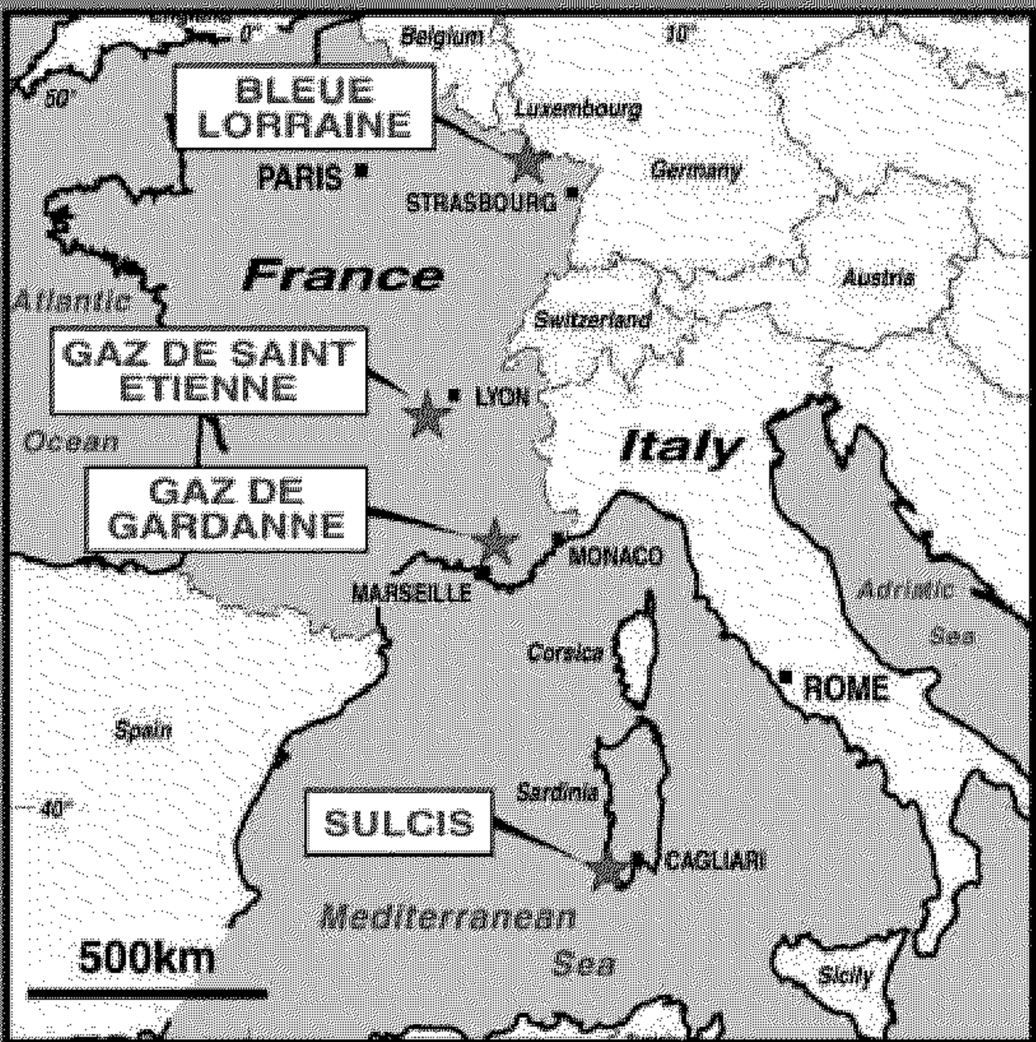
Kimberley Oil NL

ANNUAL REPORT 2004



ABN 75 075 760 655

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GENERAL INFORMATION

DIRECTORS

Alan John Flavelle BSc FAusIMM MAIG (Executive Director)
Anthony John McClure BSc (Executive Director)
Terence Vincent Willsteed BE(MIN)Hons BA CP(Min) FAusIMM (Non-Executive Director)

SECRETARY

Craig John Ferrier BBus CPA

REGISTERED OFFICE

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SHARE REGISTERS

Principal Share Registers
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45 St George's Terrace
Perth Western Australia 6000
AUSTRALIA

AUDITORS

Hall Chadwick
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108 St Georges Terrace
Perth Western Australia 6000
AUSTRALIA

BANKERS

Australian & New Zealand Banking Group Limited
Garden City Branch
Cnr Riseley and Marmion Streets
Booragoon Western Australia 6154
AUSTRALIA

CHAIRPERSON'S REPORT

INTRODUCTION

The year ended June 2004 has been one of continued transition and consolidation. First and foremost, the company has continued with its main objective of securing and developing the coal bed and coal mine methane asset base in France and Italy. The licencing process for the region is normal and is well advanced to finalisation.

The company is firmly committed to the advancement of these significant projects in Europe. We were an early entrant into the region compared to other industry participants and are at the forefront in securing high quality acreage for development.

The world has seen a rapid advance in the coal bed methane industry, particularly in the United States and more recently in Australia. The company plans to be a significant player in continental Europe where natural gas demand is increasing while domestic production is decreasing. The fundamentals in the European gas market, including natural gas prices, are most encouraging.

The company will continue to assess other coal bed and coal mine methane assets in Europe and elsewhere in the world.

In Australia, the company has continued to seek partners for the Canning Basin conventional oil and gas targets. Recently the market has shown a greater appetite for such exploration acreage given the stronger oil prices. The results of our continued marketing efforts have been successful. After year end, the company secured a farm-out of its north eastern block licences with drilling of a new well planned for early calendar 2005. The company continues to work enthusiastically to secure other partners for its Canning Basin acreage with the possibility of further wells and other exploration activities in the current financial year.

The farm-out agreement of the north eastern block licences also incorporates provision for the research and development of the company's Oil Spill Remediation Process.

The company has continued to operate its wholly owned oil production facilities in the Canning Basin returning a small positive cash flow. This production activity, and the associated facilities, will also be an integral part of the current north eastern block licences farm-out transaction. The company will continue its strategy of minimising its 100% exposure to the Canning Basin whilst maintaining sufficient leverage to any oil or gas discoveries and subsequent production output.

With the company's endeavors in Europe and the re-invigoration of exploration in the Canning Basin, we certainly look forward to a very interesting period in the company's future development.

ANTHONY J MCCLURE – EXECUTIVE DIRECTOR

DATED at PERTH this 30 September 2004

DIRECTORS' REPORT

The directors present their report on the company and its controlled entities for the financial year ended 30 June 2004.

1. DIRECTORS

The directors of the company at any time during or since the end of the financial year:

Name and qualification	Experience
Mr Alan John Flavelle BSc FAIMM MAIG Executive Director	Geophysicist with over 40 years experience in the minerals, oil exploration and production industries. Knowledge covers both international and domestic projects from grass roots to full production projects.
Mr Anthony John McClure BSc Executive Director	Geologist with 20 years technical, management and financial experience in the resources sector. Also a director of Planet Gas Limited, a coal bed methane company operating in the USA and Australia.
Mr Terence Vincent Willsteed BE(MIN)Hons BA CP(min) FAusIMM Non-executive Director	A consulting mining engineer with over 40 years experience in the mining, exploration, coal and oil shale industries in Australia and overseas. He has held senior line operational and engineering positions with Zinc Corporation, Mt Isa Mines and Consolidated Goldfields Ltd.

2. PRINCIPAL ACTIVITIES

The principal activities during the year of entities within the economic entity were:

Continue licence application and exploration activities for commercial coal bed and coal mine methane deposits in France and Italy;
Investigate other potential coal bed and coal mine methane deposits locally and overseas;
Operate producing oil fields in the Canning Basin, Western Australia;
Explore for hydrocarbons in the Canning Basin, Western Australia;
Seek developments, both within and outside Australia, that might be appropriate as an investment for the company;
Seek joint venture partners to contribute in the development of the company's Canning Basin oil & gas assets; and Seek suitable partners to develop and market the Kalocsai Oil Spill Remediation technology.

There were no significant changes in the nature of the economic entity's principal activities during the financial year.

3. OPERATING RESULTS

The consolidated loss of the economic entity after providing for income tax amounted to $554,823 (2003: $2,015,454).

4. DIVIDENDS

No dividend has been paid by the company during the financial year ended 30 June 2004, nor have the directors recommended that any dividends be paid.

5. REVIEW OF OPERATIONS

Summary

The company reports the following activities for 2003/2004:

COAL BED METHANE (CBM), COAL MINE METHANE (CMM), EUROPE

France

Bleue Lorraine, north eastern France (application for exploration licence)
Gaz de Gardanne, south eastern France "
Gaz de Saint Etienne, eastern France "

- In cooperation with the French authorities, progressed the applications for the granting of exploration licences over the three areas;
- Continued sourcing data from these areas and analysed aspects of gas generation, reservoir and trap settings in order to delineate the best targets for initial testing; and
- Investigated other potential methane deposits for acquisition.

Italy

Sulcis Concession, southern Sardinia, Italy

- Received confirmation of grant of title on 1 August 2003;
- Completed initial geological appraisal of the coal bed methane potential;
- Finalised stratigraphic well planning and application for drilling; and
- Completed and lodged a detailed geological report.

OIL & GAS, CANNING BASIN, WESTERN AUSTRALIA

- Produced 27,067 barrels of oil from its five operating fields in the Canning Basin;
- Commissioned an engineering appraisal of the Pictor oil field in AP 2/96-7;
- Finalised Native Title negotiations for AP 2/96-7, 5/97-8 and 6/97-8; and
- Continued marketing areas to prospective joint ventures parties.

Subsequent Event

On 22 September 2004 an Option Agreement was entered into. If exercised the transaction includes expenditure of;

- $3,000,000 in exploration expenditure including the drilling of one well in the Canning Basin; and
- $500,000 in research and development on the company's Oil Spill Remediation technology.

5.1 COAL BED AND COAL MINE METHANE PROJECTS, EUROPE

The following table summarises the areas applied for and granted in Europe as at 30 June 2004:

LICENCE IDENTIFICATION	GRANTING DATE	AREA, SQ. KM.	PARENT ENTITY % INTEREST EARNING
Bleue Lorraine - France	Pending	821	75
Gaz de Gardanne - France	Pending	739	75
Gaz de Saint Etienne – France	Pending	243	75
Sulcis-Italy	1 August 2003	615	75
Total		**2,418**	

FRANCE

Discussions continued through the year with the French Government as it conducts its thorough statutory processes prior to reaching a decision regarding the granting of the applications.The company meanwhile continued to source and analyse data, concerning each of the advanced application areas, to add to its European based technical and administrative efforts, and to further plan impending exploration programs for each permit area.

Bleue Lorraine, north eastern France

The Bleue Lorraine licence application area covers 821 square kilometres and encompasses a significant part of the Lorraine Basin which has historical coal production in excess of 850 million tonnes.The coal seams within the application area are of Carboniferous age and are characterised as black, gassy high ranking coals. Cumulative seam thicknesses total 20 to 30 metres over 200 metre intervals. Maximum cumulative seam thicknesses are up to 100 metres.

Continued analysis of the data on the coal-bearing sequences of the Basin shows that maximum prospectivity for CBM development occurs within the Bening and Alsting Anticlines. Both of these structures lie within the Bleue Lorraine Application area. Gas content data show that there has been substantial gas migration into these anticlines, which is likely to have led to an increase in gas-in-formation pressures when compared to surrounding areas.The anticline structures in the Basin are inferred to hold open fracture systems with the resulting favourable formation permeabilities likely to provide good gas deliverability. Substantial CMM production from existing coal mines in the Basin is fed into a gas reticulation system running through the area and is sold to local electricity producers.

Data from the adjoining Saar Basin (same geological unit as the Lorraine Basin in France) in Germany shows that CBM production occurred as early as 1908 while more recently CMM production has become prominent. Gas production modelling in the Basin shows the coal seams have favourable permeabilities that can enable economic gas production rates from coal bed methane wells.The structural setting of a producing area is analogous to of the Simon and Alsting Anticlines in the Bleue Lorraine Application Area.

Gaz de Gardanne, south eastern France

The Gaz de Gardanne licence application area covers 739 square kilometres and encompasses the L'Arc Basin. Historical coal production from the Basin is approximately 80 million tonnes of sub bituminous coal.The coal-bearing sequence is up to 300 metres thick and contains up to 20 seams.The coal seams are Late Cretaceous in age and are interbedded with limestone layers which commonly display porosity and permeability, enhancing the reservoir potential of the coal-bearing sequence.Available data has highlighted a considerable amount of methane within the coal mining complex.The gas occurs in deeper workings in the western part of the mine complex; whereas coal seams in the shallower mine workings to the east contain water.This gas has either been generated biogenically as a result of microbial attack of the coal and other associated organic material or it could have migrated vertically from underlying petroleum-type source rocks.

Wireline log data indicates gas-bearing zones in porous and permeable beds adjacent to the coal seams. Additionally, the southern part of the L'Arc Basin contains extensive fracturing adjacent to major thrust faults. Exploration data over the area includes 20 diamond drill holes to over 1,000 metres in depth, wireline logging suites, and seismic profiles. Existing wireline logging data is to be collated and has the potential to identify net pay zones, gross gas-bearing sequences and, possibly, estimations of gas-in-place.This program should lead to the identification of sites where CBM activity could be initiated, i.e. the drilling of pilot cluster holes.

