wasabi
energy

Annual Report 06


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CHAIRMAN'S REPORT

Wasabi continued to focus on the development of its energy-related business during the year. Investments were made to diversify the business from geothermal and waste heat power generating technology to possible renewable bio-fuel production, the evaluation of coal deposits and entry to the uranium industry by securing highly prospective exploration permits in the Northern Territory.

Wasabi intends to progress and expand these assets in the year ahead.

Wasabi has good exposure to future projects and opportunities in a wide range of areas through its major shareholders Xtract Energy plc and Cambrian Mining plc which have a combined market capitalisation of $360 million.

EXERGY INC

Wasabi continued to support the 46%-owned Exergy on the basis that it believes the technology provides sustainable efficiencies in what is considered to be a massive growth market. The focus on green power continues to gain momentum as the realisation dawns that the sustainability of life on our planet depends on it. Licencees include Siemens (Europe), AMP Resources (USA), Geodynamics Ltd (Australia), X Orka (Iceland) and Ebara Corporation (Japan).

Of these licensees, both Ebara and X Orka have operating plants and have been providing power to industry and village residents respectively. All licensees are committed to the ongoing evolution and implementation of the Kalina Cycle and its ability to offer a viable technology alternative to competing technologies that specialise in the efficient production of energy from low temperature geothermal and waste heat projects.

Licensees have made representations to Exergy that they have begun construction on a range of projects. Both Exergy and Wasabi continue to monitor progress carefully and are confident of securing royalty streams in addition to royalties already being received by Exergy from Siemens in Europe.

Wasabi has recently been negotiating the sale of its interest in Exergy to a third party and hopes to complete the transaction by the end of the year. If the transaction is successful, Wasabi will be compensated with cash as well as shares in the purchaser. Thereby maintaining its exposure to this groundbreaking technology.

LILLYBURT COAL

Wasabi, as part of its joint venture arrangement with Western Canadian Coal Corp., funded an extensive desk top study of the data generated by Shell in the 1980's. The report has recommended carrying out a drilling campaign to confirm the existence of several identified coal seams. Wasabi is currently assessing the benefits of undertaking such a program.

BIO DIESEL INVESTMENT

Wasabi has entered into a joint venture with Cambrian Mining and Swann Capital Group whereby Wasabi has a 50% stake in a newly formed company, "Evolution Energy". Cambrian and Swann each have a 25% stake in the company.

The purpose of the company is to evaluate several opportunities in the ethanol and bio diesel industry. The opportunities are at an early stage of evaluation.

In addition Evolution Energy has invested $325 000 in K E Engineering on a loan basis, with the objective of having direct access to the engineering know how of an operating Australian bio diesel plant.

The plant is currently being constructed at Laverton Victoria. Bio diesel is anticipated to be produced late in the 4th quarter of 2006.

Evolution Energy, for its investment in K E Engineering will be repaid via a royalty on the first 20 million litres of production.

URANIUM ASSETS

Wasabi is extremely excited to have successfully acquired two exploration leases, prospective for uranium, in the Northern Territory earlier this year. Wasabi has commenced flying aeromagnetic and radiometric surveys and is hopeful that anomalies identified in previous work, as well as other new targets, will be identified.

Wasabi has started the surveys on its Woolner Dome Uranium project and is scheduled to start work on the Alice Springs lease in December 2006.

Wasabi has also applied for an area south of Woolner Dome by the name of Mt Bundy. Several anomalies have been identified in previous work carried out here and Wasabi is excited about carrying out further work in this area.

CHAIRMAN'S REPORT

BACKGROUND

The Northern Territory provides the dual opportunity of exploring in an area containing the world's largest uranium deposits as well as providing an environment offering secure development opportunity with Federal Government support.

Wasabi Energy ("Wasabi") has secured tenure over two large Exploration License Applications, which encompass over 2000 square kilometres of prospective land. These are ELA 24939 (Woolner) and ELA 24916 (Alice Springs).

WOOLNER ELA 24939

This area stands out as one of the most obvious and prospective areas for uranium on the North Australian Craton. It is one of three proven Archaean ages granite domes that existed prior to the Proterozoic sedimentation in the basin surrounding these islands. The other two, Rum Jungle and the Ranger Nanambu complex have been associated with significant uranium mineralization.

