreign currencies (continued)

Group companies

The results and financial position of all the Group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- income and expenses for each income statement are translated at average exchange rates; and
- all resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of any net investment in foreign entities, and of borrowings and other financial instruments designated as hedges of such investments, are taken to shareholder's equity. When a foreign operation is sold or any borrowings forming part of the net investment are repaid, a proportionate share of such exchange differences are recognised in the income statement, as part of the gain or loss on sale where applicable.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entities and translated at the closing rate.

(d) Cash and cash equivalents

For cash flow statement preparation purposes, cash and cash equivalents includes cash on hand, deposits held on 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.

(e) Trade receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost, less provision for doubtful debts.

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 Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is recognised in the income statement.

(f) Investments and other financial assets

Non-current investments in subsidiaries are carried at their cost of acquisition in the Company's balance sheet. A provision against investment is made where the Company has assessed the investment as impaired.

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

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(g) Impairment of assets

Goodwill and intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets 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 inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

(h) Property, plant and equipment

Each class of property, plant and equipment is carried at cost or fair value less, where applicable, any accumulated depreciation and impairment losses.

Plant and equipment

Plant and equipment is measured on the cost basis less depreciation and impairment losses. The carrying amount of plant and equipment is reviewed annually by directors to ensure it is not in excess of the recoverable amount from these assets. The recoverable amount is assessed on the basis of the expected net cash flows that will be received from the assets' employment and subsequent disposal. The expected net cash flows have been discounted to their present values in determining recoverable amounts.

Increases in the carrying amount arising on revaluation of land and buildings are credited to a revaluation reserve in shareholders' equity. Decreases that offset previous increases of the same asset are charged against fair value reserves directly in equity; all other decreases are charged to the income statement.

Each year the difference between depreciation based on the revalued carrying amount of the asset charged to the income statement and depreciation based on the asset's original cost is transferred from the revaluation reserve to retained earnings.

Depreciation

The depreciable amount of all fixed assets including building and capitalised lease assets, but excluding freehold land, is depreciated on a straight-line basis over their useful lives to the consolidated entity commencing from the time the asset is held ready for use. Leasehold improvements are depreciated over the shorter of either the unexpired period of the lease or the estimated useful lives of the improvements.

The following estimated useful lives are used in the calculation of depreciation:

Plant and equipment 3-10 years

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

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1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(h) Property, plant and equipment (continued)

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These gains and losses are included in the income statement. When revalued assets are sold, amounts included in the revaluation reserve relating to that asset are transferred to retained earnings.

(i) Leases

Leases of property, plant and equipment where the Group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's inception at the lower of the fair value of the leased property and the present value of the minimum lease payments.

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the income statement on a straight-line basis over the period of the lease.

(j) Trade and other payables

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

(k) Provisions

Provisions are recognised when the consolidated entity has a present obligation, the future sacrifice of economic benefits is probable, and the amount of the provision can be measured reliably.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the balance sheet date. The discount rate used to determine the present value reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision due to the passage of time is recognised as interest expense.

(l) Issued capital

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 for the acquisition of a business are not included in the cost of the acquisition as part of the purchase consideration.

If the entity reacquires its own equity instruments, eg as the result of a share buy-back, those instruments are deducted from equity and the associated shares are cancelled. No gain or loss is recognised in the profit or loss and the consideration paid including any directly attributable incremental costs (net of income taxes) is recognised directly in equity.

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

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(m) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Amounts disclosed as revenue are net of returns, trade allowances and amounts collected on behalf of third parties. Revenue is recognised for the major business activities as follows:

Oil and gas revenue

Income is recorded when risks and rewards have passed to the buyer and the amount receivable can be measured reliably.

Interest income

Interest income is recognised as it accrues, taking into account the effective yield on the financial asset.

All revenue is stated net of the amount of goods and services tax (GST).

(n) Taxes

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 national income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements, and to unused tax losses.