Gaz de Saint Etienne, eastern France

The Gaz de Saint Etienne licence application of 242.9 square kilometres covers the bulk of the Loire Basin which contains coal measures of up to 40 seams of Carboniferous age ranging in thickness from 1 to 15 metres. Historical production is approximately 600 million tonnes of bituminous coal with a long history of explosive methane being encountered during mining. Mine workings in areas of coal deposition are very extensive and comprise numerous shafts, development drives and extraction areas. The area is mainly prospective for CMM production and to a lesser extent for CBM production due to the extensive nature of previous coal mining activity.

ITALY

Sulcis, southern Sardinia, Italy

The Sulcis area covers 615 square kilometres and was granted on 1 August 2003. The licence contains over 1,000 million tonnes of sub-bituminous coal of Eocene age. The coal-bearing sequence is 150 metres thick with cumulative coal thicknesses of 35 to 40 metres. Historical coal production is approximately 80 million tonnes. The target development for the area is CBM.

Interbedded with the coal are carbonaceous shale, limestone, marl and minor sandstone. Fracturing of the coal-bearing sequence is extensive and is related to Tertiary-aged rotational movement of the Sardinian tectonic plate.

Immediately to the west of the licence area, aeromagnetic data indicates a major volcanic centre where geothermal activity is likely to have led to strong maturation of coal seams accompanied by high gas concentrations. Outcrop on the islands of San Pietro and Sant' Antioco, in the western part of the licence area, comprise of Oligocene volcanics overlying gassy coal sequences inferred at depth.

The company has completed initial geological appraisal and data analysis in lead up to drilling applications for initial stratigraphic wells.

5.2 CANNING BASIN, WESTERN AUSTRALIA

OIL PRODUCTION

The company operates five oilfields (Blina, Boundary, Lloyd, Sundown, and West Terrace) in the Canning Basin which produced a total of 27,067 barrels of oil for the year to 30 June 2004 (30,362 barrels of oil in 2003).

Production was interrupted at a number of the wells during the year for ongoing maintenance and repairs. A work-over was undertaken at West Terrace #1 to replace damaged tubing.

EXPLORATION

The following table summarises the Company's permit holdings in the Canning Basin as at 30 September 2004:

IDENTIFICATION	EXPIRY DATE	AREA, SQ. KM.	ECONOMIC ENTITY % INTEREST
WESTERN AUSTRALIA			
Production Licences (L)			
L6	22 September , 2004	407	100
L8	21 October , 2005	326	100
Sub Total		**733**	
Exploration Permits (EP)			
EP129	8 July , 2006	720	100
EP371	4 May 2005	2,687	100
EP390	28 June 2006	5,260	100
EP391	28 June 2006	4,800	100
EP428	1 August 2010	8,276	100
EP104	9 November 2004	720	8
Sub Total		**22,463**	
Application for Petroleum Exploration Permits (AP)			
2/96-7	Pending	4,127	100
5/97-8	Pending	7,646	100
Sub Total		**11,773**	
Total		**34,969**	
Pipeline licence (PL)			
PL-7 Blina to Erskine	5 May 2003	**28.5kms**	100

Applications for renewal of Production License L6 and Pipeline Licence PL7 have been made to the DOIR and are presently proceeding through its administrative process.

The company owns a crude oil storage tank with a capacity of 120,000 barrels sited within the Port of Broome confines. It also owns the 1.2 kilometre pipeline for transporting the crude to a tanker receiving point on the Broome jetty.

EP 129, L6, L8, PL7 and Kimberley Oil Remediation (subsequent event)

On 22 September 2004, the company announced that it has entered into an option agreement with Canadian company Golden Dynasty Resources Ltd ('Golden Dynasty'). Upon exercise of the option the transaction would involve a total of $3,500,000 in exploration expenditure and research and development on a portion of the company's asset base. The assets include; Exploration Permit 129 and Production Permits L6 and L8 (the 'Permits') and the Kolascai Oil Solidification Process (the 'Technology').

In consideration for the 60 day option, the company has been paid a non-refundable $200,000 fee and reimbursement sum.

The agreement provides the exclusive right for Golden Dynasty to earn up to an 80% interest in Terratek Drilling Tools Pty Limited ('Terratek') through the expenditure of $3,000,000 on exploration and $500,000 on research and development over 24 months. Terratek is a 100% owned subsidiary of the company and owns the licences and EP129 permit. The Technology is owned by Kimberley Oil Remediation Pty Ltd ('KOR'), (also a 100% owned subsidiary of the Company) and will become a wholly owned subsidiary of Terratek.

The expenditure program includes the drilling of the Boundary development well located within the permit within six months from the exercise of the option.

To exercise the option, Golden Dynasty must enter a finalised Share Subscription and Shareholders Deed concerning the earning of its interest in Terratek including the commitment of drilling the Boundary development well. Within the licences, Terratek also owns eight current producing oil wells.

The transaction excludes the Broome tank and pipeline facilities which will remain wholly owned assets of the Kimberley Oil NL.

Upon the exercise of the option, the general terms of the transaction include:

- an initial 40% interest in Terratek to be earned through the drilling of the Boundary development well with an estimated cost of approximately $1,400,000 within 6 months of exercising the option i.e. May 2005;
- a further $125,000 must be expended on development of KOR oil spill remediation process within the six month period;
- Golden Dynasty has the right to earn a further 40% in Terratek which will take its interest up to a maximum of 80%. The total expenditure requirement for Golden Dynasty is $3,500,000 including the initial sums expended on the Boundary development well and on development of the technology. The balance must be expended over a period of 24 months from the exercise of the option to achieve a total of 80% of Terratek;
- In addition to its equity interest, Kimberley Oil will retain a 2.0% Well Head Royalty in Terratek and a 5% Gross Royalty in KOR; and
- Kimberley Oil will remain the manager of Terratek until Golden Dynasty has achieved a minimum of 51% of Terratek.

The proposed Boundary development well is sited updip from the Boundary 1 well in EP 129. Boundary 1 has produced 115,000 barrels of, 330 API oil from an intra-Grant sandstone bed at a depth of 1277-1281 metres. Seismic data indicates that the well was drilled on the north western edge of an anticline and that the crest of the structure is to the south east. A well drilled to the crest of the anticline has the potential to produce between 300,000-600,000 barrels of oil from the intra-Grant sandstone. There is also the potential to discover about 3,200,000 barrels of oil-in-place (600,000 barrels recoverable) in a deeper unit, the Anderson Formation. Upon exercise of the Option Agreement, drilling of Boundary development well is scheduled for early to mid 2005.

AP 2/96-7 (Pictor Block)

Granting of this application is anticipated in the latter part of 2004.

The Application Area contains the Pictor Structure, a large four-way dip closed anticline which is clearly defined by seismic. The structure has been tested by two vertical wells: Pictor 1, drilled by BHP in 1984, and by Pictor 2, drilled by Bridge Oil in 1990. Pictor 1 discovered a gas-bearing zone between 905-944 metres below surface, underlain by an oil-bearing zone between 944-1019 metres, in fractured low matrix permeability, dolomite and limestone of the Ordovician Nita Formation. The fractures are sub-vertical and only a limited number of these were accessed by the well. A production test, post acidising, produced 2.2 million cubic feet of gas per day and 200 barrels per day liquid, mostly spent acid, diesel, light (45° API) crude oil and possibly formation water from a cased and perforated interval extending between 940-965 metres. Pictor 2, drilled 233 metres southwest of Pictor 1, encountered a similar hydrocarbon column to the earlier well.

In the past 15 years advances in horizontal drilling techniques have seen substantial economic successes in the drilling of fractured, low matrix permeability, carbonate reservoirs such as the Austin Chalk in Texas. Whereas vertical wells drilled into sub-vertical fractures yield low well productivities, horizontal wells drilled perpendicular to the fractures result in economic flow rates.
As a result of these technological advances, the company completed an independent economic appraisal of conducting horizontal drilling of the Pictor Structure

The report contains results as summarised below:

Calculated Recoverable Hydrocarbons*	
Oil (45°API)	40.5 million barrels
Condensate	0.4 million barrels
LPG	2.0 million barrels
Gas	84.8 billion cubic feet

*Mean values

Total oil in place is calculated to be 164 million barrels.

The report recommends the drilling of a horizontal well near Pictor 1, followed by an extended test from the oil-bearing zone and then to carry out a 3D seismic survey over the structure. Following encouragement, a further 5 to 6 appraisal wells is recommended followed by field development drilling.

The company believes that the application of horizontal drilling technology into the fractured, low matrix permeability, carbonate reservoir rocks of the Nita Formation of the Pictor Structure has a reasonable possibility to allow economic development of the field.

EP 390

A number of structures have been determined by the company and are ready to drill; eg the Chingal Prospect. The Grant Formation level at the Chingal Prospect within EP 390 has the potential to host over 40 million barrels of oil-in-place of which 10 million barrels may be recoverable.

EP 391

The Yulleroo 2 target lies at the crest of the Yulleroo Anticline. It is a medium risk/high reward target just 70 kilometres east of Broome. The structure has the potential to contain over 1 trillion cubic feet of gas and 100 million barrels of condensate.

There are eight similar structures in the vicinity within EP 391 and the adjoining EP 428 and Application Area 5/97-8. These structures, together with the Yulleroo Anticline, have the potential to contain in-place resources of several trillion cubic feet of gas and a considerable amount of petroleum liquids. Three of these structures have burial histories which suggest that they are more likely to host light oil rather than wet gas.

EP 428

This permit was granted on 2 August 2004 and shares similar prospectivity to EP 391. Approximately 40% of the Yulleroo Anticline lies within this permit.

AP 5/97-8

This application shares similar prospectivity to EP 391 and EP 428 and contains 10% of the Yulleroo Anticline.

6. SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

The parent company issued 12,000,000 shares at 5 cents each under Subscription Agreements in October 2003 to raise $600,000 in working capital.

7. AFTER BALANCE DATE EVENTS

On 22 September 2004 an Option Agreement was entered into requiring expenditure of;

- $3,000,000 to drill one well, with other exploration activities, in the Canning Basin; and

- $500,000 on the company's Kalocsai Oil Spill Remediation Process.

The Parent Company is required to issue 250,000 shares to the former shareholders of Otto Oil Pty Ltd under a Share Sale Deal following granting of EL 428 (formerly known as Application 6/97-8) on 2 August 2004.

8. FUTURE DEVELOPMENTS AND EXPECTED RESULTS

Likely developments and expected results of the operations of the economic entity in subsequent years are not discussed further in this report. In the opinion of the directors, further information on those matters could prejudice the interests of the company and the economic entity because these matters are currently under negotiation and premature disclosure could breach commercial confidentiality.

9. DIRECTORS' AND EXECUTIVE OFFICERS' EMOLUMENTS

The remuneration and incentives for directors and management is determined and approved by the board. Executive directors and senior management may receive bonuses based on the achievement of specific goals related to the performance of the Economic Entity. Options to acquire shares in the Company are also issued under various option incentive plans.

Emoluments and incentives paid or allocated to directors and senior management are reviewed annually. (refer Note 25).

10. SAFETY

The company carries out its oil production and other operations under strict industry safety standards and according to its own approved safety manual and safety systems. During the year there were no on site safety concerns or lost time injuries.

11. ENVIRONMENTAL REGULATIONS AND PERFORMANCE

The exploration permits and production licences in the Canning Basin, in which the company has an interest, all carry strict environmental regulations governing activities in the field. To date, as far as the directors are aware, there have been no breaches of the license conditions.

12. MEETINGS OF DIRECTORS

During the year 25 directors' meetings were held. The number of meetings at which each director was eligible to attend is as follows:

	NO. OF MEETINGS HELD	NO. OF MEETINGS HELD
A J Flavelle	25	25
A J McClure	25	25
T V Willsteed	25	25

13. INDEMNIFYING OFFICERS

During or since the end of the financial year the company has given an indemnity or entered into an agreement to indemnify, or paid or agreed to pay insurance premiums for a standard Directors and Officers Liability and Company Reimbursement Policy. The details of the policy remain confidential between the insurer and the company.

14. OPTIONS

Options granted previously to directors and still outstanding at balance date are as follows:

1,000,000 options granted to director A J Flavelle at an exercise price of 20 cents on or before 31 March 2005.
1,000,000 options granted to director A J McClure at an exercise price of 20 cents on or before 23 May 2007.

Options granted during the year to directors and still outstanding at balance date are as follows:

1,000,000 options granted to A J Flavelle at an exercise price of 10 cents on or before 28 November 2008.
1,000,000 options granted to A J Flavelle at an exercise price of 7.5 cents on or before 28 November 2006.
1,000,000 options granted to A J McClure at an exercise price of 10 cents on or before 28 November 2008.
1,000,000 options granted to A J McClure at an exercise price of 7.5 cents on or before 28 November 2006.
750,000 options granted to T V Willsteed at an exercise price of 10 cents on or before 28 November 2008.
750,000 options granted to T V Willsteed at an exercise price of 7.5 cents on or before 28 November 2006.

No person entitled to exercise an option had or has any right by virtue of the option to participate in any share issue of any other body corporate.

No shares have been issued by virtue of the exercise of an option during the year or to the date of this report.

15. PROCEEDINGS ON BEHALF OF THE COMPANY

No person has applied for leave of Court to bring proceedings on behalf of the company or 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 any part of those proceedings.

The company was not a party to any such proceedings during the year.

In the opinion of the directors, all significant changes in the state of affairs of the consolidated entity, which occurred during the year under review, are disclosed in this report or the financial statements.

Other than as stated elsewhere in this report, there has not arisen in the interval between the end of the financial year and the date of this report any matter, circumstance or event of a material or unusual nature likely in the opinion of the directors of the company, to affect significantly the operations of the consolidated entity, the results of those operations or the state of affairs of the consolidated entity in subsequent financial years.

