# WASABI ENERGY LIMITED

**(formerly Insurance My Way Limited)**

## ACN 000 090 997

## ANNUAL REPORT

## 30 JUNE 2004

## CORPORATE DIRECTORY

| | |
|---|---|
| **Directors:** | T N Wise – Managing Director<br>W R Blakeney – Non-Executive Director<br>F Reid – Non-Executive Director |
| **Company Secretary:** | Tim Wise |
| **Registered Office:** | 139 Victoria Street<br>Mosman Park WA 6012 |
| **Principal Place of Business:** | 139 Victoria Street<br>Mosman Park WA 6012 |
| **Share Registry:** | Computershare Registry Services Pty Limited<br>Level 2, Reserve Bank Building<br>45 St Georges Terrace<br>Perth WA 6000<br>Telephone: (61 8) 9323 2000<br>Facsimile: (61 8) 9323 2033 |
| **Bankers:** | Westpac Banking Corporation Limited<br>109 St George's Terrace<br>Perth WA 6000 |
| **Auditors:** | KPMG<br>Central Park<br>152-158 St George's Terrace<br>Perth WA 6000 |
| **Solicitors:** | Steinepreis Paganin<br>Chancery House<br>37 St George's Terrace<br>Perth WA 6000 |
| **Stock Exchange** | The Company is listed on the Australian Stock Exchange. The Home Exchange is Perth. |
| **Other Information:** | Wasabi Energy Limited, incorporated and domiciled in Australia, is a publicly listed company limited by shares. |

## DIRECTORS REPORT

The directors present their report together with the financial report of Wasabi Energy Limited ("the Company") and the consolidated financial report of the consolidated entity, being the Company and its controlled entities, for the year ended 30 June 2004 and the auditor's report thereon.

### Directors

The directors of the Company at any time during or since the end of the period are:

| Name | Age | Experience and Special Responsibilities |
|---|---|---|
| Timothy Wise<br>Chairman & Managing Director | 39 | B.Sc.<br>Mr Wise is the executive responsible for the day to day management of the Company. Mr Wise has owned and operated many companies over the last 13 years. He has extensive experience in both the business-to-consumer and the business-to-business market. Mr Wise was the co-founder and Chief Executive Officer of "The Tap Doctor" a national plumbing service franchise. He holds a Bachelor of Science from the University of Western Australia.<br>Appointed 4 January 2000. |
| Wayne Blakeney<br>Non-Executive Director | 47 | Mr Blakeney brings over 20 years of general business and marketing experience to the Company. Mr Blakeney has successfully developed a life insurance and financial planning agency and an insurance management company – Surety Group, gaining extensive experience in managing insurance advisers. He holds specialist licenses in the areas of business and life insurance, and corporate superannuation.<br>Appointed 4 January 2000. Resigned 1 March 2001. Reappointed 1 April 2001. |
| Dr Frank Reid<br>Non Executive Director | 54 | Dr Reid has a PhD in Geochemistry, which he has applied to the area of power development in numerous countries. He was a senior manager for several years with Western Mining Corporation Ltd in the United States. He managed Western Mining's Venture Capital arm in Boston. Since 1998 he has been with the Australian Co Operative Research Centre for Renewable Energy. (ACRE).<br>Appointed 13 May 2002. |

**Directors' Meetings**

The number of directors' meetings (including meetings of committees of directors) and number of meetings attended by each of the directors of the Company during the year are:

| Name | Meetings Held | Meetings Attended |
|---|---|---|
| Timothy Wise | 3 | 3 |
| Wayne Blakeney | 3 | 2 |
| Frank Reid | 3 | 3 |

The Company does not have any committees. Matters usually considered by an audit, remuneration or nomination committee were dealt with by the directors during regular Board meetings.

**Principal activities**

The principal activities of the consolidated entity are:

- Assessing business opportunities
- Managing an investment in Exergy Inc.

**Review and results of operations**

The net loss after income tax attributable to members of the consolidated entity for the year ended 30 June 2004 was $228,224 (2003: $948,001). This equates to a basic loss per share of $0.001 (2003: $0.007). The net loss included a provision for the diminution of the value of the convertible notes issued to Exergy Inc. ("Exergy"). of $34, 206 (2003: $585,965).

The consolidated entity holds unsecured convertible notes in Exergy. Exergy was incorporated in California on 1 March 1998 to license the Kalina Cycle Technology ("the Technology") and to develop the Technology commercially through its own activities (including construction of a demonstration facility) and through licenses to other companies and government entities, and to provide engineering consulting services to users of the Technology. Accrued interest of $50,993 has been recognised on the convertible notes for the year ended 30 June 2004 and is included in the gross value of $620,171 (2003:$585,965).

Exergy does not have the financial capacity to repay the convertible notes at present.

The directors continue to believe Kalina cycle technology has substantial merit and therefore that the convertible notes will ultimately prove to have value. This is illustrated by other third parties taking up licence agreements over the last twelve months. The Company is continuing to examine its options to realise value from the convertible notes.

As the Company is not able to fully assess the recoverability of the convertible notes at the date of this report, the directors believe it is prudent to provide for this asset in full. Accordingly, a provision for diminution of the gross value was established at 31 December 2002 and at 30 June 2004 is $620,171 (2003:$585,965). The Company will continue to reassess the provision at each reporting date.

Over the last twelve months the directors of the consolidated entity have been focused on realising some value from, and managing the investment in, Exergy. In addition, the directors have reviewed other investment opportunities predominately in the energy sector and continue to seek suitable ventures for the consolidated entity.