The Woolner Dome has been covered by 40 meters of sand and clays and was not identified beneath this mask until 1978. A joint venture consortium of C.R.A., Geopeko and E.Z.Industries only explored it until 1981 when Geopeko and E.Z developed the Ranger Mine. The property has been virtually abandoned since then due to the Three Mine Policy and lack of further uranium exploration in Australia.

Geologically, the area comprises an Archaean granitic dome flanked by Proterozoic meta-sediments in the northern portion of the ELA, graphitic and dolomitic shales. Similar to those seen at Rum Jungle, whilst quartz- chlorite –biotite schists and BIF (containing gold values) occur along the western flank of the Dome within the tenement.

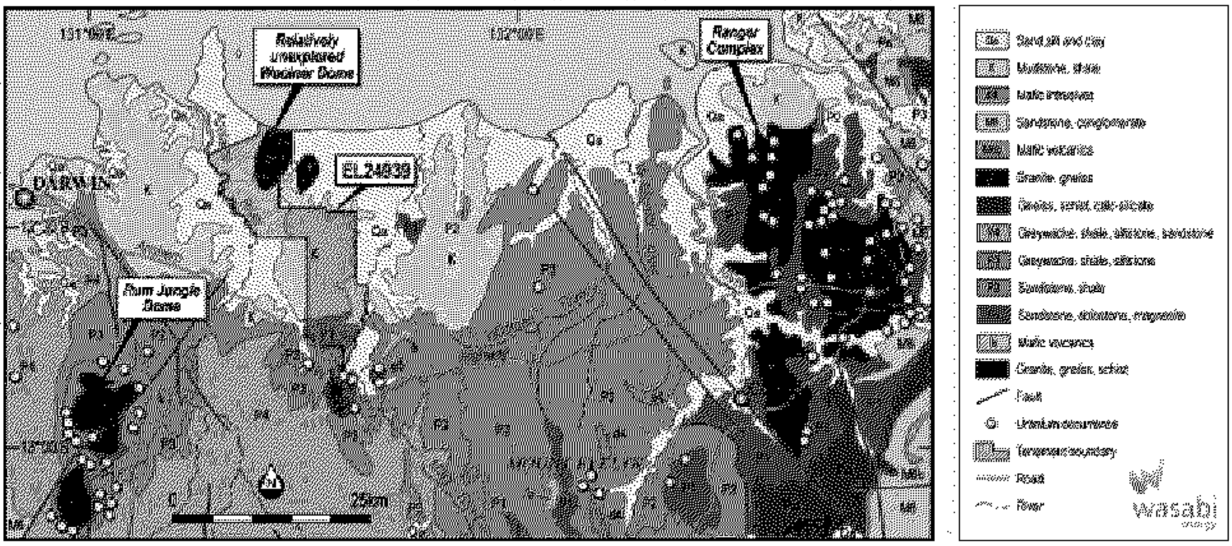
An unconformity related exploration model was used in the past to explore for uranium mineralization, as it is considered that the area shows broad similarities with the Rum Jungle and Alligator River uranium fields.

Historical exploration has been limited to that summarized below:

- Approx 10000 meters of open hole and diamond drilling on broad spaced reconnaissance exploration drilling to find bedrock.
- Regional aeromagnetic and spectrometer surveying
- Regional gravity surveys
- Ground magnetics

Between 1979 and 1981 the aforementioned joint venture partners spent approximately $1.6M obtaining an excellent data base which will be applied for renewed exploration,

WOOLNER PROJECT: ***Regional Geology Highlighting the Only Known Three Archaean Domes***