Signed in accordance with a resolution of the Board of Directors

A. J. Flavelle

Alan J FLAVELLE - Director
DATED at PERTH this 30th day of September 2004

ATTRIBUTION

Aspects of the Directors' Report that relate to oil and gas in place or oil and gas reserves are based on information complied by persons who are Fellows or Members of the Australian Institute of Mining and Metallurgy and/or the Australian Institute of Geoscientists, and are full- time employees of the company (unless otherwise noted), and have sufficient relevant experience of the activity undertaken and of the hydrocarbon style of deposit described. They qualify as Competent Persons as defined in the 1999 edition of the "Australasian Code for the Reporting of Resources and Reserves" (JORC Code).

A list of the names of the Competent Persons is available upon request. The above statement fairly reflects the reports prepared by these Competent Persons and has been prepared by Mr. John Karajas as Competent Person for Kimberley Oil NL. Mr. Karajas consents to the inclusion in this report of the matters from these reports in the form and context in which it appears.

CORPORATE GOVERNANCE STATEMENT

INTRODUCTION

The directors are focussed on fulfilling their responsibilities individually, and as a board, for the benefit of all the company's stakeholders. That involves recognition of, and a need to adopt, principles of good corporate governance. The board supports the guidelines on the "Principles of Good Corporate Governance and Best Practice Recommendations" established by the ASX Corporate Governance Council.

Given the size and structure of the company, the nature of its business activities, the stage of its development and the cost of strict and detailed compliance with all of the recommendations, it has adopted a range of modified systems, procedures and practices which it considers will enable it to meet the principles of good corporate governance.

The company's practices are mainly consistent with those of the guidelines and where they do not correlate with the recommendations in the guidelines the company considers that its adopted practices are appropriate to it. At the end of this statement a table is included detailing the recommendations with which the company does not strictly comply.

The following section addresses the company's practices in complying with the principles.

Principle 1: Laying Solid Foundations for Management and Oversight

Role and Responsibilities of the Board

The board exists to lead and oversee the management and direction of the company.

After appropriate consultation with executive management the board:

- defines and sets its business objectives and subsequently monitors performance and achievements of those objectives;
- it oversees the reporting on matters of compliance with corporate policies and laws, takes responsibility for risk management processes and a review of executive management of the company;
- monitors and approves financial performance and budgets; and
- reports to shareholders.

Principle 2: Structuring the Board to Add Value

Composition of the Board

The names of the directors of the company and their qualifications are set out in the section headed Directors' Report in this Annual Report.

The composition of the board is determined so as to provide the company with a broad base of industry, business, technical, administrative, financial and corporate skills and experience considered necessary to represent shareholders and fulfil the business objectives of the company.

The recommendations of best practice are that a majority of the directors and in particular the chairperson should be independent. An independent director is one who:

- does not hold an executive position;
- is not a substantial shareholder of the company or an officer or otherwise associated directly or indirectly with a substantial shareholder of the company;
- has not within the last 3 years been employed in an executive capacity by the company or another group member or been a director after ceasing to hold such employment;

- is not a principal of a professional adviser to the company or another group member;
- is not a significant supplier or customer of the company or another group member, or an officer of, or otherwise associated directly or indirectly with a significant supplier or customer;
- has no significant contractual relationship with the company or any other group member other than as a director of the company; and
- is free from any interest and any business or other relationship which could or could reasonably be perceived to materially interfere with the director's ability to act in the best interests of the company.

One of the three current board members does meet these criteria.The board does not currently have a permanent chairperson.

Nomination of Other Board Members

The board at least annually reviews its composition to determine if additional core strengths are required to be added to the board in light of the nature of the company's businesses and its objectives. The board does not believe that at this point in the company's development it is necessary to appoint additional directors.

Independent Advice

Each of the directors is entitled to seek independent advice at the company's expense to assist them to carry out their responsibilities.

Principle 3: Promotion of Ethical and Responsible Decision-Making

Directors, officers, employees and consultants to the company are required to observe high standards of behaviour and business ethics in conducting business on behalf of the company and they are required to maintain a reputation of integrity on the part of both the company and themselves. The company does not contract with or otherwise engage any person or party where it considers integrity may be compromised.

Directors are required to disclose to the board actual or potential conflicts of interest that may or might reasonably be thought to exist between the interests of the director or the interests of any other party in so far as it affects the activities of the company and to act in accordance with the Corporations Act if conflict cannot be removed or if it persists. That involves taking no part in the decision making process or discussions where that conflict does arise.

Directors are required to make disclosure of any share trading. The company policy in relation to share trading is that officers are prohibited to trade whilst in possession of unpublished price sensitive information concerning the company. That is information which a reasonable person would expect to have a material affect on the price or value of the company's shares. It is recommended that an officer discuss the proposal to acquire or sell shares with the directors or the company secretary prior to doing so to ensure that there is no price sensitive information of which that officer might not be aware. The undertaking of any trading in shares must be notified to the company secretary who makes disclosure to ASX.

Principles 4: Safeguarding Integrity in Financial Reporting

No audit committee has been established. The two executive directors play an active role in monitoring the daily affairs of the company. As a result of the scale of operations it has not been considered necessary to form sub-committees.

Each board member has access to the external auditors and the auditor has access to each board member.

The executive directors do make a statement to the board and shareholders that the company's financial reports present a true and fair view in all material respects of the company's financial condition and operational results and are in accordance with relevant accounting standards.

Principle 5: Making Timely and Balanced Disclosure

The company secretary is the person responsible for overseeing and co-ordinating disclosure of information to ASX as well as communicating with the ASX. This involves compliance with the continuous disclosure requirements of the listing rules.

Principle 6: Respecting the Rights of Shareholders

The board's fundamental responsibility to shareholders is to work towards meeting the company's objectives so as to add value for them.

The board seeks to inform shareholders of all major developments affecting the company by:

- preparing half yearly and yearly financial reports;
- preparing quarterly cash flow reports and reports as to activities;
- making announcement in accordance with the listing rules and the continuous disclosure obligations;
- hosting all of the above on the company's website;
- annually, and more regularly if required, holding a general meeting of shareholders and forwarding to them the annual report together with notice of meeting and proxy form; and
- voluntarily releasing other information which it believes is in the interest of shareholders.

The Annual General Meeting enables shareholders to receive the reports and participate in the meeting by attendance or by written communication. The board seeks to notify all shareholders so they can be fully informed annually for the voting on the appointment of directors and so as to enable them to have discussion at the Annual General Meeting with the directors and/or the auditor of the company who is invited to the Annual General Meeting.

Principle 7: Recognising and Managing Risk

The board is conscious of the need to continually maintain systems of risk management and controls to manage all of the assets and affairs of the company.

As an ordinary part of the company's business involves holding assets in a country where sovereign risk is considered higher than in Australia, the directors are sensitive to the need for risk management. The risk management includes asset risk, operational risk, personnel health and safety risk, currency fluctuation risk, amongst others. The company has adopted procedures by which it identifies and manages those risks on a case by case and overall corporate basis.

Principle 8: Encouraging Enhanced Performance

The board regularly discusses and reviews its performance. The board also discusses with each director their requirements, performances and aspects of involvement in the company.

Principle 9: Remunerate Fairly and Responsibly

There is no formal remuneration committee. There is commentary on directors remuneration in the section headed Directors' Report in this Annual Report.

One third of the directors retires annually in accordance with the Constitution and is free to seek re-election by shareholders.

Each member of the board has committed to spending sufficient time to enable them to carry out their duties as a director of the company.

A maximum amount of remuneration for non-executive directors is fixed by shareholders in general meeting and can be varied in that same manner. In determining the allocation the board takes account of the time demands made on the directors together with such factors as fees paid to other corporate directors and to the responsibilities undertaken by them.

The Directors' Report, which forms part of this Annual Report, highlights the intention for the directors to review remuneration in the current year.

Principle 10: Recognising the Legitimate Interests of Stakeholders

The company recognises its responsibilities extend beyond its shareholders to clients, customers, consumers and regulators. The company is committed to providing an adequate level of detail for the benefit of all stakeholders, the accuracy in that detail, and to meeting principles of equity and fairness in all of its dealings.

Table of Departures and Explanations (from the Recommendations of the ASX Corporate Governance Council)

"Recommendation" Ref ("Principle No" Ref followed by Recommendation Ref)	Departure	Explanation
1.1	There was no formalisation and disclosure of separate functions between the board and management during the reporting period.	Throughout the reporting period the board consisted of two executive and one non-executive directors. The executive directors were involved in the overall management of the company. The practices followed were compatible with the Principle.
2.1	One of the directors satisfies the test of independence. The other two directors are fulfilling executive roles.	Given the nature and size of the company, its business interests and the stage of development, the board is of the view that there is an adequate and broad mix of skills required and that given their experience each of the directors are aware of and capable of acting in an independent manner and in the best interests of the shareholders.
2.2	The Board does not have a permanent chairperson.	The board elects a chairperson before each meeting. All directors are capable and have the requisite experience to fulfil the role. Any potential conflicts are resolved during the election process.
2.4	A separate Nomination Committee has not been formed.	The board comprises three members each of who have valuable contributions to make in fulfilling the role of a nomination committee member. A director will excuse himself where there is a personal interest or conflict.
3.1	No formal code of conduct has been established as to practices necessary to maintain confidence in the company's integrity or as to reporting and investigating unethical practices.	The board and management consist of the three directors. It is not considered that a code of conduct or reporting guide is yet necessary. The principles are followed.
3.2	No formal policy concerning trading in the company securities by directors, officers or employees has been disclosed.	Although there was no written policy there is a clear understanding as to when trading is inappropriate.
4.2, 4.3 and 4.4	No formal audit committee has been established or formal charter drawn.	Given the size and nature of the company, its business interests and the ongoing level of involvement of all directors it is not considered necessary that a formal audit committee be established or a charter be drawn.
5.1	No written policy and procedure exists to ensure compliance with ASX Listing Rules disclosure requirements are met at senior management level.	The only executives of the company are two of the directors and the board does not consider that a written policy is at this time required. This situation will be reviewed and amended to meet the company's increased activities and growth.

Table of Departures and Explanations (from the Recommendations of the ASX Corporate Governance Council)

"Recommendation" Ref ("Principle No" Ref followed by Recommendation Ref)	Departure	Explanation
6.1	The company has a formal communication strategy in place for the benefit of its shareholders.	The board is very conscious of the need to continually keep shareholders and markets advised. The development and regular update of the company's web-page provides a continuous communication channel which ensures shareholders and the markets are adequately informed about its activities results.
7.1 and 7.2	There has been no written implementation of policy on risk oversight and management or for senior management to make statements to the board concerning those matters.	Given the nature and size of the company, its business interests and the involvement of all directors it is not considered necessary to establish this practice at this time.
8.1	There has been no formal disclosure of the process for performance evaluation of the board, committees, individual directors and key executives.	Given the size of the company and the involvement of all three directors a policy has not been required to date. The directors continually monitor, review and discuss performance and implement changes as necessary.
9.1	The company has not disclosed remuneration policies.	Given the size and nature of the company, its business interests, remuneration and other benefits paid to its directors, the board does not consider it yet to be necessary to formulate the policies. At the appropriate time the board will take independent advices.
9.2	No formal remuneration committee has been established.	Given the explanation above it is not considered necessary to establish a remuneration committee.
9.3	Non-executive directors are eligible to participate in the company's Employee Share Option Plan (Incentive plan).	In order to preserve funds (associated with the payment of directors fees), and to attract and retain directors of sufficient caliber and standing, all directors are eligible to participate in the company's incentive plan, subject to prior shareholder approval to any grant made in accordance with the incentive plan.
10.1	There has been no disclosure of a code of conduct to deal with compliance for legal or other obligations to legitimate stakeholders.	The business practices adopted by the board recognise this principle but no formal code has been drawn-up or approved.

STATEMENT OF FINANCIAL PERFORMANCE

FOR THE YEAR ENDED 30 JUNE 2004

	NOTES	ECONOMIC ENTITY 2004 $	ECONOMIC ENTITY 2003 $	PARENT ENTITY 2004 $	PARENT ENTITY 2003 $
Crude oil - Sales revenue	2	1,044,265	958,998	-	-
Crude oil - Cost of sales	3	(909,600)	(721,183)	-	-
Crude oil - Gross profit		134,665	237,815	-	-
Other revenue from ordinary activities	2	122,757	590,204	357,743	609,897
Depreciation and amortisation expenses	3	(242,661)	(267,669)	(10,065)	(79,858)
Occupancy expenses		(34,520)	(37,021)	(34,520)	(37,021)
Administrative expenses		(355,220)	(329,683)	(349,536)	(320,162)
Borrowing costs expense	3	(2,404)	(15,197)	(2,404)	(15,197)
Loss on sale of fixed assets		-	(950,565)	-	(950,565)
Exploration & development expenditure write-off		-	(510,113)	-	(11,763)
Other expenses from ordinary activities		(177,440)	(733,225)	(333,574)	(696,328)
Loss from ordinary activities before income tax expense	3	(554,823)	(2,015,454)	(372,356)	(1,500,997)
Income tax expense relating to ordinary activities	4	-	-	-	-
Net loss attributable to members of the parent entity		(554,823)	(2,015,454)	(372,356)	(1,500,997)
Basic earnings/(loss) per share (cents per share)	27	(0.50)	(2.06)	-	-

The accompanying notes form part of these financial statements.

STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2004

	NOTES	ECONOMIC ENTITY 2004 $	ECONOMIC ENTITY 2003 $	PARENT ENTITY 2004 $	PARENT ENTITY 2003 $
CURRENT ASSETS					
Cash assets	5	483,809	507,072	471,711	501,987
Receivables	6	216,079	174,733	10,642	12,546
Inventories	7	82,666	55,477	-	-
Other	8	30,000	7,321	12,000	2,270
TOTAL CURRENT ASSETS		812,554	744,603	494,353	516,803
NON-CURRENT ASSETS					
Receivables	6	-	-	-	-
Other financial assets	9	-	-	-	80,000
Property, plant and equipment	11	2,199,864	2,410,737	24,413	28,970
Exploration & development expenditure	12	2,512,315	2,129,155	1,391,364	1,026,887
Intangible asset	13	208,000	234,000	-	-
TOTAL NON-CURRENT ASSETS		4,920,179	4,773,892	1,415.777	1,135,857
TOTAL ASSETS		5,732,733	5,518,495	1,910,130	1,652,660
CURRENT LIABILITIES					
Payables and accruals	14	406,121	337,262	108,366	92,210
Provisions	15	29,285	11,615	29,285	11,615
TOTAL CURRENT LIABILITIES		435,406	348,877	137,651	103,825
NON-CURRENT LIABILITIES					
Provisions	15	797,648	711,116	-	-
TOTAL NON-CURRENT LIABILITIES		797,648	711,116	-	-
TOTAL LIABILITIES		1,233,054	1,059,993	137,651	103,825
NET ASSETS		4,499,679	4,458,502	1,772,479	1,548,835
EQUITY					
Contributed equity	16	10,153,958	9,557,958	10,153,958	9,557,958
Reserves	17	2,500,000	2,500,000	-	-
Accumulated losses	18	(8,154,279)	(7,599,456)	(8,381,479)	(8,009,123)
TOTAL EQUITY		4,499,679	4,458,502	1,772,479	1,548,835

The accompanying notes form part of these financial statements

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 30 JUNE 2004

	NOTES	ECONOMIC ENTITY 2004 $	ECONOMIC ENTITY 2003 $	PARENT ENTITY 2004 $	PARENT ENTITY 2003 $
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from customers		1,121,117	1,035,140	-	-
Payments to suppliers and employees		(1,369,421)	(1,454,931)	(267,854)	(412,085)
Borrowing costs		(2,404)	(15,197)	(2,404)	(15,197)
Expenditure on petroleum exploration & production interests		(383,160)	(394,072)	(364,477)	(101,741)
Interest received - other entities		20,393	12,028	205,418	191,332
NET CASH PROVIDED BY/(USED IN) OPERATING ACTIVITIES	19(b)	(613,475)	(817,032)	(429,317)	(337,691)
CASH FLOWS FROM INVESTING ACTIVITIES					
Purchase of plant & equipment		(5,788)	(74,689)	(5,508)	(73,937)
Purchase of remaining interest in the joint venture -			-	-	-
Proceeds from sale of plant & equipment		-	564,602	-	347,272
NET CASH PROVIDED BY/(USED IN) INVESTING ACTIVITIES		(5,788)	489,913	(5,508)	273,335
CASH FLOWS FROM FINANCING ACTIVITIES					
Loans to controlled entity - payments made		-	-	(191,451)	(292,492)
Loans to controlled entity - repayments		-	-	-	-
Loan repayments		-	(200,000)	-	(200,000)
Proceeds from issue of shares		596,000	378,900	596,000	378,900
NET CASH PROVIDED BY/(USED IN) FINANCING ACTIVITIES		596,000	178,900	404,549	(113,592)
NET INCREASE/(DECREASE) IN CASH HELD		(23,263)	148,219	(30,276)	(177,948)
Cash at 1 July 2003		507,072	655,291	501,987	679,935
Cash at 30 June 2004	19(a)	483,809	507,072	471,711	501,987

The accompanying notes form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

The financial report is a general purpose financial report that has been prepared in accordance with Accounting Standards, Urgent Issues Group Consensus Views and other authoritative pronouncements of the Australian Accounting Standards Board and the Corporations Act 2001.

The financial report covers the economic entity of Kimberley Oil NL and controlled entities, and Kimberley Oil NL as an individual parent entity. Kimberley Oil NL is a listed public company, incorporated and domiciled in Australia.

The financial report has been prepared on an accruals basis and is based on historical costs and does not take into account changing money values or, except where stated, current valuations of non-current assets. Cost is based on the fair values of the consideration given in exchange for assets.

The following is a summary of the material accounting policies adopted by the economic entity in the preparation of the financial report. The accounting policies have been consistently applied, unless otherwise stated.

(a) PRINCIPLES OF CONSOLIDATION

A controlled entity is any entity controlled by Kimberley Oil NL. Control exists where Kimberley Oil NL has the capacity to dominate the decision-making in relation to the financial and operating policies of another entity so that the other entity operates with Kimberley Oil NL to achieve the objectives of Kimberley Oil NL. A list of controlled entities is contained in Note 10(a) to the financial statements.

All inter-company balances and transactions between entities in the economic entity, including any unrealised profits or losses, have been eliminated on consolidation.

Where controlled entities have entered or left the economic entity during the year, their operating results have been included from the date control was obtained or until the date control ceased.

Outside interests in the equity and results of the entities that are controlled are shown as a separate item in the consolidated financial report.

(b) INCOME TAX

The economic entity adopts the liability method of tax-effect accounting whereby the income tax expense is based on the profit from ordinary activities adjusted for any permanent differences.

Timing differences which arise due to the different accounting periods in which items of revenue and expense are included in the determination of accounting profit and taxable income are brought to account as either a provision for deferred income tax or as a future income tax benefit at the rate of income tax applicable to the period in which the benefit will be received or the liability will become payable.

Future income tax benefits are not brought to account unless realisation of the asset is assured beyond reasonable doubt. Future income tax benefits in relation to tax losses are not brought to account unless there is virtual certainty of realisation of the benefit.

The amount of benefits brought to account or which may be realised in the future is based on the assumption that no adverse change will occur in income taxation legislation and the anticipation that the economic entity will derive sufficient future assessable income to enable the benefit to be realised and comply with the conditions of deductibility imposed by the law.

(c) INVENTORIES

Inventories are measured at the lower of cost and net realisable value. Costs are assigned on the basis of weighted average costs. Costs include costs incurred in bringing each product to its present location and condition.

(d) INVESTMENTS

Investments in controlled entities are brought to account at cost less amounts written off for permanent diminution in the value of the investments. The carrying amount is reviewed annually by directors to ensure it is not in excess of the recoverable amount of these investments. The recoverable amount is assessed from the underlying net assets in that particular entity. The expected net cash flows have not been discounted to their present value in determining the recoverable amounts.

(e) PROPERTY, PLANT & EQUIPMENT

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

Property

Freehold land and buildings are measured on the fair value basis, being the amount for which an asset could be exchanged between knowledgeable willing parties in an arms length transaction. It is the policy of the economic entity to have an independent valuation every three years, with annual appraisals being made by the directors.

Plant and equipment

Plant and equipment are measured on the cost basis, unless otherwise stated.

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, which will be received from the assets employment and subsequent disposal.The expected net cash flows have not been discounted to their present values in determining recoverable amounts.

The cost of fixed assets constructed within the economic entity includes the cost of materials, direct labour, borrowing costs and an appropriate proportion of fixed and variable overheads.

The Broome tank is measured on a fair value basis, being the amount for which an asset could be exchanged between knowledgeable willing parties in an arms length transaction. It is the policy of the economic entity to have an independent valuation every three years, with annual appraisals being made by the directors.

Production assets are valued on a fair value basis, being the expected future cash flow streams.This value is anticipated to be recovered from crude oil production over the next six years of field operations.

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 economic entity commencing from the time when the asset is held ready for use. Properties held for investment purposes are not subject to depreciation. Leasehold improvements are depreciated over the shorter of either the unexpired period of the lease or the estimated useful lives of the improvements.

The depreciation rates used for each class of depreciable assets are:

CLASS OF FIXED ASSET	DEPRECIATION RATE
Plant and equipment	6.67% - 33.3%

(f) EXPLORATION & DEVELOPMENT EXPENDITURE

Exploration, evaluation and development expenditure incurred is accumulated in respect of each identifiable area of interest. These costs are only carried forward to the extent that they are expected to be recouped through the successful development of the area or where activities in the area have not yet reached a stage which permits reasonable assessment of the existence of economically recoverable reserves.

Accumulated costs in relation to an abandoned area are written off in full against profit in the year in which the decision to abandon the area 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 the 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.

Costs of site restoration are provided for over the life of the facility from when exploration commences and are included in the costs of that stage. Site restoration costs include the dismantling and removal of mining plant, equipment and building structures, waste removal, and rehabilitation of the site in accordance with clauses of the mining permits. Such costs have been determined using estimates of future costs, current legal requirements and technology on an undiscounted basis. Any changes in the estimates for the costs are accounted on a prospective basis. In determining the costs of site restoration, there is uncertainty regarding the nature and extent of the restoration due to community expectations and future legislation. Accordingly the costs have been determined on the basis that the restoration will be completed within one year of abandoning the site.

(g) INTANGIBLES

Patents are valued in the accounts at cost of acquisition and are amortised over the period in which their benefits are expected to be realised.

(h) FOREIGN CURRENCY TRANSACTIONS

Foreign currency transactions during the year are converted to Australian currency at the rates of exchange applicable at the dates of the transactions. Amounts receivable and payable in foreign currencies at balance date are converted at the rates of exchange ruling at that date.

The gains and losses from conversion of short-term assets and liabilities, whether realised or unrealised, are included in profit from ordinary activities as they arise.

(i) INTERESTS IN JOINT VENTURES

The economic entity's share of the assets, liabilities, revenue and expenses of joint venture operations is included in the appropriate items of the consolidated statements of financial performance and financial position.

(j) CASH

For the purpose of the statement of cash flows, cash includes:

- cash on hand and at call, deposits with banks or financial institutions, net of bank overdrafts; and
- investments in money market instruments with less than 14 days to maturity.

(k) COMPARATIVE FIGURES

Where required by Accounting Standards comparative figures have been adjusted to conform to changes in presentation for the current financial year.

(l) REVENUE RECOGNITION

Oil Sales Revenue

Oil sales revenue is taken to the statement of financial performance upon invoicing to the purchaser.

Interest

Interest is paid by the company's bankers on deposit funds and is identified from statements issued by the bank.

(m) GOODS AND SERVICES TAX (GST)

Revenue, expenses and assets are recognized net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Taxation Office. In these circumstances the GST is recognised as part of acquisition of the asset or as part of an item of the expense. Receivables and payables in the statement of financial position are shown inclusive of GST.

(n) GOING CONCERN

The economic entity has incurred a loss during the period of $554,823 and its available cash at 30 June 2004 is $483,809. The financial statements have been prepared on the basis of going concern, which contemplates continuity of normal business activities and the realisation of assets and settlement of liabilities in the ordinary course of business. The ability of the economic entity to continue as a going concern is dependent on the success of the capital raising initiatives being undertaken by the directors, and the continued financial support of stakeholders.The directors believe the adoption of the going concern basis is justified.

However, should alternative funding not become available the company may not be able to pay its debts as and when they fall due and may be required to realise assets and extinguish liabilities other than in the normal course of business and at amounts different to those stated in the financial statements.

(o) SEGMENT REPORTING

Segment revenues and expenses are those directly attributable to the segment and include any joint revenue and expenses where a reasonable basis of allocation exists. Segment assets include all assets used by a segment and consist of principally cash, receivables, inventories, intangibles and property, plant and equipment, exploration and development expenditure net of allowances and accumulated depreciation and amortization.While most such assets can be directly attributed to individual segments the carrying amount of certain assets used jointly by two or more segments is allocated to the segments on a reasonable basis. Segment liabilities consist principally of accounts payable, employee entitlements, accrued expenses, provisions and borrowings. Segment assets and liabilities do not include deferred income taxes.

Intersegment Transfers

Segment revenues, expenses and result include transfers between segments.The prices charged on itersegment transactions are the same as those charged for similar services to outside parties of the economic entity at arm's length.These transfers are eliminated on consolidation.

Geographical Segments

The economic entity has the following three business segments:

- Australian exploration division is involved in the exploration and production of oil, gas and condensate through its operations in the Canning Basin of Western Australia. Crude oil production recovered from its operations is principally sold in Australia.
- European exploration division is involved in the identification, exploration and extraction of coal bed and coal mine methane in France and Italy in Europe.
- Australian Remediation Process is involved in the removal of commercial liquid spills from water or land and its subsequent recovery for future commercial reuse.

(p) INTERNATIONAL FINANCIAL REPORTING STANDARDS

The directors are of the opinion that the key differences in the economic entity's accounting policies which will arise from the adoption of IFRS are:

Impairment of Assets

The economic entity currently determines the recoverable amount of an asset on the basis of undiscounted net cash flows that will be received from the assets use and subsequent disposal. In terms of pending AASB 136: Impairment of Assets, the recoverable amount of an asset will be determined as the higher of fair value less costs to sell and value in use. It is likely that this change in accounting policy will lead to impairments being recognized more often than under existing policy.

Exploration & Evaluation Costs

Because the AASB Standard is in draft format only at this point in time it is not possible to respond about it effect on exploration and evaluation costs.

Income Tax

Currently, the economic entity adopts the liability method of tax-effect accounting whereby the income tax expense is based on the accounting profit adjusted for any permanent differences. Timing differences are currently brought to account as either provision for deferred income tax or future income tax benefit. Under the Australian equivalent to IAS 12, the economic entity will be required to adopt a balance sheet approach under which temporary differences are identified for each asset and liability rather than the effects of the timing and permanent differences between taxable income and accounting profit.