**Dividends**

There have been no dividends paid or declared by the Company since the end of the previous financial year.

**State of Affairs**

During the financial year the Company issued 49,900,000 shares, raising $630,871 after costs.

The Company changed its name from Insurance My Way Limited to Wasabi Energy Limited on 24 March 2004.

There were no other significant changes in the state of affairs of the Company during the year ended 30 June 2004.

**Events subsequent to balance date**

For reporting periods starting on or after 1 July 2005, the consolidated entity must comply with International Financial Reporting Standards (IFRS) as issued by the Australian Accounting Standards Board. At balance date, it was not possible to quantify the effect of convergence to IFRS as key IASs and AASBs are currently under development.

Other than the matter above, there has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the directors of the Company, to affect significantly the operations of the consolidated entity, the results of those operations, or the state of affairs of the consolidated entity, in future financial years.

**Likely developments**

The consolidated entity will seek to realise value from its convertible notes in Exergy Inc. and to assess business opportunities and proposals.

**Directors' and senior executives' remuneration**

The Board of Directors and Senior Management is responsible for making recommendations to the Board on remuneration policies and packages applicable to the Board members and senior executives of the Company. The broad remuneration policy is to ensure the remuneration package properly reflects the person's duties and responsibilities; and that remuneration is competitive in attracting, retaining and motivating people of the highest quality.

Executive Directors and senior executives may receive bonuses based on the achievement of specific goals related to the performance of the consolidated entity (including operational results and cash flow).

Details of the nature and amount of each major element of the remuneration of each director of the Company and each of the executive officers of the Company and the consolidated entity for the period to 30 June 2004 are:

| | **Base remuneration (salary & fees)** $ | **Super contributions** $ | **Total** $ |
|---|---|---|---|
| **Director** | | | |
| **Non-executive** | | | |
| F Reid | 35,000 | - | 35,000 |
| W Blakeney | 20,000 | 1,800 | 21,800 |
| **Executive** | | | |
| T Wise | 96,000 | 8,640 | 104,640 |

*Options*

No options were granted or exercised during or subsequent to the end of the financial year to directors or senior executives.

**Directors' Interests**

The relevant interest of each director in the share capital of the company, as notified by the directors to the Australian Stock Exchange in accordance with S205G (1) of the Corporations Act 2001, at the date of this report is as follows:

| | Ordinary Shares |
|---|---|
| T Wise | 6,301,119 |
| F Reid | - |
| W Blakeney | 3,918,904 |

**Options**

At the date of this report there were no options over unissued ordinary shares of the Company. On 15 June 2004, 7,150,000 options exercisable at 20 cents each expired.

**Audit Committee**

The Company and its Board are not of a size that justifies having a separate Audit Committee. Matters typically dealt with by an Audit Committee are dealt with by the full Board.

**Indemnification**

The Company has in place a deed to indemnify directors and senior officers of the Company and its controlled entities against all liabilities to another person that may arise from their position, except where the liability arises out of conduct involving lack of good faith.

Dated at Perth this 30th day of September 2004

Signed in accordance with a resolution of the directors.

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**T WISE**

## STATEMENTS OF FINANCIAL PERFORMANCE
## FOR THE YEAR ENDED 30 JUNE 2004

| | Note | Consolidated | | The Company | |
|---|---|---|---|---|---|
| | | 2004 | 2003 | 2004 | 2003 |
| | | $ | $ | $ | $ |
| Proceeds on sale of other financial assets | 2 | 188,146 | - | 188,146 | - |
| Other revenue from ordinary activities | 2 | 69,650 | 74,318 | 69,650 | 74,318 |
| Revenue from outside operating activities | 2 | 1,200 | 1,500 | 1,200 | 37,674 |
| Total revenue | | 258,996 | 75,818 | 258,996 | 111,992 |
| Consulting fees | | - | (70,248) | - | (70,248) |
| Depreciation and amortisation | | (3,150) | (3,064) | (3,150) | (3,064) |
| Employee and directors expenses | | (166,460) | (149,416) | (166,460) | (149,416) |
| Borrowing costs | | (1,222) | (627) | (1,222) | (627) |
| Write off bad debts | | (1,650) | - | (1,650) | - |
| Write down in value of other financial assets | | (2,252) | - | (2,252) | - |
| Professional fees | | (56,338) | (48,825) | (56,338) | (48,825) |
| Utilities | | (4,698) | (9,045) | (4,698) | (9,045) |
| Cost of assets disposed | | (138,085) | (1,358) | (138,085) | (14,991) |
| Foreign exchange loss | | (16,788) | (88,369) | (16,788) | (88,369) |
| ASX costs | | (18,223) | (12,152) | (18,223) | (12,152) |
| Other expenses from ordinary activities | | (44,148) | (68,981) | (44,148) | (68,665) |
| Provision for diminution of convertible notes | | (34,206) | (585,965) | (34,206) | (585,965) |
| | | (487,220) | (1,038,050) | (487,220) | (1,051,367) |
| **Loss from ordinary activities before related income tax expense** | | (228,224) | (962,232) | (228,224) | (939,375) |
| Income tax benefit/(expense) relating to ordinary activities | 5 | - | - | - | - |
| **Net loss** | | (228,224) | (962,232) | (228,224) | (939,375) |
| Net profit/(loss) attributable to outside equity interests | 14 | - | 14,231 | - | - |
| **Net loss attributable to members of parent entity** | 13 | (228,224) | (948,001) | (228,224) | (939,375) |
| **Basic loss per share** | 6 | (0.001) | (0.007) | | |

The statements of financial performance are to be read in conjunction with the accompanying notes to and forming part of the financial statements.