Deferred tax assets 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.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

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

Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the taxation authority. In this case, it is recognised as part of the cost of the acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST recoverable or payable. The net amount of GST recoverable from, or payable to, the taxation authority is included with other receivables or payables in the balance sheet.

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NOTES TO THE FINANCIAL STATEMENTS
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1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(o) Employee benefits

Wages and salaries, annual leave and sick leave

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 and provisions in respect of employees' services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled.

Superannuation

The Company and other controlled entities contribute to several defined contribution superannuation plans. Contributions are charged against income as they are made.

Share-based payments

The fair value of options granted by the entity to employees is recognised as an employee benefit expense with a corresponding increase in equity. The fair value is measured at grant date and recognised over the period during which the employees become unconditionally entitled to the options.

The fair value at grant date is determined using a Black-Scholes option pricing model that takes into account the exercise price, the term of the option, the impact of dilution, the share price at grant date, the expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the option.

The fair value of the options granted is adjusted to reflect market vesting conditions, but excludes the impact of any non-market vesting conditions. Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. At each balance sheet date, the entity revises its estimate of the number of options that are expected to become exercisable. The employee benefit expense recognised each period takes into account the most recent estimate.

Upon the exercise of options, the balance of the share-based payments reserve relating to those options is transferred to share capital and the proceeds received, net of any directly attributable transaction costs, are credited to share capital.

(p) Earnings per share (EPS)

Basic EPS 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 year, adjusted for bonus elements in ordinary shares issued during the year.

Diluted EPS 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.

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

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(q) Segment reporting

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

(r) Business combinations

The purchase method of accounting is used to account for all business combinations, including business combinations involving entities or businesses under common control, 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 fair value of the instruments is their published market price as at the date of exchange, unless in rare circumstances, it can be demonstrated that the published price at the date of exchange is an unreliable indicator of fair value and that other evidence and valuation methods provide a more reliable measure of fair value. Transaction costs arising on the issue of equity instruments are recognised directly in equity.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the Group's share of the fair value of the identifiable 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 at the rate which a similar borrowing could be obtained from an independent financier under comparable terms and conditions.

(s) Interest in joint ventures

The economic entity's share of the assets, liabilities, revenue and expenses of joint venture operations and assets are included in the appropriate items of the consolidated balance sheet and profit or loss.

The economic entity's interests in joint venture entities are brought to account using the equity method of accounting in the consolidated financial statements. The parent entity's interests in joint venture entities are brought to account using the cost method.

ALTO ENERGY INTERNATIONAL LIMITED
ABN 22 073 653 175

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

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(t) Exploration and development expenditure

Exploration, evaluation and development expenditure incurred is accumulated in respect of each identifiable area of interest.

Exploration and evaluation costs are carried forward where right of tenure of the area of interest is current and they are expected to be recouped through sale or successful development and exploitation of the area of interest, or, where exploration and evaluation activities in the area of interest have not yet reached a stage that permits reasonable assessment of the existence of economically recoverable reserves.

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 full against income in the financial period in which the decision is made.

When production commences, the accumulated costs for the relevant area of interest are amortised over the life of the area according to the rate of depletion of economically recoverable reserves.

A regular review is undertaken of each area of interest to determine the appropriateness of continuing to carry forward costs in relation to that area of interest.

(u) Provision for restoration

The Group records the present value of the estimated cost of legal and constructive obligations to restore operating locations in the period in which the obligations arises. The nature of the restoration activities includes the removal of infrastructure, abandonment of wells and restoration of affected areas.

(v) Critical accounting estimates, assumptions and judgements

Estimates and assumptions are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Equally, the Group employs judgment in the application of its accounting policies.

(i) *Critical accounting estimates and assumptions*

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

Impairment of assets

In determining the recoverable amounts of assets, in the absence of quoted market prices, estimations are made using estimated sale value. The carrying value of oil and gas properties is reviewed semi-annually for indicators of impairment by the board of directors.