Intangible

Pending standard AASB 138: Intangible Assets requires that costs associated with research be expensed in the period in which they are incurred. In terms of current policy, research costs are capitalized to the statement of financial position where it is expected beyond reasonable doubt that sufficient future benefits will be derived so as to recover these deferred costs.

	ECONOMIC ENTITY		PARENT ENTITY	
	2004	2003	2004	2003
	$	$	$	$
2. REVENUE				
Operating Activities				
- Sales revenue	1,044,265	958,998	-	-
- Interest received from other parties	20,393	12,028	205,418	191,332
- Administration fee #	-	-	72,000	60,000
- Other revenue	102,364	13,574	80,325	11,293
# The Parent Entity provides management, accounting, clerical and administrative services to the controlled entities	1,167,022	984,600	357,743	262,625
Non-operating Activities				
- Proceeds on disposal of property, plant & equipment	-	564,602	-	347,272
	-	564,602	-	347,272
Total revenue	1,167,022	1,549,202	357,743	609,897

	ECONOMIC ENTITY		PARENT ENTITY	
	2004	2003	2004	2003
	$	$	$	$

3. LOSS FROM ORDINARY ACTIVITIES

Loss from ordinary activities before income tax has been determined after:

(A) EXPENSES				
Cost of sales	909,600	721,183	-	-
Borrowing costs:				
- Other persons	2,404	15,197	2,404	15,197
Total borrowing costs	2,404	15,197	2,404	15,197
Depreciation of non-current assets				
- Plant and equipment	216,661	214,669	10,065	79,858
Total depreciation	216,661	214,669	10,065	79,858
Amortisation of non-current assets				
- development expenditure	-	27,000	-	-
- Oil spill remediation	26,000	26,000	-	-
Total amortisation	26,000	53,000	-	-
Write-down of exploration and development costs				
- Development	-	382,195	-	-
- Exploration	-	127,918	-	11,763
	-	510,113	-	11,763
Foreign currency losses	8,655	17,543	-	-
Bad and doubtful debts				
- Wholly-owned subsidiaries	-	-	191,451	292,492
Total bad and doubtful debts	-	-	191,451	292,492
Site restoration provision	86,532	108,772	-	-
Government royalties	3,376	27,395	-	-

	ECONOMIC ENTITY		PARENT ENTITY	
	2004	2003	2004	2003
	$	$	$	$
3. LOSS FROM ORDINARY ACTIVITIES (CONT'D)				
(B) REVENUE AND NET GAINS				
Net gain (loss) on sale of current assets				
- Property, plant and equipment	-	(884,145)	-	(921,474)

4. INCOME TAX

The prima facie tax (benefit) on loss from ordinary activities before income tax is reconciled to the income tax as follows:

	ECONOMIC ENTITY 2004 $	ECONOMIC ENTITY 2003 $	PARENT ENTITY 2004 $	PARENT ENTITY 2003 $
Prima facie tax on loss from ordinary activities before income tax at 30% (2002: 30%)	(166,448)	(604,636)	(111,707)	(450,299)
Tax effect of permanent differences	7,907	88	107	88
Tax effect of timing differences not brought to account	158,541	188,515	111,600	117,226
Losses not brought to account	-	416,033	-	332,985
Recoupment of prior year tax losses not previously brought to account	-	-	-	-
Income tax expense/(benefit) attributable to loss from ordinary activities before income tax	-	-	-	-
Future income tax benefit arising from tax losses of a controlled entity not brought to account at balance date as realisation of the benefits is not regarded as virtually certain.	1,363,788	1,472,845	1,034,709	1,275,024

This future income tax benefit will only be obtained if:

a. future assessable income is derived of a nature and of an amount sufficient to enable the benefit to be realised;

b. the conditions of deductibility imposed by tax legislation continue to be complied with; and

c. no changes in tax legislation adversely affect the consolidated entity in realising the benefit.

	ECONOMIC ENTITY 2004 $	ECONOMIC ENTITY 2003 $	PARENT ENTITY 2004 $	PARENT ENTITY 2003 $
5. CASH				
Cash at bank	483,809	507,072	471,711	501,987
Total Cash	483,809	507,072	471,711	501,987
6. RECEIVABLES				
Current				
Trade debtors	106,567	92,554	-	-
Other debtors	109,512	82,179	10,642	12,546
Owing from controlled entities	-	-		-
Provision for doubtful debts	-	-		-
Total Current Receivables	216,079	174,733	10,642	12,546
Non-Current				
Owing from controlled entities	-	-	2,221,691	2,030,240
Provision for doubtful debts	-	-	(2,221,691)	(2,030,240)
Total Non-Current Receivables	-	-	-	-
Australian dollar equivalent of amounts in foreign Currencies not effectively hedged: United States dollars US$76,046 (2003 US$61,705)	106,567	92,554	-	-
7. INVENTORIES				
Crude oil stocks at cost	55,990	20,787	-	-
Consumables at cost	26,676	34,690	-	-
Total Inventories	82,666	55,477	-	-

	ECONOMIC ENTITY 2004 $	ECONOMIC ENTITY 2003 $	PARENT ENTITY 2004 $	PARENT ENTITY 2003 $

8. OTHER ASSETS

	ECONOMIC ENTITY 2004 $	ECONOMIC ENTITY 2003 $	PARENT ENTITY 2004 $	PARENT ENTITY 2003 $
CURRENT				
Prepayments	30,000	7,321	12,000	2,270
NON-CURRENT				
Deferred company formation and share issue expenses.	347,924	347,924	347,924	347,924
Accumulated amortisation	(347,924)	(347,924)	(347,924)	(347,924)
	-	-	-	-

9. OTHER FINANCIAL ASSETS

	ECONOMIC ENTITY 2004 $	ECONOMIC ENTITY 2003 $	PARENT ENTITY 2004 $	PARENT ENTITY 2003 $
NON-CURRENT				
Investments at cost comprising:				
- Unlisted shares- controlled entities 10 (a)	-	-	444,090	444,000
- Provision for diminution on unlisted shares	-	-	(444,090)	(364,000)
	-	-	-	80,000

10. CONTROLLED ENTITIES

	COUNTRY OF IN-CORPORATION	PERCENTAGE OWNED (%) 2004	PERCENTAGE OWNED (%) 2003
(a) Controlled entities and their contribution to consolidated loss			
Parent Entity:			
Kimberley Oil NL	Australia	-	-
Subsidiaries of:			
Kimberley Oil NL:			
- Terratek Drilling Tools Pty Ltd	Australia	100	100
- Kimberley Oil Remediation Pty Ltd	Australia	100	100
- Otto Oil Pty Ltd	Australia	100	0

Note: Kimberley Oil NL acquired all the issued capital of Otto Oil Pty Ltd on the 18 March 2004 under a Share Sale Deed. Otto Oil Pty Ltd, holds EP 428(formerly AP 6/97-8) and Application for Petroleum Exploration Permit 5/97-8. (refer Note 20).

	ECONOMIC ENTITY 2004 $	ECONOMIC ENTITY 2003 $	PARENT ENTITY 2004 $	PARENT ENTITY 2003 $
11. PROPERTY, PLANT AND EQUIPMENT				
Land and buildings	-	-	-	-
At directors valuation 2002	-	-	-	-
Total land and buildings	-	-	-	-
Plant and equipment				
-At cost	104,711	98,923	61,264	55,756
-Broome facilities - At directors valuation 2002*	2,000,000	2,000,000	-	-
-Production assets - At directors valuation 2003#	500,000	500,000	-	-
	2,604,711	2,598,923	61,264	55,756
- Accumulated depreciation	(404,847)	(188,186)	(36,851)	(26,786)
Total property, plant and equipment	2,199,864	2,410,737	24,413	28,970

(a) MOVEMENTS IN CARRYING AMOUNTS

Movement in the carrying amounts for plant and equipment between the beginning and end of current financial years.

	PLANT AND EQUIPMENT	**TOTAL**
Economic entity		
-Balance at the beginning of the year	2,410,737	2,410,737
-Additions	5,788	5,788
Write-offs	-	-
-Revaluations	-	-
-Disposals	-	-
-Depreciation expense	(216,661)	(216,661)
Carrying amount at the end of the year	2,199,864	2,199,864
Parent entity:		
-Balance at the beginning of the year	28,970	28,970
-Additions	5,508	5,508
-Disposals	-	-
Depreciation expense	(10,065)	(10,065)
Carrying amount at the end of the year	24,413	24,413

*Directors reassessed the carrying value of the Broome facilities (storage tank & pipeline) and resolved that the written-down book value as at 30 June 2004 properly reflects its fair value given its likely usage and longer term prospects.

Other production plant and equipment assets with an original value of $442,934 were also reassessed by the directors who resolved that the written down value as at 30 June 2004 of $425,000 (previous written down value $500,000) properly reflect their fair value.

This value is being recovered from crude oil production over the next five years of field operations.

	ECONOMIC ENTITY		PARENT ENTITY	
	2004	2003	2004	2003
	$	$	$	$

12. EXPLORATION AND DEVELOPMENT EXPENDITURE

Exploration expenditure costs carried forward in respect of areas of interest in:

-Pre-Production:
-Exploration and evaluation phases - at cost

Opening balance	2,129,155	2,069,309	1,026,887	936,909
Expenditure incurred	383,160	187,764	364,477	101,741
Written off	-	(127,918)	-	(11,763)
Closing balance	2,512,315	2,129,155	1,391,364	1,026,887

-Production:
-Development expenditure - at cost

Opening balance	(1,811,085)	1,986,972	-	-
Expenditure incurred	-	206,308	-	-
Less written off	-	(382,195)	-	-
Closing balance	1,811,085	1,811,085	-	-

-Accumulated Amortisation
-Development expenditure

Opening balance	(1,811,155)	(1,784,085)	-	-
Expensed during the period	-	(27,000)	-	-
Closing balance	(1,811,155)	(1,811,085)	-	-
Net Development & Production Costs	2,512,315	2,129,155	1,391,364	1,026,887

The ultimate recoupment of costs carried forward for exploration and evaluation phases is dependent on the successful development and commercial exploitation or sale of the respective mining areas.

13. INTANGIBLE ASSET

Oil spill remediation technology	260,000	260,000	-	-
-Accumulated amortisation	(52,000)	(26,000)	-	-
Total Intangible Assets	208,000	234,000	-	-

14. PAYABLES AND ACCRUALS

Trade creditors and accrued expenses	406,121	337,262	108,366	92,210
Total Payables	406,121	337,262	108,366	92,210

	ECONOMIC ENTITY		PARENT ENTITY	
	2004	2003	2004	2003
	$	$	$	$
15. PROVISIONS				
CURRENT				
Employee benefits	29,285	11,615	29,285	11,615
Other	-	-	-	-
Total Current Provisions	29,285	11,615	29,285	11,615
NON-CURRENT				
Site restoration costs – production operations	797,648	711,116	-	-
Total Non-Current Provisions	797,648	711,116	-	-
(a) Aggregate employee benefits liability	29,285	11,615	29,285	11,615
(b) Number of employees at year end	8	8	8	8

16. CONTRIBUTED EQUITY

(a) ORDINARY SHARES

	ECONOMIC ENTITY 2004 $	ECONOMIC ENTITY 2003 $	PARENT ENTITY 2004 $	PARENT ENTITY 2003 $
113,496,364 (2003: 101,496,364) fully paid ordinary shares	10,153,958	9,557,958	10,153,958	9,557,958
At the beginning of the reporting period	9,557,958	9,179,058	9,557,958	9,179,058
Value of shares issued during the year				
-1,800,000 shares on 2 July 2002	-	154,800	-	154,800
-350,000 shares on 26 July 2002	-	30,100	-	30,100
-7,760,000 shares on 3 January 2002	-	194,000	-	194,000
-12,000,000 shares on 8 October 2003	600,000	-	600,000	-
- Less issue costs	(4,000)	-	(4,000)	-
		-		-
At reporting date	10,153,958	9,557,958	10,153,958	9,557,958
	No.	No.	No.	No.
At the beginning of period	101,496,364	91,586,364	101,496,364	91,586,364
Shares issued during year				
-2 July 2002	-	1,800,000	-	1,800,000
-26 July 2002	-	350,000	-	350,000
-3 January 2003	-	7,760,000	-	7,760,000
8 October 2003	12,000,000	-	12,000,000	-
		-		-
		-		-
At reporting date	113,496,364	101,496,364	113,496,364	101,496,364

Details of shares issued during the period:

(i) In October 2003 the company issued 12,000,000 ordinary shares at 5 cents each under Subscription Agreements to raise $600,000 in working capital.

Ordinary shareholders participate in dividends and the proceeds on winding up of the parent entity in proportion to the number of shares held.

At shareholders meetings each ordinary share represents one vote when a poll is called, otherwise each shareholder has one vote on a show of hands.

16. CONTRIBUTED EQUITY

	31/3/2005 20C UNLISTED OPTIONS	23/5/2007 20C UNLISTED OPTIONS	28/11/2008 10C UNLISTED OPTIONS	28/11/2006 7.5C UNLISTED OPTIONS	TOTAL
(b) SHARE OPTIONS					
At the beginning of the financial year	1,000,000	1,900,000	-	-	2,900,000
- Issued during the year	-	-	2,750,000	2,750,000	5,500,000
- Expired or cancelled during the year	-	-	-	-	-
At reporting date	1,000,000	1,900,000	2,750,000	2,750,000	8,400,000

The following options were issued or exercised during the financial year ended 30 June 2004.