## STATEMENTS OF FINANCIAL POSITION
## AS AT 30 JUNE 2004

| | NOTE | Consolidated 2004 $ | Consolidated 2003 $ | The Company 2004 $ | The Company 2003 $ |
|---|---|---|---|---|---|
| CURRENT ASSETS | | | | | |
| Cash assets | 19(i) | 684,525 | 364,874 | 684,425 | 364,774 |
| Receivables | 7 | 1,100 | 7,920 | 1,100 | 7,920 |
| Other financial assets | 8 | 47,250 | - | 47,250 | - |
| TOTAL CURRENT ASSETS | | 732,875 | 372,794 | 732,775 | 372,694 |
| NON-CURRENT ASSETS | | | | | |
| Other financial assets | 8 | - | - | 4 | 4 |
| Property, Plant and Equipment | 9 | 7,582 | 10,732 | 7,582 | 10,732 |
| TOTAL NON-CURRENT ASSETS | | 7,582 | 10,732 | 7,586 | 10,736 |
| TOTAL ASSETS | | 740,457 | 383,526 | 740,361 | 383,430 |
| CURRENT LIABILITIES | | | | | |
| Payables | 10 | 77,477 | 107,588 | 73,327 | 103,438 |
| Interest bearing liabilities | 11 | - | 15,605 | - | 15,605 |
| TOTAL CURRENT LIABILITIES | | 77,477 | 123,193 | 73,327 | 119,043 |
| TOTAL LIABILITIES | | 77,477 | 123,193 | 73,327 | 119,043 |
| NET ASSETS | | 662,980 | 260,333 | 667,034 | 264,387 |
| EQUITY | | | | | |
| Contributed equity | 12 | 9,233,773 | 8,602,902 | 9,233,773 | 8,602,902 |
| Accumulated losses | 13 | (8,570,793) | (8,342,569) | (8,566,739) | (8,338,515) |
| Total parent entity interest | | 662,980 | 260,333 | 667,034 | 264,387 |
| Outside equity interest | 14 | - | - | - | - |
| Total equity | | 662,980 | 260,333 | 667,034 | 264,387 |

The statements of financial position are to be read in conjunction with the accompanying notes to and forming part of the financial statements.

## STATEMENTS OF CASH FLOWS
## FOR THE YEAR ENDED 30 JUNE 2004

| | NOTE | Consolidated 2004 $ | Consolidated 2003 $ | The Company 2004 $ | The Company 2003 $ |
|---|---|---|---|---|---|
| **Cash flows from operating activities** | | | | | |
| Cash receipts in the course of operations | | 6,490 | 1,500 | 6,490 | 1,500 |
| Cash payments in the course of operations | | (320,847) | (307,404) | (320,847) | (307,088) |
| Interest received | | 18,657 | 8,191 | 18,657 | 8,191 |
| Interest paid | | (802) | - | (802) | - |
| Income taxes received | | - | 3,930 | - | 3,930 |
| Net cash used in operating activities | 19(ii) | (296,502) | (293,783) | (296,502) | (293,467) |
| **Cash flows from investing activities** | | | | | |
| Payments for plant and equipment | | - | (500) | - | (500) |
| Payments for acquisition of other financial assets | | (185,559) | - | (185,559) | - |
| Proceeds from sale of other financial assets | | 186,290 | - | 186,290 | - |
| Net cash provided by investing activities | | 731 | (500) | 731 | (500) |
| **Cash flows from financing activities** | | | | | |
| Proceeds from borrowings | | - | 17,719 | - | 17,719 |
| Repayment of borrowings | | (15,449) | - | (15,449) | - |
| Proceeds from issue of shares | | 648,700 | 585,912 | 648,700 | 585,912 |
| Share issue costs | | (17,829) | - | (17,829) | - |
| Net cash provided by financing activities | | 615,422 | 603,631 | 615,422 | 603,631 |
| Net increase/(decrease) in cash held | | 319,651 | 309,348 | 319,651 | 309,664 |
| Cash at the beginning of the financial year | | 364,874 | 55,526 | 364,774 | 55,110 |
| Cash at the end of the financial year | 19(i) | 684,525 | 364,874 | 684,425 | 364,774 |

The statements of cash flows are to be read in conjunction with the accompanying notes to and forming part of the financial statements.

**Notes to the Financial Statements**
**For the year ended 30 June 2004**

## 1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

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

### (a) Basis of preparation

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

It has been prepared on the basis of historical costs and except where stated, does not take into account changing money values or fair values of assets.

The accounting policies have been consistently applied by each entity in the consolidated entity and, except where there is a change in accounting policy, are consistent with those of the previous year.

### (b) Financial position

***Convertible Notes***

The consolidated entity holds unsecured convertible notes in Exergy Inc. ("Exergy"). Exergy was incorporated in California on 1 March 1998 to license the Kalina Cycle Technology ("the Technology") and to develop the Technology commercially through its own activities (including construction of a demonstration facility) and through licenses to other companies and government entities, and to provide engineering consulting services to users of the Technology. Accrued interest of $50,993 has been recognised on the convertible notes for the year ended 30 June 2004 and is included in the gross value of $620,171 (2003:$585,965). Refer to note 8.