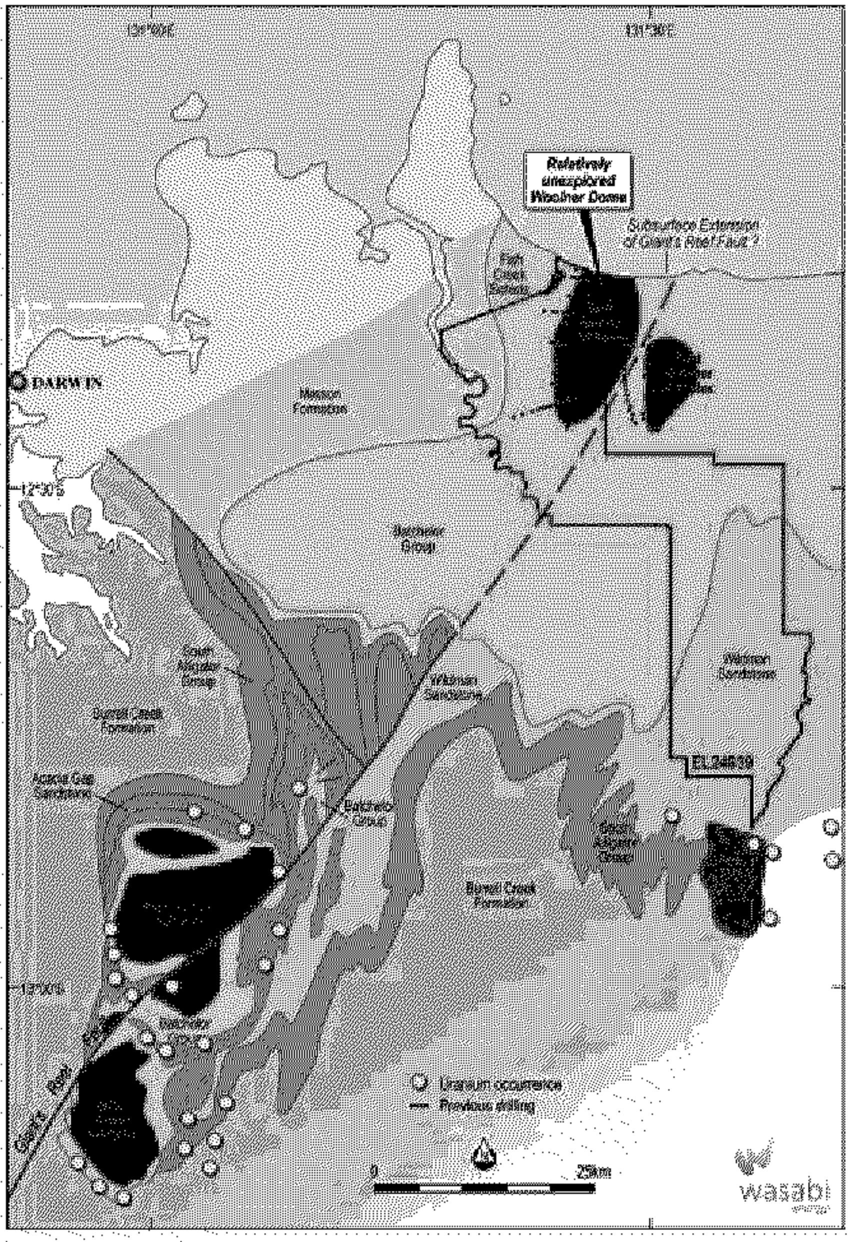
CHAIRMAN'S REPORT

Although the previous joint venture partners did not encounter any uranium mineralization in their reconnaissance drilling they did encounter significant gold values. Wasabi intends to follow up drilling these areas particularly in view of the strong relationship between gold and uranium at several deposits at Ranger, Jabiluka and Rum Jungle.