On 8 December 2003 the company issued 2,750,000 Series A Director options at an exercise price of 10 cents each on or before 28 November 2008 and 2,750,000 Series B Director Options at an exercise price of 7.5 cents on or before 28 November 2006.

No options were exercised or cancelled during the year ended 30 June 2004.

At balance date there were 1,000,000 outstanding unlisted ESOP Options to acquire ordinary shares on or before 31 March 2005 at an exercise price of 20 cents, 1,900,000 outstanding unlisted ESOP Options to acquire ordinary shares on or before 23 May 2007, 2,750,000 outstanding unlisted Director Series A Options to acquire ordinary shares on or before 28 November 2008 and 2,750,000 outstanding unlisted Director Series B Options to acquire ordinary shares on or before 28 November 2006.

The company established the Kimberley Oil NL Share Option Incentive Plan in 2000. The board in its absolute discretion may invite eligible participants to join the Plan based on its assessment of the prospective participant's contribution to the performance of the group. The total number of Shares to issue upon exercise of Options subject to the Plan at any time, together with any other shares which may be issued under, or which are the subject of, any other of the company's employees share or option incentive schemes, shall not represent more than five per centum of the number of the shares on issue in the company at the time of the issue of the options under the Plan. The terms and conditions applicable to options granted will be as determined from time to time by the board in its absolute discretion at the time of the grant of the option's and options may be granted upon different terms and conditions to those applicable to any other options granted.

	ECONOMIC ENTITY 2004 $	ECONOMIC ENTITY 2003 $	PARENT ENTITY 2004 $	PARENT ENTITY 2003 $
17. RESERVES				
Asset revaluation reserve				
Opening balance at beginning of the financial year	2,500,000	2,180,000	-	-
Additions	-	500,000	-	-
Transfers as a result of disposals	-	(180,000)	-	-
Closing balance at the end of the financial year	2,500,000	2,500,000	-	-

	ECONOMIC ENTITY 2004 $	ECONOMIC ENTITY 2003 $	PARENT ENTITY 2004 $	PARENT ENTITY 2003 $
18. ACCUMULATED LOSSES				
Accumulated losses at the beginning of the financial year	(7,599,456)	(5,764,002)	(8,009,123)	(6,508,126)
Transfer from reserves	-	(180,000)	-	-
Net loss attributable to the members of the parent entity	(554,823)	(2,015,454)	(372,356)	(1,500,997)
Accumulated losses at the end of the financial year	(8,154,279)	(7,599,456)	(8,381,479)	(8,009,123)

	ECONOMIC ENTITY 2004 $	ECONOMIC ENTITY 2003 $	PARENT ENTITY 2004 $	PARENT ENTITY 2003 $
19. CASH FLOW INFORMATION				
(a) RECONCILIATION OF CASH				
Cash at the end of the financial year as shown in the statement of cash flows is reconciled to items in the statement of financial position as follows:				
Cash at bank	483,809	507,072	471,711	501,987
(b) RECONCILIATION OF CASH FLOW FROM OPERATIONS WITH LOSS FROM ORDINARY ACTIVITIES AFTER INCOME TAX				
Loss from ordinary activities after income tax	(554,823)	(2,015,454)	(372,356)	(1,500,997)
Non-cash flows in loss from ordinary activities				
Depreciation of Non-Current assets	216,661	214,668	10,065	79,858
Amortisation of Non-Current assets	26,000	53,000	-	-
Provision for restoration	86,532	108,772	-	-
Exploration expenditure write off	-	510,113	-	11,763
Profit on sale of fixed assets	-	(66,420)	-	(29,091)
Loss on sale of fixed assets	-	950,565	-	950,565
Changes in assets and liabilities				
(Increase)/decrease in trade receivables	(41,346)	364	1,904	16,296
Increase/(decrease) in trade and other creditors	26,035	(159,425)	(26,672)	(73,125)
(Increase)/decrease in other current assets/prepayments	(22,679)	(7,321)	(9,730)	(2,270)
(Increase)/decrease in inventory	(27,189)	(24,784)	-	-
Increase/(decrease) in provisions	60,494	12,962	331,949	311,051
Exploration and development costs	(383,160)	(394,072)	(364,477)	(101,741)
Cash Flows From /(Used in) Operations	(613,475)	(817,032)	(429,317)	(337,691)

(c) NON-CASH FINANCING AND INVESTING ACTIVITIES

Kimberley Oil NL acquired Otto Oil Pty Ltd for Nil cash on 18 March 2004. Based on an agreement executed with the former shareholders of Otto Oil NL there may be a requirement to issue shares in the future. (refer Notes 10 and 20).

	ECONOMIC ENTITY		PARENT ENTITY	
	2004	2003	2004	2003
	$	$	$	$

19. CASH FLOW INFORMATION (CONT'D)

(a) CREDIT STANDBY ARRANGEMENTS WITH BANKS				
Credit facility – bank overdraft	250,000	250,000	250,000	250,000
Amount utilised	-	-	-	-
Unused credit facility	250,000	250,000	250,000	250,000

Bank Overdraft

The bank overdraft facility is arranged with an Australian bank with general terms and conditions being set and reviewed annually. Interest rates are variable and subject to adjustment.

20. CONTINGENT LIABILITIES

(a) Upon grant of Exploration Permits; to replace Application Permits 5/97-8 and 6/97-8, the parent entity is required to issue 150,000 shares in Kimberley Oil NL, for each Application Permit, to the former shareholders of Otto Oil Pty Ltd. A total of 300,000 fully paid shares.

(b) If Yulleroo-2 is not spudded before the date on which Australian Petroleum Exploration Permits are granted for Application Permits 5/97-8 and 6/97-8 the parent entity is required to issue a further 200,000 shares in Kimberley Oil NL to the former shareholders of Otto Oil Pty Ltd in two equal parcels of 100,000 each on the date they are granted.

(c) By agreement with Heritage Petroleum plc the company has the right to earn up to 75% interest in three coal bed and coal mine methane licences located in France. Reimbursable sums are payable upon grant of the tenements on terms and conditions entirely satisfactory to the company (Conditions Precedent):
1) Blueu Lorraine, France - €17,000 – granting of the tenement is pending.
2) Gaz de St Gardanne, France - €17,000 – granting of the tenement is pending.
3) Gaz de Saint Etienne, France - €17,000 – granting of the tenement is pending.
The Company has issued a bank guarantee for €10,000 in favour of Heritage Petroleum plc current to 20 February 2005 to secure the reimbursable sums.

21. AUDITORS REMUNERATION

Remuneration of the auditor of parent entity:

- auditing or reviewing the financial report and any other entity in the economic entity	19,700	16,500	19,700	16,500
- other services	2,382	2,131	2,382	2,131
Total Auditors Remuneration	22,082	18,631	22,082	18,631

22. SEGMENT REPORTING

In presenting information on the basis of geological segments, segment revenue is based on the geological location of customers. Segment assets are based on the geographical location of the assets.

The consolidated entity's business segments operate geographically as follows:

Europe Coal bed and coal mine methane exploration activities in France and Italy.
Australia Oil and gas exploration & production activities and oil spill development in Western Australia.

GEOGRAPHICAL SEGMENTS	EUROPE		AUSTRALIA		TOTAL	
	2004 $000	2003 $000	2004 $000	2003 $000	2004 $000	2003 $000
REVENUE						
External segment revenue	-	-	1,167,022	1,549,202	1,167,022	1,549,202
Total segment revenue	-	-	1,167,022	1,549,202	1,167,022	1,549,202
RESULTS						
Segment results	-	-	(554,825)	(2,015,454)	(554,825)	(2,015,454)
Profit (loss) from ordinary activities before income tax	-	-	(554,825)	(2,015,454)	(554,825)	(2,015,454)
-Income tax expense	-	-	-	-	-	-
Net profit/(loss)	-	-	(554,825)	(2,015,454)	(554,825)	(2,015,454)
Depreciation and amortisation	-	-	376,441	329,193	376,441	329,193
Exploration expenditure written off	-	-	-	510,113	-	510,113
Sale of non-current assets	-	-	-	564,602	-	564,602
Other non-cash segment assets	-	-	-	944,557	-	944,557
ASSETS						
Segment assets	257,226	39,636	5,475,507	5,478,859	5,732,733	5,518,495
Total assets	257,226	39,636	5,475,507	5,478,859	5,732,733	5,518,495
LIABILITIES						
Segment liabilities	6,208	-	1,226,846	1,059,993	1,233,054	1,059,993
Total liabilities	6,208	-	1,226,846	1,059,993	1,233,054	1,059,993
Acquisition of non-current assets	257,226	39,636	125,934	61,830	383,160	101,466

Accounting policies relating to segment reporting are contained within the notes to the Financial Statements.

23. SUPERANNUATION COMMITMENTS (LEVY)

Kimberley Oil NL has an arrangement, with Tyndall Superannuation Ltd (Trustee), as a participating employer under the Trust Deed, whereby it nominates those employees for whom superannuation is to be provided. The fund is registered as the Optimum Superannuation Master Plan and is a complying superannuation fund.

Eligible employees are invited to join the Fund and are entitled to varying benefits on retirement, disability or death. The end benefit is determined by the members' accumulation of contributions and earnings of the fund. The economic entity makes contributions to the fund currently at the rate of 9% of gross salaries and wages for those employees who have applied to join. The company has no other liability to the Trustee other than the remittance of the superannuation contributions.

The economic entity also makes contributions to other unrelated funds on behalf of other employees who by their own choice have nominated alternative funds to receive the superannuation contributions.

These contributions are legally enforceable in Australia.

24. EMPLOYEES SHARE OPTION PLAN (CONT'D)

Notes to schedule of employee share option plans:

1. The Kimberley Oil NL Employee Share Option Plan ("Incentive Plan") is restricted to the issue of that number of options which equal 10% of the total number of listed ordinary shares in the company from time to time. The options are to be issued at an exercise price of the average market price of the shares during the 5 trading days prior to the date of grant of the options, or such greater price as the board determines. In circumstances where prior shareholder approval is required, the price shall be such price as is specified in the relevant notice of meeting. The exercise period is the period commencing on the date of grant of the option and ceases on the expiry date. The expiry date is the date 5 years after the date of grant of the options, unless a period of shorter duration is determined by directors. Eligible persons may only exercise Options granted to them during the exercise period. Options are fully vested from the date of grant.

2. 2002 Director Options were issued pursuant to shareholder approval in general meeting in May 2002. No further 2002 Director Options may be issued. The option exercise price is $0.20 each. The options are exercisable at any time on or prior to the date which is 5 years after the date of the meeting to approve the grant of the options.

3. Series A and Series B Director Options were issued pursuant to shareholder approval in general meeting in November 2003. The exercise price of the options was set out in the notice of general meeting and is 10 cents and 7.5 cents each for Series A and Series B Director Options respectively. The Series A Director Options are exercisable at any time on or prior to the date which is 5 years after the date of the meeting to approve the grant of the options. The Series B Director Options are exercisable at any time on or prior to the date which is 3 years after the date of the meeting to approve the grant of the options.

4. Except in prescribed circumstances, all options lapse on the day that is 20 business days after the termination of employment or office of the optionholder.

   The market value of shares under these options at 30 June 2004 was $0.070 (2003: $0.015).

   No options were exercised during the year (2003:Nil).

   No amounts have been recognised in the financial statements of the company and consolidated entity in relation to the employee option plans maintained by the company.

   During the period a total of nil (2003:2,000,000) employee options lapsed as a consequence of termination of employment of employees holding options as at the beginning of the period.

24. EMPLOYEES SHARE OPTION PLAN

Kimberley Oil NL

Equity based plans

Employee Share Option Plan

Summary of options over unissued shares

Option Plan	Grant Date	Exercise date on or after	Expiry Date	Exercise price	Number of Options at beginning of year	Options Granted	Options lapsed	Options exercised	Options expired	Number of Options at end of year: on issue	Number of Options at end of year: Vested	Available to be issued	Proceeds received $	Date issued	Number of shares issued	Fair value per share $	Fair value aggregate $
Consolidated and Company 2004																	
KBO Employee Share Option Plan	15/5/00	15/5/00	31/03/05	$0.200	1,000,000	-	-	-	-	1,000,000	1,000,000	(1)					
	28/6/02	28/6/02	23/5/07	$0.200	900,000	-	-	-	-	900,000	900,000	(1)	-	-	-	-	-
													-	-	-	-	-
2002 Director Options	23/05/02	23/05/02	23/5/07	$0.200	1,000,000	-	-	-	-	1,000,000	1,000,000	(2)	-	-	-	-	-
													-	-	-	-	-
Series A Director Options	8/12/03	8/12/03	28/11/08	$0.100	-	2,750,000	-	-	-	2,750,000	2,750,000		-	-	-	-	-
Series B Director Options	8/12/03	8/12/03	28/11/06	$0.075	-	2,750,000	-	-	-	2,750,000	2,750,000		-	-	-	-	-
					2,900,000					8,400,000	8,400,000						
Consolidated and Company 2003																	
KBO Employee Share Option Plan	15/5/00	15/5/00	31/3/05	$0.200	2,000,000	-	1,000,000	-	-	1,000,000	1,000,000	(1)	-	-	-	-	-
	28/6/02	28/6/02	23/5/07	$0.200	900,000	-	-	-	-	900,000	900,000	(1)	-	-	-	-	-
2002 Director Options	23/05/02	23/05/02	23/5/07	$0.200	2,000,000	-	1,000,000	-	-	1,000,000	1,000,000	(2)	-	-	-	-	-
					4,900,000					2,900,000	2,900,000						

25. DIRECTOR AND EXECUTIVE DISCLOSURES FOR DISCLOSING ENTITIES

The company's policy for determining the nature and amount of emoluments of board members is as follows:

The remuneration structure for executive directors is based on a number of factors, including length of service, particular service of the individual concerned, and overall performance of the company. The remuneration structure for non-executives is determined by the members.