Exergy does not have the financial capacity to repay the convertible notes at present.

The directors continue to believe Kalina cycle technology has substantial merit and therefore that the convertible notes will ultimately prove to have value. The Company is continuing to examine its options to realise value from the convertible notes.

Recognising that the Company is not in a position to fully assess the recoverability of the convertible notes at the date of this report, the directors believe it is prudent to provide for this asset in full. Accordingly, a provision for diminution of the gross value was established at 31 December 2002 and at 30 June 2004 is $620,171 (2003: $585,965). The Company will continue to reassess the provision at each reporting date.

***Going Concern***

The consolidated entity has incurred a loss from ordinary activities of $228,224 (2003: $948,001). The consolidated entity had working capital of $655,398 at 30 June 2004 (2003: $249,601).

The financial statements have been prepared on a going concern basis that contemplates continuity of normal business activities and realisation of assets and settlement of liabilities in the ordinary course of business. The directors believe this basis is appropriate because the consolidated entity has significantly reduced its cost structure and will seek additional funding before undertaking any significant new ventures. The directors are confident that sufficient funding will be obtained to meet the consolidated entity's ongoing commitments and to fund suitable new business opportunities.

**Notes to the Financial Statements**
**For the year ended 30 June 2004**

## 1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### (c) Principles of consolidation

The consolidated financial statements of the economic entity include the financial statements of the Company, being the parent entity, and its controlled entities ("the consolidated entity").

Where an entity either began or ceased to be controlled during the year, the results are included only from the date control commenced or up to the date control ceased.

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

The balances and effects of transactions, between controlled entities included in the consolidated financial statements have been eliminated.

### (d) Revenue recognition

Revenues are recognised at fair value of the consideration received net of the amount of GST payable to the taxation authority. Exchange of goods or services of the same nature and value without any cash consideration are not recognised as revenues.

*Sales revenue*
Sales revenue comprises commission earned from the provision of services to entities outside of the consolidated entity.

Sales revenue is recognised when commission is earned.

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

*Sale of non-current assets*
The gross proceeds of non-current asset sales are included as revenue at the date control of the asset passes to the buyer, usually when an unconditional contract of sale is signed.

The gain or loss on disposal is calculated as the difference between the carrying amount of the asset at the time of disposal and the net proceeds on disposal.

### (e) Taxation

*Income tax*
The company adopts the income statement liability method of tax effect accounting.

Income tax expense is calculated on the profit from ordinary activities adjusted for permanent differences between taxable and accounting income. The tax effect of timing differences, which arise from items being brought to account in different periods for income tax and accounting purposes, is carried forward in the statement of financial position as a future income tax benefit or a provision for deferred income tax.

Future income tax benefits are not brought to account unless realisation of the asset is assured beyond reasonable doubt. Future income tax benefits relating to entities with tax losses are only brought to account when their realisation is virtually certain.

**Notes to the Financial Statements**
**For the year ended 30 June 2004**

## 1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### (f) Non-current assets

The carrying amounts of all non-current assets are reviewed to determine whether they are in excess of their recoverable amount at balance date. If the carrying amount of a non-current asset exceeds its recoverable amount, the asset is written down to the lower amount.

In assessing recoverable amounts the relevant cash flows have not been discounted to their present value.

### (g) Accounts receivable

Trade debtors comprise amounts owing by third parties. Trade debtors to be settled within 60 days are carried at amounts due. The collectibility of debts is assessed at balance date and specific provision made for any doubtful amounts.

### (h) Investments

*Controlled entities*
Investments in controlled entities are carried in the company's financial statements at the lower of cost and recoverable amount. Dividends and distributions are brought to account in the statement of financial performance when they are declared by the controlled entities.

*Other entities*
Investments in other listed entities are measured at fair value, being quoted market prices at reporting date.

### (i) Property, plant and equipment

*Acquisition*
Items of property, plant and equipment are initially recorded at cost and depreciated on a straight line basis as outlined below.

*Depreciation and amortisation*
Items of property, plant and equipment, are depreciated over their estimated useful lives, as follows:

| | |
|---|---|
| Plant and equipment | 20%-40% (2003: 20%-40%) straight line |

Assets are depreciated or amortised from the date of acquisition.

### (j) Accounts payable

Liabilities are recognised for amounts to be paid in the future for goods or services received, whether or not billed to the Company or consolidated entity. Trade accounts payable are normally settled between 30 and 45 days.

### (k) Interest bearing liabilities

Loans payable are recognised at their principal amounts. Interest is accrued at the contracted rates and included in the liability.

**Notes to the Financial Statements**
**For the year ended 30 June 2004**

## 1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (l) Goods and services tax

Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST), except where the amount of GST incurred is not recoverable from the Australian Tax Office (ATO). In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the ATO is included as a current asset or liability in the statement of financial position.

Cash flows are included in the statement of cash flows on a gross basis. The GST components of cash flows arising from investing and financing activities which are recoverable from, or payable to, the ATO are classified as operating cash flows.

### (m) Borrowing costs

Borrowing costs include interest, amortisation of discounts or premiums relating to borrowings, amortisation of ancillary costs incurred in connection with arrangement of borrowings, foreign exchange losses net of hedged amounts on borrowings, including trade creditors and lease finance charges.

### (n) Foreign currency translation

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

Exchange differences relating to amounts payable and receivable in foreign currencies are brought to account as exchange gains or losses in the statement of financial performance in the financial year in which the exchange rates change.