ALTO ENERGY INTERNATIONAL LIMITED
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NOTES TO THE FINANCIAL STATEMENTS
FOR THE HALF YEAR ENDED 31 DECEMBER 2006

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(v) Critical accounting estimates, assumptions and judgements (continued)

(i) Critical accounting estimates and assumptions (continued)

Restoration obligations

The Group estimates the present value of the costs of legal and constructive obligations to restore operating locations in the period in which the obligations arises. For more detail on the Company's policy in respect of provision for restoration, refer to Note 1(u).

Shared-based payment transactions

The Group measures the cost of equity settled share based payments at fair value at the grant date using the Black-Scholes model taking into account the exercise price, the term of the option, the impact of dilution, the share price at grant date, the expected volatility of the underlying share, the expected dividend yield and risk free interest rate for the term of the option.

(ii) Critical Judgments in Applying the Group's Accounting Policies

Exploration and evaluation

The Group's accounting policy for exploration and evaluation is set out in Note 1(t). If, after having capitalised expenditure under this policy, the directors conclude that the consolidated entity is unlikely to recover the expenditure by future exploration or sale, then the relevant capitalised amount will be written off to the Income Statement.

(w) Comparative information

Where necessary, comparatives have been reclassified and repositioned for consistency with current year disclosures.

2. PROFIT/(LOSS) BEFORE TAX

	Consolidated	
	31 December 2006	31 December 2005
	\$	\$
The result before tax includes the following specific incomes and expenses:		
Depreciation and amortisation	(100,753)	(4,282)
Net gain on disposal of non current assets	1,304,501	-
Minimum lease payments under operating leases	(49,884)	-
	(49,884)	-

ALTO ENERGY INTERNATIONAL LIMITED
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NOTES TO THE FINANCIAL STATEMENTS
FOR THE HALF YEAR ENDED 31 DECEMBER 2006

3. EARNINGS/LOSS PER SHARE

	Consolidated	
	31 December 2006	31 December 2005
Profit/(loss) attributable to members	449,374	(1,484,447)
Weighted average number of ordinary shares for basic EPS	117,537,205	36,996,504
Add: Potentially dilutive ordinary shares	-	-
Weighted average number of ordinary shares for diluted EPS	117,537,205	36,996,504

Options on issue during and at the end of the period are not considered dilutive.

4. ISSUED CAPITAL

	Consolidated		Consolidated	
	31 December 2006 No.	31 December 2005 No.	31 December 2006 \$	31 December 2005 \$
Balance brought forward at the beginning of the period	114,270,901	36,996,504	15,993,205	5,178,584
Shares issued during the half year:				
Issued at \$0.05 each	50,000,000	-	2,500,000	-
Issued in respect of acquisition of the acquisition of 12.5% share of the Arkoma Basin Exploration Project at \$0.06 each	21,000,000	-	1,260,000	-
Costs of raising capital	-	-	(159,550)	-
Adjustments	-	-	-	(3,044)
Balance carried forward at the end of the period	185,270,901	36,996,504	19,593,655	5,175,540

ALTO ENERGY INTERNATIONAL LIMITED
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NOTES TO THE FINANCIAL STATEMENTS
FOR THE HALF YEAR ENDED 31 DECEMBER 2006

5. OPTIONS

During the period the following unlisted options over unissued ordinary shares were issued by the company:

Options issued/(expired)	Exercise price	Expiry date
1,000,000	\$0.08	31 December 2010
1,000,000	\$0.10	31 December 2010
500,000	\$0.08	27 December 2009

During the period 1,230,575 unlisted options, expiring 31 December 2006 and exercisable at \$3.36 lapsed unexercised.

As at 31 December 2006 the company has on issue 36,580,643 (30 June 2006: 35,311,218) unlisted options over unissued ordinary shares.