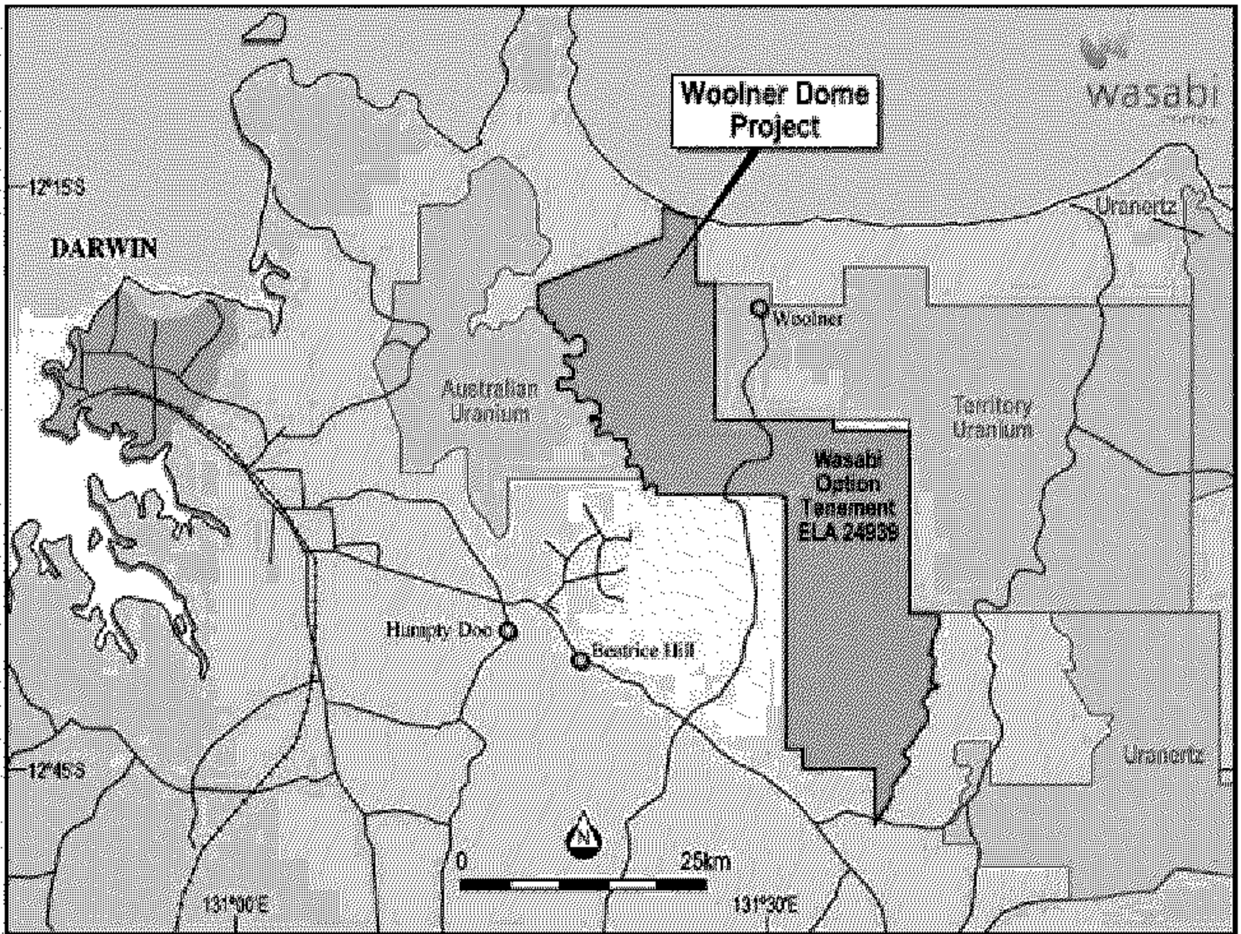
The area has now become a focus of renewed exploration for uranium with the contiguous EL applications having been made by three other uranium explorers (see plan below)

WOOLNER PROJECT:

Spatial Relationship Rum Jungle Geology and Woolner Dome



WOOLNER DOME PROJECT LOCATION



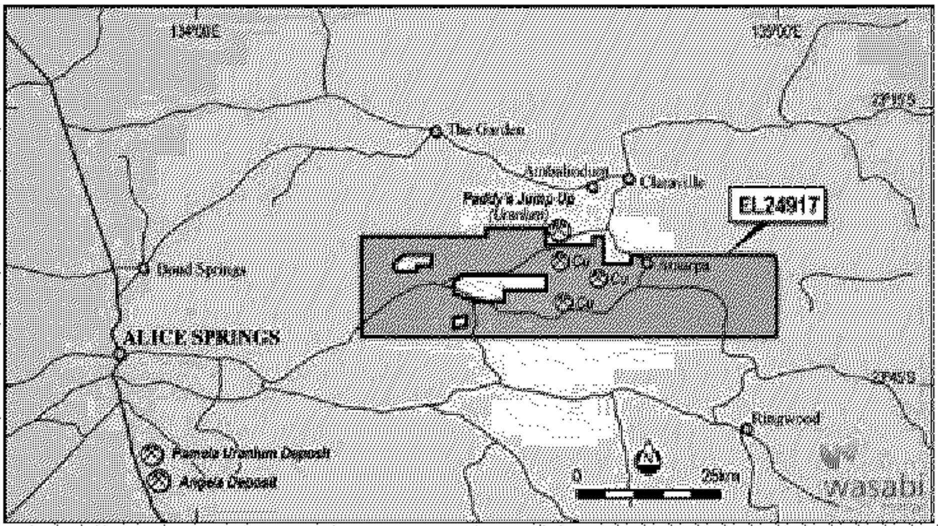
ALICE SPRINGS EL 24916

This is a large tenement of approximately 1300 square kilometres. Lower Proterozoic Granitic domes and gneissic massifs typify the geology of the area. Upper Proterozoic sediments essentially of carbonate and sandstone facies, which could host roll-front type uranium deposits, surround these.

