KAROON GAS PTY LTD

A.C.N. 056 976 642

STATEMENT OF FINANCIAL PERFORMANCE
FOR THE YEAR ENDED 30 JUNE 2003

	Note	2003 $	2002 $
INCOME			
Interest received		560	—
Debt forgiven by parent entity		—	69
TOTAL INCOME		560	69
EXPENSES			
Selling expenses		667	—
Administration expenses		120	—
Sundry expenses		1,649	—
Profit/(Loss) from ordinary activities before income tax expense		(1,876)	69
Income tax expense related to ordinary activities		—	—
Profit/(Loss) from ordinary activities after related income tax expense		(1,876)	69
Profit/(loss) from extraordinary item after related income tax expense		—	—
Net profit/(loss)		(1,876)	69
Total changes in equity other than those resulting from transactions with owners as owners.		**(1,876)**	**69**

The accompanying notes form part of these financial statements

KAROON GAS PTY LTD

A.C.N. 056 976 642

STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2003

	Note	2003 $	2002 $
CURRENT ASSETS			
Term deposits		—	10,134
GST paid		22,285	—
Loan to Ropat Nominees		8,082	—
TOTAL CURRENT ASSETS		**30,367**	**10,134**
NON-CURRENT ASSETS			
Exploration expenditure	2	220,910	—
TOTAL NON-CURRENT ASSETS		220,910	—
TOTAL ASSETS		**251,277**	**10,134**
CURRENT LIABILITIES			
Bank overdraft		19	—
Payables	3	243,000	—
TOTAL CURRENT LIABILITIES		**243,019**	—
NON-CURRENT LIABILITIES		—	—
TOTAL LIABILITES		**243,019**	—
NET ASSETS		**8,258**	**10,134**
EQUITY			
Issued capital (705 fully paid ordinary shares)		705	705
Retained profits/(losses)	4	7,553	9,429
TOTAL EQUITY		**8,258**	**10,134**

The accompanying notes form part of these financial statements

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2003

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

This financial report is a special purpose financial prepared in order to meet the needs of the members. The directors have determined that Karoon Gas Pty Ltd is not a reporting entity.

The financial report has been prepared in accordance with the following Australian Accounting Standards:

AASB 1002: Events Occurring After Reporting Date
AASB 1017: Related Party Disclosure
AASB 1022: Accounting for the Extractive Industries
AASB 1031: Materiality
UIG Abstract 31: Accounting for the Goods and Services Tax (GST)

No other Australian Accounting Standards, Urgent Issues Group Consensus Views or other authoritative pronouncements of the Australian Accounting Standards Board have been applied.

The financial report is prepared on an accruals basis and is based on historic costs and does not take into account changing money values or, except where specifically stated, current valuations of non-current assets.

NOTE 2: EXPLORATION EXPENDITURE

Exploration, evaluation and development expenditure incurred is accumulated in respect of each identifiable area of interest. Unless determined otherwise by the directors, these costs are only carried forward if legal tenure to the area of interest is held and 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 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 plant, equipment and building structures, waste removal, and rehabilitation of the site in accordance with clauses of the relevant 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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2003

NOTE 2: EXPLORATION EXPENDITURE (CONT'D)

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.

NOTE 3: PAYABLES	2003 $	2002 $
Trade creditors	243,000	—
	243,000	—

NOTE 4: RETAINED PROFITS

Retained profits/(accumulated losses) at the beginning of the financial year	9,429	(250,640)
Retrospective adjustment	—	260,000
Net profit attributable to members of the Company	(1,876)	69
Retained profits(accumulated losses) at the end of the financial year	7,553	9,429

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2003

NOTE 5: RELATED PARTY TRANSACTIONS

The parent entity is Ropat Nominees Pty Ltd, a company in which Robert Hosking(a director of Karoon Gas Pty Ltd) is a director and shareholder. As at 30 June 2003, Ropat Nominees Pty Ltd held 100% of the share capital in Karoon Gas Pty Ltd.

The parent entity invoices Karoon Gas Pty Ltd for the exploration expenses incurred. This comprises the amounts shown in the trade creditors balance. Additionally, other administrative costs that are incurred by the parent entity on behalf of Karoon Gas Pty Ltd are also invoiced by Ropat Nominees Pty Ltd and the balance is shown as a loan account to Ropat Nominees Pty Ltd.

NOTE 6: EVENTS SUBSEQUENT TO BALANCE DATE

On 1 December 2003, Ropat Nominees Pty Ltd sold its 100% interest in Karoon Gas Pty Ltd to Karoon Gas Australia Ltd for a consideration of 15 million shares at $0.01 each. Ropat Nominees Pty Ltd no longer has control over Karoon Gas Pty Ltd.

NOTE 7: CAPITAL EXPENDITURE COMMITMENTS

Exploration commitments on PEP 162

- Payable not later than one year	$ 200,000
- Payable between 1 and 2 years	$1,250,000
- Payable between 2 and 5 years	$ 200,000

NOTE 8: CONTINGENT LIABILITIES

A gross overriding royalty of two(2) percent of all recovered petroleum from PEP 162 is payable by Karoon Gas Pty Ltd to the Royalty Holders specified in the Agreement dated 23 February 2000. The royalties entitle the royalty holder to a share of future proceeds from hydrocarbons produced from the permit. A further royalty of two(2) percent of net profits from all minerals including hydrocarbons derived from PEP 162 is payable by Karoon Gas Pty Ltd to Nexus Energy NL pursuant to an agreement made in 2002.

KAROON GAS PTY LTD

A.C.N. 056 976 642

DIRECTORS' DECLARATION

The directors have determined that the company is not a reporting entity and that this special purpose report should be prepared in accordance with the accounting policies outlined in Note 1 to the financial statements.

The directors of the company declare that:

1. The financial statements and notes, as set out on pages 1 to 5 present fairly the company's financial position as at 30 June 2003 and its performance for the year ended on that date in accordance with the accounting policies described in Note 1 to the financial statements.

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.

____
Robert Hosking
Director

Dated this 5 day of March 2004