The group seeks to emphasize payment for results through providing bonus reward schemes, specifically, the incorporation of incentive payments through the issue of options. The objective of the reward schemes is to both reinforce the short and long term goals of the company and to provide a common interest between management and shareholders. The incentives were granted to directors on 28 November 2003.

Remuneration of specified directors during the financial year is shown in the following table:

		Primary			Post Employment	Equity	Other Benefits	
Director	**Year**	**Salary Paid $**	**Consultancy & Other Fees Paid**	**Directors Fees Paid**	**Superannuation Paid**	**Options Granted**	**Other**	**Total**
A J Flavelle	2004	61,533	-	7,500	6,121	39,005	-	114,159
	2003	19,150	-	15,000	3,038	-	-	37,188
A J McClure	2004	-	52,441	-	-	39,005	-	91,446
	2003	-	17,459	3,750	338	-	-	21,547
T V Willsteed	2004	-	-	17,500	1,575	29,253	-	48,328
	2003	-	-	5,177	466	-	-	5,643
R F Reiser	2004	-	-	-	-	-	-	-
	2003	52,781	-	-	4,750	-	-	57,531
D G Gellatly	2004	-	-	-	-	-	-	-
	2003	19,998	-	-	-	-	-	19,998
Total Specified	**2004**	**61,533**	**52,441**	**25,000**	**7,696**	**107,263**	**-**	**253,933**
Directors	**2003**	**91,929**	**17,459**	**23,927**	**8,592**	**-**	**-**	**141,907**

T V Willsteed was appointed a director on 26 November 2002
R F Reiser resigned as a director on 22 November 2002
D G Gellatly resigned as a director on 22 November 2002

Although options granted in the financial year are classified as remuneration as necessitated by reporting requirements, their primary purpose, is not to bestow a remuneration benefit, but rather to provide an incentive that will encourage individual performance. The valuation of such options is notional as explained in Note 25.

EQUITY INSTRUMENTS AND TRANSACTIONS

Options and rights over equity instruments granted as remuneration:

Options granted during the year

Director	Series A Director Options (2)	Series B Director Options (3)	Total
A J Flavelle	1,000,000	1,000,000	2,000,000
A J McClure	1,000,000	1,000,000	2,000,000
T V Willsteed	750,000	750,000	1,500,000
Total	**2,750,000**	**2,750,000**	**5,500,000**

25. DIRECTOR AND EXECUTIVE DISCLOSURES FOR DISCLOSING ENTITIES (CONT'D)

Notes;

1. Series A and B Director Options were issued pursuant to shareholder approval granted at the annual general meeting held on 28 November 2003.

2. Series A Director Options have an exercise price of 10 cents each and may be exercised by the holder on or before 28 November 2008.

3. Series B Director Options have an exercise price of 7.5 cents each and may be exercised by the holder on or before 28 November 2006.

4. Further details, including grant dates and exercise dates regarding options granted in the current financial year and prior years to specified directors and employees are set out in this note.

5. There were no other options issued during the financial .year.

Exercise of options granted as remuneration

There were no shares issued during the reporting period due to the exercise of options previously granted as remuneration.

Option Holdings

The movement during the reporting period in the number of options over ordinary shares in Kimberley Oil NL held, directly, indirectly, or beneficially, by each specified director, including their personally-related entities, as follows:

Director	Held at July 2003	Granted as incentives	Exercised	Other Charges	Held at 30 June 2004	Vested and exercisable as at 30 June 2004
A J Flavelle	1,000,000	2,000,000	-	-	3,000,000	3,000,000
A J McClure	1,000,000	2,000,000	-	-	3,000,000	3,000,000
T V Willsteed	-	1,500,000	-	-	1,500,000	1,500,000
Total	**2,000,000**	**5,500,000**	**-**	**-**	**7,500,000**	**7,500,000**

No options held by specified directors are vested but not exercised.

Valuation of options

The options granted to specified directors and disclosed in the above table were approved by shareholders at the Annual General Meeting held on 28 November 2003.

Details of the options are set out in the section headed" Options and the rights over equity instruments granted as remuneration". The options have been valued by reference to the Black Scholes options pricing method, based on the following assumptions".

Call Option Valuation	Input
Share price at date of grant 28/11/2003	$0.070
Exercise price	$0.10 and $0.075
Risk Free rate (Australian 10 years Bond Rate)	5.01%
Volatility (Annualised) 1	53%
Time (years) to expiry	5 and 3 years respectively
Dividends received during life of options	Nil
Discount on value per option for non negotiability 2	30%

25. DIRECTOR AND EXECUTIVE DISCLOSURES FOR DISCLOSING ENTITIES (CONT'D)

Notes;

1. In assessing the expected volatility of the underlying shares it was determined that historical trading data that took account of changes in the nature of the company's business interests, was likely to be the best predictor of future experience. Accordingly, the volatility factor adopted is an annualized volatility factor of 52.9% derived from the movement in the weighted average monthly share price for the company during the 12 months to August 2004.

2. Given the Options are not listed and cannot be transferred except in limited circumstance a discount factor has been applied for "non-negotiability" of 30%.

Equity instruments and transactions

The movement during the reporting period in the number of ordinary shares in Kimberley Oil NL held, directly, indirectly, benefically, by each specified director, including their personally-related entities is as follows:

Director	Held at 1 July 2003	Purchases during the period	Received on excise of options	Sales	Other	Held at 30 June 2004
A J Flavelle	193,000	-	-	-	-	193,000
A J McClure	120,752	-	-	-	-	120,752
T V Willsteed	-	1,136,000	-	-	-	1,136,000

Loans and other transactions with specified directors

1. Transactions with the directors and director related entities of Kimberley Oil NL and the economic entity: Kimberley Oil NL paid $52,441(2003 $17,459) to Anthina Holdings Pty Ltd a company controlled by A J McClure (a director) in respect of corporate consulting services provided to the economic entity, on normal commercial terms and conditions.

There were no loans outstanding at the reporting date and no loans made during the reporting period to specified directors.

Other transactions with the Company or its controlled entities

There were no other transactions with specified directors or their personally related entities.

26. RELATED TRANSACTIONS

Transactions with controlled entities in the wholly owned group:

i. Kimberley Oil NL makes unsecured advances repayable on demand to its wholly owned subsidiaries, Terratek Drilling Tools Pty Ltd totaling $114,511 (2003: $234,699); Kimberley Oil Remediation Pty Ltd totaling $76,940 (2003: $57,793) and Otto Oil Pty. Ltd $Nil (2003 $Nil).

ii. Kimberley Oil NL charges administration fees of $72,000 (2002: $60,000) to a controlled entity for the provision of management, administrative, accounting and clerical services.

iii. Kimberley Oil NL charged interest of $185,091 (2003: $179,304) to controlled entities at commercial rates on the average monthly balances outstanding on unsecured loans.

iv. Kimberley Oil NL charges a 15% overhead cost against exploration expenditure excluding cash payments.

v. Kimberley Oil NL paid $42,858 (2003: $Nil) to Heritage Petroleum plc a company of which A J Flavelle is a director. The reimbursable sum was paid in accordance with the terms of a farm-in agreement executed on 17 April 2003.

a. Kimberley Oil NL is the parent entity of the economic entity.

	ECONOMIC ENTITY 2004	ECONOMIC ENTITY 2003
27. EARNINGS PER SHARE		
(a) RECONCILIATION OF EARNINGS TO NET PROFIT OR LOSS		
Net loss	(554,823)	(2,015,454)
Loss used in the calculation of basic EPS	(554,823)	(2,015,454)
(b) Weighted average number of ordinary shares outstanding during the year used in calculation of basic EPS	110,217,675	97,677,239
Loss per share		

Diluted EPS is not shown as it would result in an improved position.

28. FINANCIAL INSTRUMENTS

(a) TERMS, CONDITIONS, AND ACCOUNTING POLICIES

The economic entity's accounting policies, including the terms and conditions of each class of financial asset, financial liability and equity instrument, both recognised and unrecognised at the balance date, are as follows:

RECOGNISED FINANCIAL INSTRUMENTS	STATEMENT OF FINANCIAL POSITION NOTES	ACCOUNTING POLICIES	TERMS & CONDITIONS
(i) Financial Assets Cash Assets	5	Cash represents cash on hand and at bank with financial institutions. All cash is carried at nominal amounts.	
Receivables - Trade and Other	6	Trade receivables are carried at nominal amounts due less any provision for doubtful debts. A provision for doubtful debts is recognised when collection of the full nominal amount is no longer payable.	Credit sales are normally on 30 day terms.
(ii) Financial Liabilities Payables and accruals	14	Liabilities are recognised for amounts to be paid in the future for goods and services received, whether or not billed to the consolidated entity.	Trade liabilities are normally settled on 45 day terms..
Interest Bearing Liabilities		The interest bearing liabilities are carried at the principal amount. Interest is charged as an expense as it accrues.	Interest is charged at the bank's benchmark rate.
(iii) Equity Ordinary shares	16	Ordinary share capital is recognised at the amount paid-up	Details of shares issued are set out in note 17.

29. FINANCIAL INSTRUMENTS (CONT'D)

2004

FINANCIAL INSTRUMENT	FLOATING INTEREST RATE 0-1 YEAR	FIXED INTEREST RATE 0-1 YEAR	NON-INTEREST BEARING 0-1 YEAR	TOTAL	WEIGHTED AVERAGE EFFECTIVE INTEREST RATE
(i) Financial Asset					
Cash	483,809	-	-	483,809	4.38%
Receivables	-	-	328,745	328,745	N/A
Total Financial Assets	483,809	-	328,745	812,554	
(ii) Financial Liabilities					
Trade creditors & accruals	-	-	389,759	389,759	N/A
Interest bearing liabilities	-	-	-	-	N/A
Total financial liabilities	-	-	389,759	389,759	

2003

FINANCIAL INSTRUMENT	FLOATING INTEREST RATE 0-1 YEAR	FIXED INTEREST RATE 0-1 YEAR	NON-INTEREST BEARING 0-1 YEAR	TOTAL	WEIGHTED AVERAGE EFFECTIVE INTEREST RATE
(i) Financial Asset					
Cash	507,072	-	-	507,072	3.95%
Receivables	-	-	174,733	174,733	N/A
Total Financial Assets	507,072	-	174,733	681,805	
(ii) Financial Liabilities					
Trade creditors & accruals	-	-	322,815	322,815	N/A
Interest bearing liabilities	-	-	-	-	N/A
Total financial liabilities	-	-	322,815	322,815	

(b) NET FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

The aggregate net fair values of financial assets and financial liabilities, at the balance date, are approximated by their carrying value as represented on the Statement of Financial Position.

(c) CREDIT RISK EXPOSURES

This economic entity's maximum exposure to credit risk at balance date in relation to each class of recognised financial asset is the carrying amount, net of any provision for doubtful debts, of those assets as indicated in the statement of financial position.

30. COMPANY DETAILS

The registered office of the company is:
Kimberley Oil NL
Suite 12b, 573 Canning Highway
Alfred Cove Western Australia 6154 AUSTRALIA
Telephone: +61 8 9330 9121, +61 8 9330 8876 Fax: +61 8 9330 8896
E-mail: koil@iinet.net.au Website: www.kimberleyoil.com.au

DIRECTORS' DECLARATION

The directors of the company declare that:

1. The financial statements and notes, as set out on pages 17 to 45 are in accordance with the Corporations Act 2001;

   (a) comply with Accounting Standards and the Corporations Regulations 2001; and

   (b) give a true and fair view of the financial position as at 30 June 2004 and of the performance for the year ended on that date of the company and economic entity.

2. 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.

This declaration is made in accordance with a resolution of the Board of Directors.

On behalf of the Board

ALAN J FLAVELLE – Executive Director

DATED at PERTH this 30 September 2004

Hall Chadwick
Chartered Accountants & Business Advisers

KIMBERELY OIL NL
ABN 75 075 760 655
AND CONTROLLED ENTITIES

INDEPENDENT AUDIT REPORT TO THE MEMBERS OF KIMBERLEY OIL NL AND CONTROLLED ENTITIES

SCOPE

The financial report and directors' responsibility.

The financial report comprises the statement of financial position, statement of financial performance, statement of cash flows, accompanying notes to the financial statements, and the directors' declaration for Kimberley Oil NL (the company) and the consolidated entity, for the year ended 30 June 2004. The consolidated entity comprises both the company and the entities it controlled during that year.

The directors of the company are responsible for the preparation and true and fair presentation of the financial report in accordance with the Corporations Act 2001. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report.

AUDIT APPROACH

We conducted an independent audit in order to express an opinion to the members of the company. Our audit was conducted in accordance with Australian Auditing Standards, in order to provide reasonable assurance as to whether the financial report is free of material misstatement. The nature of an audit is influenced by factors such as the use of professional judgment, selective testing, the inherent limitations of internal control, and the availability of persuasive rather than conclusive evidence. Therefore, an audit cannot guarantee that all material misstatements have been detected.

We performed procedures to assess whether in all material respects the financial report presents fairly, in accordance with the Corporations Act 2001, including compliance with Accounting Standards and other mandatory financial reporting requirements in Australia, a view which is consistent with our understanding of the company's and the consolidated entity's financial position, and of their performance as represented by the results of their operations and cash flows.