**Notes to the Financial Statements**
**For the year ended 30 June 2004**

| | Consolidated | | The Company | |
|---|---|---|---|---|
| | **2004** | **2003** | **2004** | **2003** |
| | **$** | **$** | **$** | **$** |
| **2. REVENUE FROM ORDINARY ACTIVITIES** | | | | |
| Revenue from operating activities: | | | | |
| Other income: | | | | |
| Interest other parties | 69,650 | 68,118 | 69,650 | 68,118 |
| Other | 1,200 | 6,200 | 1,200 | 6,200 |
| Revenue from outside operating activities: | | | | |
| Gross proceeds from sale of non-current assets | - | 1,500 | - | 1,500 |
| Proceeds from sale of other financial assets | 188,146 | - | 188,146 | - |
| Forgiveness of loan from controlled entity | - | - | - | 36,174 |
| | 258,996 | 75,818 | 258,996 | 111,992 |

## 3. OPERATING LOSS

| | Consolidated 2004 $ | Consolidated 2003 $ | The Company 2004 $ | The Company 2003 $ |
|---|---|---|---|---|
| Included in operating loss are the following items of expense | | | | |
| Depreciation of plant and equipment | 3,150 | 3,064 | 3,150 | 3,064 |
| Write down in value of other financial assets to market | 2,252 | - | 2,252 | - |
| Net (gain)/loss from sale of non-current assets | - | (142) | - | (142) |
| Net (gain)/loss on sale of other financial assets | (50,061) | - | (50,061) | - |
| Individually significant items in loss from ordinary activities before income tax expense | | | | |
| Provision for diminution of value of convertible notes | 34,206 | 585,965 | 34,206 | 585,965 |

**Notes to the Financial Statements**
**For the year ended 30 June 2004**

| | Consolidated | | The Company | |
|---|---|---|---|---|
| | 2004 | 2003 | 2004 | 2003 |
| | $ | $ | $ | $ |
| **4. AUDITORS REMUNERATION** | | | | |
| Audit and review services by auditors of the Company – KPMG | 14,500 | 15,000 | 14,500 | 15,000 |
| **5. TAXATION** | | | | |
| Prima facie income tax benefit calculated at 30% (2003: 30%) on the loss from ordinary activities | (68,467) | (288,669) | (68,467) | (281,812) |
| Decrease in income tax benefit due to: | | | | |
| Non tax deductible expenses | 1,008 | 4,090 | 1,008 | 4,090 |
| Future income tax benefit not brought to account | 67,459 | 284,579 | 67,459 | 277,722 |
| Total income tax benefit | - | - | - | - |

**Future income tax benefit not taken to account**

The potential future income tax benefit arising from tax losses and timing differences have not been recognised as an asset because recovery of tax losses is not virtually certain and recovery of timing differences is not assured beyond any reasonable doubt:

| | Consolidated | | The Company | |
|---|---|---|---|---|
| | 2004 | 2003 | 2004 | 2003 |
| | $ | $ | $ | $ |
| Tax losses and timing differences carried forward at 30% (2003: 30%) | 519,277 | 451,818 | 502,897 | 435,438 |

The potential future income tax benefit will only be obtained if:

(i) the relevant company derives future assessable income of a nature and an amount sufficient to enable the benefit to be realised, or the benefit can be utilised by another company in the consolidated entity in accordance with Division 170 of the Income Tax Assessment Act 1997;

(ii) the relevant company and/or the consolidated entity continues to comply with the conditions for deductibility imposed by the law; and

(iii) no changes in tax legislation adversely affect the Company and/or the consolidated entity in realising the benefit.

Wasabi Energy Limited and its controlled entities are currently reviewing the impact of tax consolidation legislation in the Group. The decision to implement this legislation has not been finalised.

| | Consolidated | |
|---|---|---|
| | 2004 | 2003 |
| **6. LOSS PER SHARE** | | |
| Basic loss per share | $(0.001) | $(0.007) |
| Weighted average number of ordinary shares used in the calculation of basic earnings per share | 183,375,209 | 128,961,791 |

Potential ordinary shares on issue are not considered dilutive and accordingly diluted earnings per share is the same as basic earnings per share.

**Notes to the Financial Statements**
**For the year ended 30 June 2004**

| | Consolidated 2004 $ | Consolidated 2003 $ | The Company 2004 $ | The Company 2003 $ |
|---|---|---|---|---|
| **7. RECEIVABLES** | | | | |
| **Current** | | | | |
| Trade debtors | 1,100 | 7,920 | 1,100 | 7,920 |
| **Non-current** | | | | |
| Loans to controlled entities | - | - | 53,470 | 53,470 |
| Less provision for non-recoverability of loans to controlled entities | - | - | (53,470) | (53,470) |
| | - | - | - | - |
| **8. OTHER FINANCIAL ASSETS** | | | | |
| **Current** | | | | |
| Listed shares at current market value (cost $49,502) | 47,250 | - | 47,250 | - |
| Convertible note – Exergy Inc. | 620,171 | 585,965 | 620,171 | 585,965 |
| Provision for diminution of value of convertible note | (620,171) | (585,965) | (620,171) | (585,965) |
| | 47,250 | - | 47,250 | - |
| **Non-current** | | | | |
| Controlled entities – unlisted shares at cost | - | - | 4 | 4 |

**Convertible Note – Exergy Inc.**
The Company loaned US$250,000 and US$82,924 on 9 January 2002 and 23 May 2002 respectively, to an unlisted United States of America corporation, Exergy Inc. ("Exergy"). The loans have been issued by way of convertible notes. The notes are convertible into common stock in Exergy. The convertible notes currently carry interest at the rate of 12% per annum. The contracted repayment dates were 5 July 2002 for the initial loan and 30 September 2002 for the second loan. The loans are to be repaid in United States currency. Accrued interest of $50,993 for the year (2003: $86,679) has been included in this balance. Refer to note 1(b) for further discussion.