During the period an amount of \$23,554 (31 December 2005: \$20,640) was recognised as an expense and corresponding movement in equity in respect of the fair value of options issued as equity based compensation. Details of the valuation, using the Black Scholes Option Valuation Model, of options granted during the period are as follows:

Number of options	Exercise price	Expiry date	Risk free interest rate	Volatility	Value per option
1,000,000	\$0.08	31 Dec 2010	6.07%	65%	\$0.026
1,000,000	\$0.10	31 Dec 2010	6.07%	65%	\$0.023
500,000	\$0.08	27 Dec 2009	6.07%	65%	\$0.015

On 23 November 2006 5,000,000 options over unissued shares were granted to one of the directors Mr J Trimble, and issued on 27 January 2007. The options were valued at \$0.035 each amounting to total compensation value of \$175,000. The expiry date of the options is 30 September 2009, exercise price is \$0.06 each, volatility used in the valuation was 65% and a risk free interest rate of 6% was used.

6. OIL AND GAS EXPLORATION EXPENDITURES

During the period there was a net increase in deferred exploration expenditure of \$1,668,897 after charging amortisation on producing assets of \$95,541. This expense includes an amount of \$1,260,000 in respect of equity issued as compensation in the acquisition of a 12.5% share in the Arkoma Basin Exploration Project, and is net of \$741,976 which relates to the carrying value of exploration assets disposed of during the period by Alto Energy Inc. one of the subsidiaries based in the United States of America.

ALTO ENERGY INTERNATIONAL LIMITED
ABN 22 073 653 175

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

7. CONTINGENT LIABILITIES

There has been no change in contingent liabilities since the last annual reporting date.

8. EVENTS SUBSEQUENT TO REPORTING DATE

There has not arisen in the interval between the end of the period and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the Directors of the Company, to affect significantly the operations of the Company, the results of those operations, or the state of affairs of the Company in future financial periods.

9. SEGMENT REPORTING

Geographic segment – primary segment

The consolidated entity operates in the oil and gas industry in only one geographic segment being North America.

10. DIVIDENDS

No dividends have been paid or proposed during the financial period.

ALTO ENERGY INTERNATIONAL LIMITED
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DIRECTORS' DECLARATION

The directors declare that:

- (a) in the directors' opinion, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable;
- (b) in the directors' opinion, the attached financial statements and notes thereto are in accordance with the Corporations Act 2001, including compliance with accounting standards and giving a true and fair view of the financial position and performance of the consolidated entity; and
- (c) the directors have been given the declarations required by s295A of the Corporations Act 2001.

Signed in accordance with a resolution of the directors made pursuant to s295(5) of the Corporations Act 2001.

On behalf of the Directors



JIM TRIMBLE
Director

Perth, 15th March 2007



Horwath Audit (WA) Pty Ltd

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Chartered Accountants

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Independent auditors' review report to members of Alto Energy International Limited

We have reviewed the accompanying half year financial report of Alto Energy International Limited, which comprises the consolidated balance sheet at 31 December 2006, and the consolidated income statement, consolidated statement of changes in equity and consolidated 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 Consolidated Half Year Financial Report

The directors of the company are responsible for the preparation and fair presentation of the consolidated half year financial report in accordance with Accounting Standards in Australia and the *Corporations Act 2001*. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the consolidated 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 an opinion on the consolidated half year financial report based on our review. We conducted our review in accordance with the Auditing Standard on Review Engagements ASRE 2410 *Review of an Interim Financial Report Performed by the Auditor of an Entity*, in order to state whether, on the basis of the procedures described, anything has come to our attention that causes us to believe that the consolidated financial report is not fairly presented, in all material respects, in accordance with AASB 134 *Interim Financial Reporting*. As the auditor of Alto International Energy Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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



Independence

In conducting our review, we have complied with the independence requirements of the Australian professional accounting bodies.

Conclusion

Based on our review, which is not an audit, nothing has come to our attention that causes us to believe that the consolidated half year financial report of Alto Energy International Limited does not fairly present, in all material respects the financial position of the group at 31 December 2006, and of its financial performance and its cash flows for the half year ended on that date, in accordance with AASB 134 *Interim Financial Reporting*.

Dated the 15th day of March 2007.

HORWATH AUDIT (WA) PTY LTD

A handwritten signature in black ink that reads "Horwath" on the top line and "Peter Toll" on the bottom line.

PETER TOLL

Director