Two of the most important uranium deposits of this type were discovered in the 1980's and have been on hold and maintenance ever since. These are the Pamela and Angela deposits south of Alice Springs Township.

CHAIRMAN'S REPORT

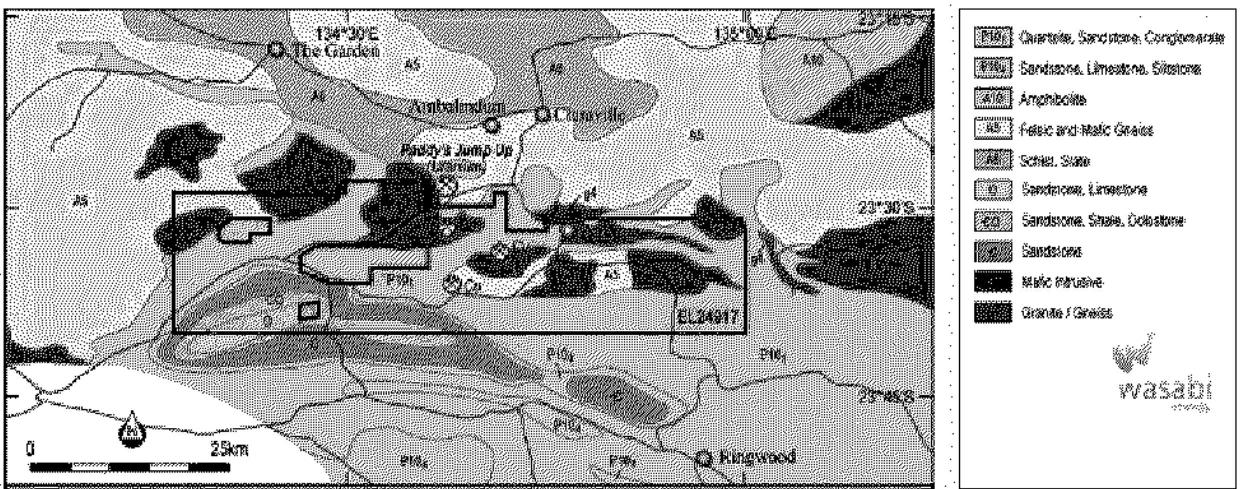
ALICE SPRINGS PROJECT: *Location and Uranium Deposits*



The Paddy's Jump Up uranium occurrence is situated on the northern boundary of the tenement.

Exploration at Alice Springs will initially focus on the path finder method of testing all known water bores for anomalous uranium in water and reprocessing all 1980's geophysical data prior to drilling.

ALICE SPRINGS PROJECT: *Interpreted Geology*



Timothy Wise
Chairman &
Managing Director

DIRECTORS' REPORT

The directors present their report together with the financial report of Wasabi Energy Limited ("the Company" and of the consolidated entity, being the Company and its controlled entities, for the year ended 30 June 2006 auditor's report thereon.

DIRECTORS

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

Name	Age	Experience and Special Responsibilities
Timothy Wise Chairman & Managing Director Joint Company Secretary	41	Mr Wise (B.Sc.) is the executive responsible for the day to day management of the Company. Mr Wise has owned and operated many companies over the last 16 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. Appointed 4 January 2000. Mr Wise is also a director of Transerv Australia Limited joining that company in August 2006.
Robert Reynolds Independent Director	51	Mr Reynolds (Master Eng.(Mining)) is mining engineer with more than 30 years experience in Australia and overseas in coal marketing as well as coal mining management and engineering. Mr Reynolds is a consultant providing marketing advice and services to a number of national and international coal producers. Mr Reynolds past experience was with Southland Coal, Oceanic Coal and BHP. Appointed 10 August 2005.
Robert Vallender Independent Non-Executive Director	62	Mr Vallender (B Comm.) has 30 years of management and new technology product development experience in Australia and North America. Mr Vallender is a consultant providing independent marketing and capital project sales advice to the Australian and European iron and steel and primary metals industries. He has dealt with major manufacturers and producers including Alcoa, U.S. Steel, and General Motors. Appointed 10 August 2005
Wayne Blakeney Independent Non-Executive Director	50	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. Appointed 4 January 2000. Resigned 1 March 2001. Reappointed 1 April 2001. **Resigned 26 June 2006.**
Dr Frank Reid Independent Non-Executive Director	56	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 managing Western Mining's Venture Capital arm in Boston. He has since been with the Australian Co Operative Research Centre for Renewable Energy. (ACRE). Appointed 13 May 2002. **Resigned 17 November 2005.**