The financial effect of the change in exchange rates as at balance date have been brought to account, with any gain or loss included in the statements of financial performance for the year.

The directors are unable at this time to determine the likelihood of these loans being repaid in full and accordingly have provided for the diminution of the gross value of the loan amounts including accumulated interest.

| | Consolidated 2004 $ | Consolidated 2003 $ | The Company 2004 $ | The Company 2003 $ |
|---|---|---|---|---|
| **9. PROPERTY PLANT AND EQUIPMENT** | | | | |
| Plant and equipment – at recoverable amount | 17,747 | 17,747 | 17,747 | 17,747 |
| Less: accumulated depreciation | (10,165) | (7,015) | (10,165) | (7,015) |
| | 7,582 | 10,732 | 7,582 | 10,732 |

**Notes to the Financial Statements**
**For the year ended 30 June 2004**

| | Consolidated | | The Company | |
|---|---|---|---|---|
| | **2004** | **2003** | **2004** | **2003** |
| | **$** | **$** | **$** | **$** |
| **9. PROPERTY PLANT AND EQUIPMENT (continued)** | | | | |
| **Reconciliations** | | | | |
| Reconciliations of the carrying amounts for each class of property, plant and equipment are set out below: | | | | |
| *Plant and equipment* | | | | |
| Carrying amounts at beginning of year | 10,732 | 14,654 | 10,732 | 14,654 |
| Additions | - | 500 | - | 500 |
| Disposals | - | (1,358) | - | (1,358) |
| Depreciation | (3,150) | (3,064) | (3,150) | (3,064) |
| Carrying value at end of year | 7,582 | 10,732 | 7,582 | 10,732 |
| **10. PAYABLES** | | | | |
| Trade creditors and accruals | 77,477 | 107,588 | 73,327 | 103,438 |
| **11. INTEREST BEARING LIABILITIES** | | | | |
| **Current** | | | | |
| Other loan - unsecured | - | 15,605 | - | 15,605 |
| **12. CONTRIBUTED EQUITY** | | | | |
| Issued and paid up capital 216,112,094 (2003: 166,212,094) ordinary shares fully paid | 9,233,773 | 8,602,902 | 9,233,773 | 8,602,902 |
| Movement in share capital represented by: | | | | |
| Opening share capital | 8,602,902 | 8,016,990 | 8,602,902 | 8,016,990 |
| 59,633,160 ordinary shares issued at 1 cent each | - | 596,331 | - | 596,331 |
| 49,900,000 ordinary shares issued at 1.3 cents each | 648,700 | - | 648,700 | - |
| | 9,251,602 | 8,613,321 | 9,251,602 | 8,613,321 |
| Less share issue costs | (17,829) | (10,419) | (17,829) | (10,419) |
| Closing share capital | 9,233,773 | 8,602,902 | 9,233,773 | 8,602,902 |

Holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at shareholders' meetings.

*Options*
As at 30 June 2004 there were no options on issue.
7,150,000 options exercisable at 20 cents per share expired on 15 June 2004.

**Notes to the Financial Statements**
**For the year ended 30 June 2004**

| | Consolidated 2004 $ | Consolidated 2003 $ | The Company 2004 $ | The Company 2003 $ |
|---|---|---|---|---|
| **13. ACCUMULATED LOSSES** | | | | |
| Accumulated losses at beginning of year | (8,342,569) | (7,394,568) | (8,338,515) | (7,399,140) |
| Net loss for the year attributable to members of the parent entity | (228,224) | (948,001) | (228,224) | (939,375) |
| Accumulated losses at end of year | (8,570,793) | (8,342,569) | (8,566,739) | (8,338,515) |

| | Consolidated 2004 $ | Consolidated 2003 $ |
|---|---|---|
| **14. OUTSIDE EQUITY INTERESTS** | | |
| Interest in retained profits at the beginning of the financial year | - | 14,231 |
| Interest in retained profits after adjusting for outside equity interests in entities disposed of during the financial year | - | (14,321) |
| Interest in operating profit after tax | - | - |
| Interest in retained profits at end of financial year | - | - |
| Total outside equity interests | - | - |

## 15. ADDITIONAL FINANCIAL INSTRUMENTS DISCLOSURE

(a) Interest rate risk exposures
The consolidated entity earned interest on its cash balances at a weighted average rate of 4.30% (2003:4.30%) per annum. Interest was also charged on loans at 12% per annum.
The consolidated entity had a US$ denominated unsecured loan bearing interest at 6% per annum (2003:6%).

(b) Credit risk exposures
Credit risk represents the loss that would be recognised if counterparties failed to perform as contracted.

The credit risk on financial assets of the economic entity, which have been recognised on the statement of financial position, is the carrying amount, net of any provision for doubtful debts.

The consolidated entity is materially exposed to Exergy through the issue of the convertible notes. The directors are unable to determine at this time that Exergy will fully repay the loan including all interest owing, and as such, a provision for the full value of the loan and accumulated interest owing has been raised.