We formed our audit opinion on the basis of these procedures, which included:

- examining, on a test basis, information to provide evidence supporting the amounts and disclosures in the financial report; and
- assessing the appropriateness of the accounting policies and disclosures used and the reasonableness of significant accounting estimates made by the directors.

While we considered the effectiveness of management's internal controls over financial reporting when determining the nature and extent of our procedures, our audit was not designed to provide assurance on internal controls.

INDEPENDENCE

In conducting our audit, we followed applicable independence requirements of Australian professional ethical pronouncements and the Corporations Act 2001.

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Other firms in:
Sydney
Melbourne
Adelaide

AUDIT OPINION

In our opinion, the financial report of Kimberley Oil NL is in accordance with:

a. the Corporations Act 2001, including:

   i. giving a true and fair view of the company's and consolidated entity's financial position as at 30 June 2004 and of their performance for the year ended on that date; and
   ii. complying with Accounting Standards in Australia and the Corporations Regulations 2001; and

b. other mandatory professional reporting requirements in Australia.

INHERENT UNCERTAINTY REGARDING CONTINUATION AS A GOING CONCERN AND THE CARRYING VALUE OF INTANGIBLE ASSET

Without qualification to the opinion expressed above, attention is drawn to the following matters:

As a result of the matters described in Note 1(n), the ability of the company to continue as a going concern is dependent upon the success of the various capital raising initiatives being undertaken by the directors and the continued support of shareholders. Consequently, there is uncertainty whether the company will be able to continue as a going concern and therefore whether it will be able to pay its debts as and when they fall due and realise its assets and extinguish its liabilities in the normal course of business and at the amounts stated in the financial report.

Included in the Statement of Financial Position under the description of Intangible Asset is the oil spill technology owned by a subsidiary, Kimberley Oil Remediation Pty Ltd, which has a written down value of $208,000. The recoverable amount of the oil spill technology is dependent upon:

(a) The ability of the company to raise further capital to fund the costs of future research and development; and
(b) The successful commercialisation of the technology; or
(c) The sale of the asset for at least book value.

The outcome of the above points cannot presently be determined, as such, there is uncertainty as to the ultimate recoverable amount of the oil spill technology in Kimberley Oil Remediation Pty Ltd.

HALL CHADWICK	**MICHAEL J HILLGROVE**
CHARTERED ACCOUNTANTS	**PARTNER**

Dated at Perth this 30th day of September 2004.

SHAREHOLDER INFORMATION

ADDITIONAL INFORMATION FOR LISTED PUBLIC COMPANIES – AS AT 28 SEPTEMBER 2004

1. Total number of shares on issue	113,496,364

2. Number of shareholders	**No.**
Total registered	1,383
Holding less than a marketable parcel	420

3. Distribution of shareholders	**No.**
1 - 1,000	103
1,001 - 5,000	247
5,001 - 10,000	287
10, 0001 - 100,000	548
100,000 or more	198

4. Holdings of 20 largest shareholders	**No.**	%
Evenlen Pty Ltd	5,000,000	4.41
Dragonlyn Pty Ltd	3,000,000	2.64
Mr. Shane Bach	2,200,000	1.94
Travelly Pty Ltd	2,000,000	1.76
Mr. Bruce C Richardson & Mrs. Anita T Richardson	1,908,100	1.68
Odyssey International Pty Ltd	1,500,000	1.32
PYNC Pty Ltd	1,500,000	1.32
Mr. Thomas Forsberg	1,450,000	1.28
Dream Investments Pty Ltd	1,404,275	1.24
Fortune Australia Pty Ltd	1,380,000	1.22
Mrs. Mary E Austin	1,370,000	1.21
Mr. Grahame Austin	1,205,000	1.06
Mr. Francesco Meduri	1,168,784	1.03
Patermat Pty Ltd	1,136,000	1.00
Mr. Mark S Broad	1,115,000	0.98
Clova Holdings Pty Ltd	1,115,000	0.98
Mr. Inderjit Pal Singh Jaiswalpo	1,090,003	0.96
Meduri Enterprises Pty Ltd Meduri Super Fund	1,052,000	0.93
Crownace Pty Ltd	1,000,000	0.88
Dragonlyn Pty Ltd	1,000,000	0.88
	32,594,162	**28.72**

5. Voting rights

1. On a poll;

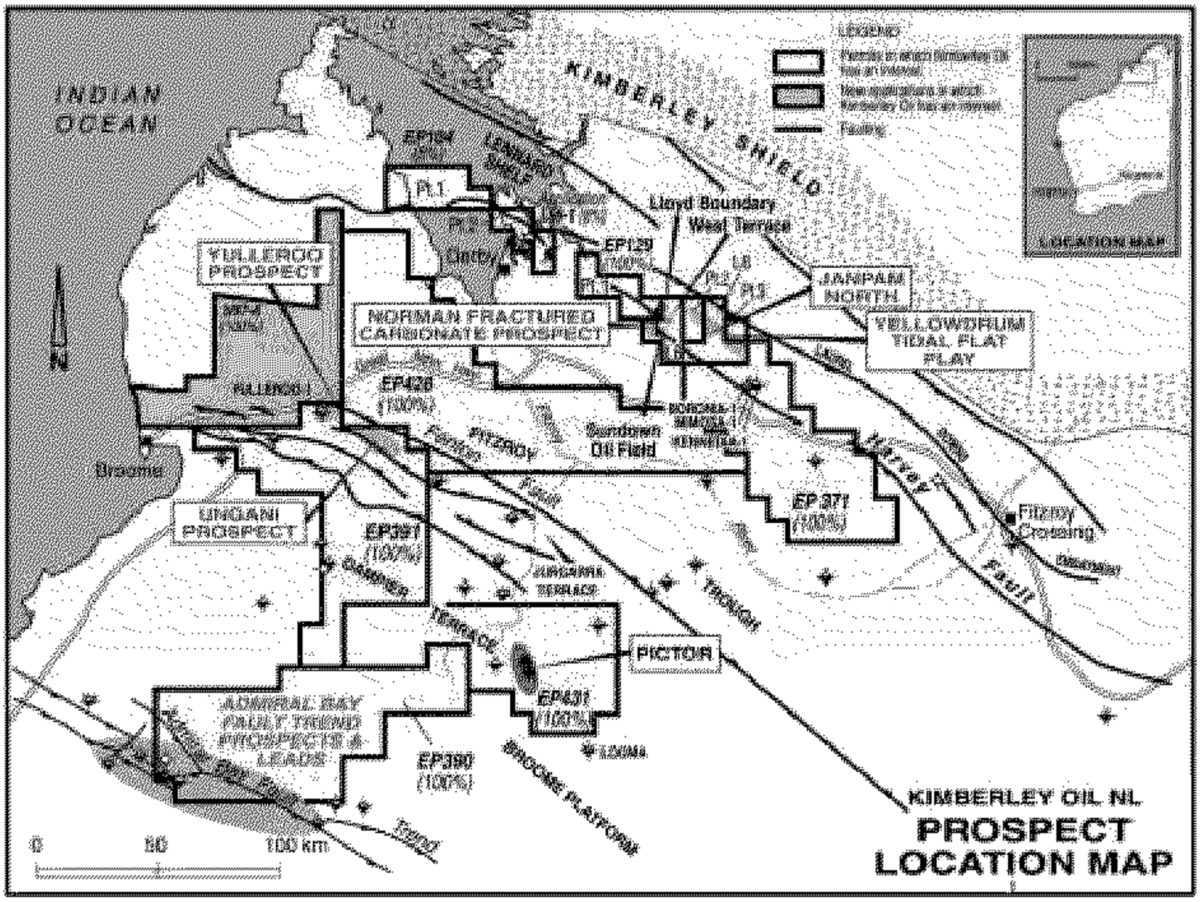
The holder of each ordinary share shall have full voting rights of one vote for each share held.

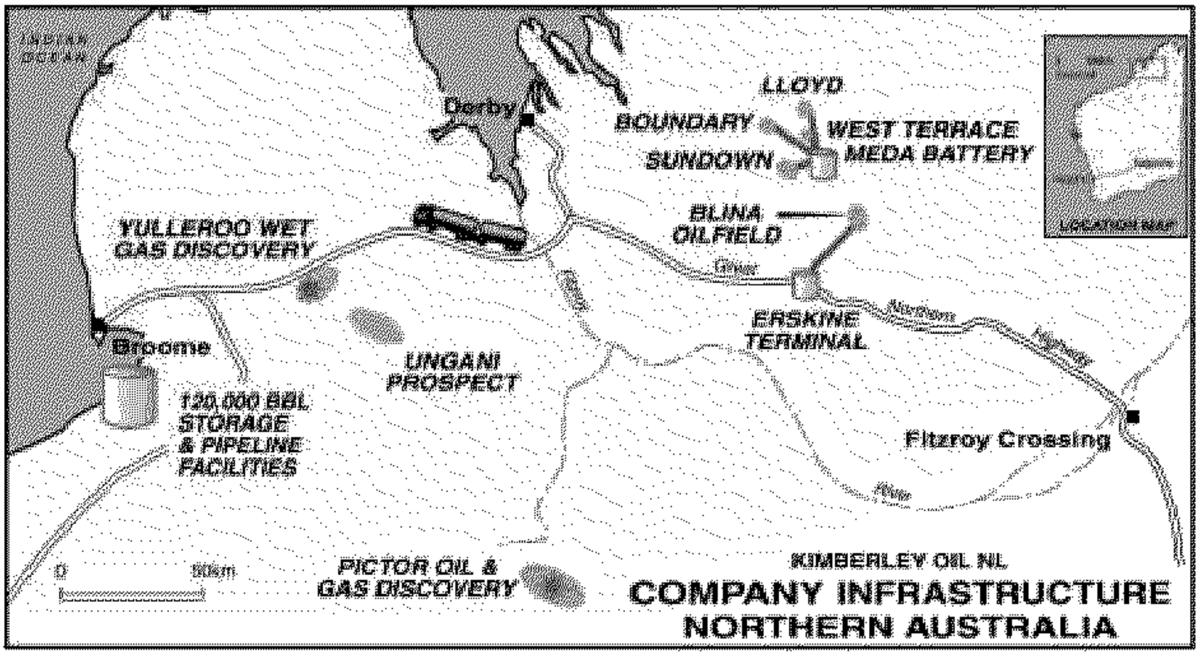
6. On a show of hands:

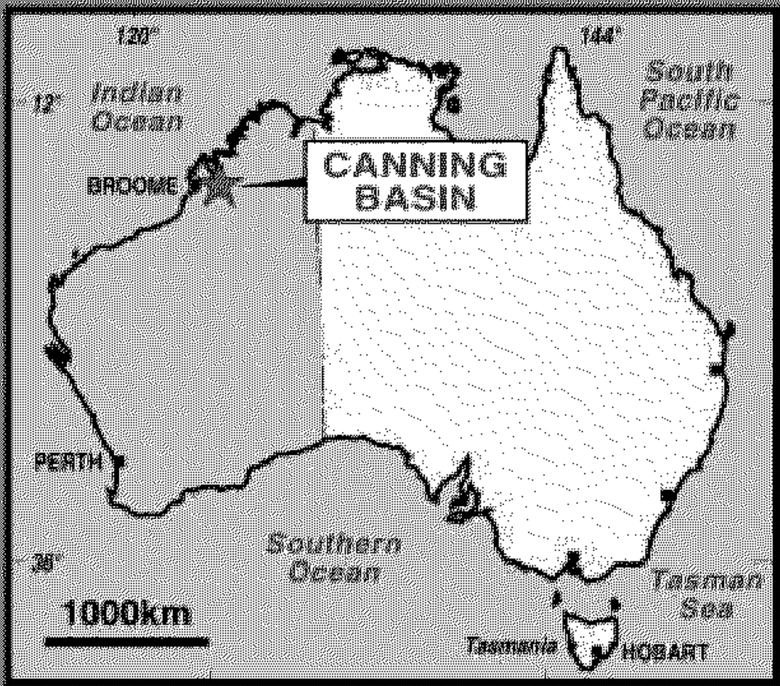
The holder of ordinary shares shall be entitled to one vote regardless of the number of shares held.

7. Buy-backs

There is no on market buy-back in effect and no buy-back is currently envisaged.


INDIAN OCEAN
KIMBERLEY SHIELD
YULLEROO PROSPECT
NORMAN FRACTURED CARBONATE PROSPECT
JANPAM NORTH
YELLOWDRUM TIDAL FLAT PLAY
Lloyd Boundary
West Terrace
EP129 (100%)
EP104
EP428 (100%)
Derby
Sundown Oil Field
Broome
UNGANI PROSPECT
EP391 (100%)
EP 371 (100%)
Fitzroy Crossing
PICTOR
EP431 (100%)
ADMIRAL BAY FAULT TREND PROSPECTS & LEADS
EP390 (100%)
BROOME PLATFORM
TROUGH
0 50 100 km
KIMBERLEY OIL NL
PROSPECT LOCATION MAP


INDIAN OCEAN
Derby
LLOYD
BOUNDARY
WEST TERRACE
MEDA BATTERY
SUNDOWN
YULLEROO WET GAS DISCOVERY
BLINA OILFIELD
ERSKINE TERMINAL
Broome
UNGANI PROSPECT
120,000 BBL STORAGE & PIPELINE FACILITIES
Fitzroy Crossing
0 50km
PICTOR OIL & GAS DISCOVERY
KIMBERLEY OIL NL
COMPANY INFRASTRUCTURE NORTHERN AUSTRALIA



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Controlled Entities:

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