(c) Net fair values
The fair value of listed equity investments is disclosed in Note 8.
In the opinion of the directors the carrying amounts of all other financial assets and liabilities approximate their net fair value.

**Notes to the Financial Statements**
**For the year ended 30 June 2004**

| | Consolidated | | The Company | |
|---|---|---|---|---|
| | **2004** | **2003** | **2004** | **2003** |
| **16. EMPLOYEE ENTITLEMENTS** | | | | |
| Number of employees at year end | 1 | 1 | 1 | 1 |

*Superannuation*
Wasabi Energy Limited does not have a superannuation fund but makes contributions to accumulation funds as specified by its employee.

## 17. PARTICULARS IN RELATION TO CONTROLLED ENTITIES

| | 2004 % | 2003 % |
|---|---|---|
| Wasabi Energy Limited (formerly Insurance My Way Limited) | | |
| Controlled entities | | |
| Insurance Hotline Services Pty Ltd | 100 | 100 |
| Wasabi Technologies Pty Ltd | 100 | 100 |

All controlled entities are incorporated in Australia.
No controlled entities were disposed of during the financial year.

## 18. SEGMENT REPORTING

The Company has convertible notes in a US domiciled company. The Company has no other operations and is presently assessing business opportunities.

| | Consolidated | | The Company | |
|---|---|---|---|---|
| | **2004** $ | **2003** $ | **2004** $ | **2003** $ |
| **19. NOTES TO THE STATEMENT OF CASHFLOWS** | | | | |
| (i) Reconciliation of cash<br>For the purposes of the Statements of Cash Flows, cash includes cash on hand and cash at bank: | | | | |
| Cash at bank | 684,525 | 364,874 | 684,425 | 364,774 |

**Notes to the Financial Statements**
**For the year ended 30 June 2004**

| | Consolidated | | The Company | |
|---|---|---|---|---|
| | 2004 | 2003 | 2004 | 2003 |
| | $ | $ | $ | $ |
| **19. NOTES TO THE STATEMENT OF CASHFLOWS (continued)** | | | | |
| (ii) Reconciliation of loss from ordinary activities after income tax to net cash used in operating activities | | | | |
| Operating loss from ordinary activities after income tax | (228,224) | (962,232) | (228,224) | (939,375) |
| Add non-cash items | | | | |
| Loss on sale of non-current assets | - | (142) | - | (142) |
| Depreciation | 3,150 | 3,064 | 3,150 | 3,064 |
| Amount set aside for provisions | 34,206 | 585,965 | 34,206 | 585,965 |
| Debt forgiven/written off | 1,650 | - | 1,650 | (36,174) |
| Foreign exchange loss | 16,788 | 88,369 | 16,788 | 88,369 |
| Interest included in financing activities | - | 627 | - | 627 |
| Profit on sale other financial assets included in financing activities | (50,061) | - | (50,061) | - |
| Write down in value of other financial assets | 2,252 | | 2,252 | |
| Sale of renewable commissions | - | - | - | 13,633 |
| Net cash utilised by operating activities before change in assets and liabilities | (220,239) | (284,349) | (220,239 | (284,033) |
| Change in assets and liabilities | | | | |
| (Increase)/decrease in receivables | 6,820 | 7,672 | 6,820 | 7,672 |
| Increase/(decrease) in trade creditors and | | | | 42,808 |
| accruals | (32,089) | 42,808 | (32,089) | |
| (Increase)/decrease in accrual interest | (50,994) | (59,914) | (50,994) | (59,914) |
| Net cash used in operating activities | (296,502) | (293,783) | (296,502 | (293,467) |

**Notes to the Financial Statements**
**For the year ended 30 June 2004**

## 20. DIRECTOR AND EXECUTIVE DISCLOSURES

Remuneration levels are competitively set to attract and retain appropriately qualified and experienced directors and senior executives.

The following table provides the details of all directors ("specified directors") of the Company and the nature and amount of the elements of their remuneration for the year ended 30 June 2004. There are no other executives of the Company.

| | | Primary | Post employment | |
|---|---|---|---|---|
| | | Salary & fees $ | Superannuation benefits $ | Total $ |
| *Specified directors* | | | | |
| *Non-executive* | | | | |
| Mr F Reid | 2004 | 35,000 | - | 35,000 |
| | 2003 | 25,000 | - | 25,000 |
| Mr W Blakeney | 2004 | 20,000 | 1,800 | 21,800 |
| | 2003 | 22,936 | 2,064 | 25,000 |
| *Executive* | | | | |
| Mr T Wise | 2004 | 96,000 | 8,640 | 104,640 |
| (Managing Director) | 2003 | 80,000 | 7,200 | 87,200 |
| Total, all specified directors | 2004 | 151,000 | 10,440 | 161,440 |
| | 2003 | 127,936 | 9,264 | 137,200 |

**Equity instruments**

No options were granted, vested or exercised during the reporting period. No options have been granted since the end of the financial year.

*Equity holdings and transactions*

The movement during the reporting period in the number of ordinary shares in Wasabi Energy Limited held, directly, indirectly or beneficially, by each specified director and specified executive, including their personally-related entities is as follows:

| | Held at 1 July 2003 | Purchases | Sales | Held at 30 June 2004 |
|---|---|---|---|---|
| **Specified directors** | | | | |
| Mr F Reid | - | - | - | - |
| Mr W Blakeney | 3,918,904 | - | - | 3,918,904 |
| Mr T Wise | 6,198,825 | 102,294 | - | 6,301,119 |

**Notes to the Financial Statements**
**For the year ended 30 June 2004**

## 21. NON DIRECTOR RELATED PARTIES

*Group entities*
Details of interests in controlled entities are set out in Note 17. Details of dealings with these entities are set out below.

*Loans*
Loans to and from controlled entities are interest free and have no fixed date for repayment.

*Balances with entities within the wholly owned group*

| | The Company | |
|---|---|---|
| | **2004** | **2003** |
| | **$** | **$** |
| The aggregate amount receivable from and payable to wholly owned controlled entities by the Company at balance date: | | |
| Receivables – Non-current | 53,470 | 53,470 |

Non-current receivables comprise of balances receivable from controlled entities and have been fully provided for.

## 22. CONTINGENT LIABILITIES

a. The Company had an agreement with CTE Investments Pty Ltd ("CTE") for CTE to provide a due diligence investigation report on Exergy Inc. and advice to enable the Company to extract a suitable return on its investment in Exergy. Included in the fee for this service, CTE is to receive up to 3,700,000 shares in the Company at a deemed price of $0.01 per share if the Company receives the principal and interest due on the convertible notes or the Company converts the notes to common stock in Exergy. If the return on the convertible notes is less than the full amount, the shares to be issued to CTE is reduced proportionately.

b. During the 2000 financial year the Company purchased 100% of the issued shares in Insurance My Way Australia Pty Ltd. Part of the consideration to the vendors was the vendors' right to receive up to a further 30 million incentive shares to be issued subject to the following performance criteria:

   (i) If the Company achieves a market capitalisation in excess of $100 million within five years from settlement, the Company shall issue to the vendors, 10,000,000 shares for no further consideration.

   (ii) If the Company achieves a market capitalisation in excess of $200 million within five years from settlement, the Company shall issue to the vendors a further 10,000,000 shares for no further consideration.

   (iii) If the Company achieves a market capitalisation of $500 million within five years from settlement, the Company shall issue to the vendors a further 10,000,000 shares for no further consideration

   For the above purposes, the market capitalisation of the Company means the sum of:

   (i) the market value of all listed equity securities in the Company (including all shares and options), determined by the average last sale price for the preceding 20 trading days; and

   (ii) the market value of all other equity securities in the Company as agreed by all the parties, or, in the event that the parties disagree, as determined by an independent valuer appointed by the President for the time being of the Australian Institute of Chartered Accountants.

As at 30 June 2004 the criteria had not been met and accordingly none of the incentive shares have been issued.

**Notes to the Financial Statements**
**For the year ended 30 June 2004**

## 23. EVENTS SUBSEQUENT TO REPORTING DATE

**International Financial Reporting Standards**
For reporting periods beginning on or after 1 January 2005, the consolidated entity must comply with International Financial Reporting Standards (IFRS) as issued by the Australian Accounting Standards Board.
This report has been prepared in accordance with Australian accounting standards and other financial reporting requirements (Australian GAAP). The differences between Australian GAAP and IFRS identified to date as potentially having a significant effect on the consolidated entity's financial performance and financial position are summarized below. The summary should not be taken as an exhaustive list of all the differences between Australian GAAP and IFRS. No attempt has been made to identify all disclosure, presentation or classification differences that would effect the manner in which transactions or events are presented.

The consolidated entity has not quantified the effects of the differences discussed below. Accordingly there can be no assurances that the consolidated financial performance and financial position as disclosed in this report would not be significantly different if determined in accordance with IFRS.

The potential impacts on the consolidated entity's financial performance and financial position on the adoption of IFRS have not been quantified as at the transition date of 1 July 2004. The impact on future years will depend on the particular circumstances prevailing in those years. Some key potential implications of the conversion to IFRS on the consolidated entity are as follows:

- financial instruments must be recognized in the statement of financial position and all derivatives and most financial assets must be carried at fair value
- income tax will be calculated based on the "balance sheet" approach, which may result in more deferred tax assets and liabilities and as tax effects follow the underlying transaction, some tax effects may be recognized in equity
- changes in accounting policies will be recognized by restating comparatives rather than making current year adjustments with note disclosure of prior year effects.

The Company has yet to commence the conversion process.

## WASABI ENERGY LIMITED AND ITS CONTROLLED ENTITIES

## DIRECTORS' DECLARATION

In the opinion of the directors of Wasabi Energy Limited:

a) the financial statements and notes, set out on pages 6 to 22, are in accordance with the Corporations Act 2001, including:

   (i) giving a true and fair view of the financial position of the Company and consolidated entity as at 30 June 2004 and of their performance, as represented by the results of their operations and their cash flows, for the year ended on that date; and

   (ii) complying with Accounting Standards and the Corporations Regulations 2001; and

(b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Dated at Perth this 30$^{th}$ day of September 2004.

Signed in accordance with a resolution of the directors:

..........................................................................................

Director
T Wise

## Independent audit report to members of Wasabi Energy Limited

### *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 both Wasabi Energy Limited (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 judgement, 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*, Australian 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*.

KPMG

### *Audit opinion*

In our opinion, the financial report of Wasabi Energy Limited 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 financial year ended on that date; and

  ii. complying with Accounting Standards in Australia and the Corporations Regulations 2001; and

b) other mandatory financial reporting requirements in Australia.

KPMG

KPMG

D McComish

Denise McComish
Partner

Perth
30 September 2004