DIRECTORS' REPORT

COMPANY SECRETARY

Mr Phillip MacLeod was appointed to the position of joint company secretary in December 2004. Mr MacLeod has 19 years commercial experience and has previously held the position of company secretary with other listed public companies since 1995.

DIRECTORS' MEETINGS

The number of directors' meetings held and number of meetings attended by each of the directors of the Company during the financial year are:

	Meetings	
Name	Held	Attended
Timothy Wise	4	4
Wayne Blakeney*	4	4
Frank Reid**	2	2
Robert Reynolds***	4	3
Robert Vallender***	4	3

* Resigned 26 June 2006
** Resigned 17 November 2005
*** Appointed 10 August 2005

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 during the course of the financial year were investing in energy based ventures including:

- Evaluation of the Lillyburt Coal Project in British Columbia, Canada, in joint venture with Western Canadian Coal Corp.
- Acquisition of an option to purchase mineral tenements considered prospective for uranium and gold. The option was exercised subsequent to year end.
- Investment in a new company to specialise in developing bio diesel production plants and market the fuel.
- Managing an investment in Exergy Inc.
- Assessing new business opportunities.

REVIEW AND RESULTS OF OPERATIONS

The net loss after income tax attributable to members of the consolidated entity for the year ended 30 June 2006 was $535,470 (2005: $501,368). This equates to a basic loss per share of 0.14 cents (2005: 0.18 cents).

CAPITAL RAISING

During the year, Wasabi raised $400,000 by a placement of 13,333,333 fully paid shares and 13,333,333 free attaching listed options and an additional $818 on the exercise of 40,900 listed options.

REVIEW AND RESULTS OF OPERATIONS (continued)

BIO DIESEL INVESTMENT

Wasabi acquired a 50% stake in a new company, Evolution Energy Pty Ltd formed to specialise in developing bio diesel production plants and in marketing the fuel. Wasabi will contribute up to $400,000 to the new company. At the date of this report Wasabi has contributed $225,000.

The new company's initial venture is to advance $325,000 to K.E. Engineering Pty Ltd ("KE") to enable KE to complete construction of its bio diesel plant that is presently being built at Laverton, near Melbourne, Victoria. It is anticipated that the bio diesel plant will be producing high grade fuel by September of this year.

Wasabi will receive a fee for the initial contribution to the new company by a royalty from KE on the first 20 million litres of fuel, at a rate of approximately 4.5 cents per litre. The final amount that Wasabi should receive from KE is approximately $900,000.

WOOLNER DOME AND ALICE SPRINGS URANIUM OPTION

Wasabi secured and exercised an option over two prospective tenements for Uranium and Gold in the Northern Territory covering in excess of 2,000 square kilometres.

The first is the Woolner Dome EL 24939, one of three known Archaean granite domes in an area with significant uranium deposits to the south (Rum Jungle) and east (Jabiluka and Ranger). The Archaean granites are closely related to mineralization in the other two domes. The second is the Alice Springs EL 24917 to the northeast of the Angela and Pamela uranium project areas.

During the option period Wasabi conducted due diligence on the Woolner Dome tenement, including reprocessing geophysical images obtained from data acquired after the most recent uranium exploration carried out in a joint venture between E.Z./Peko and CRA in the late 1970's. The images presented by Wasabi's consulting geophysicists suggest a hitherto unrecognized structural complexity around the Woolner Dome in addition to radiometric anomalies existing within the Woolner tenement.

It is planned to fly more detailed low level aero magnetics around the Dome during the September quarter and to follow up ground inspection of radiometric anomalies. Reconnaissance wildcat drilling is planned to test these features in September/October. Reprocessing of all available Alice Springs data is also planned for this period.

LILLYBURT COAL PROJECT

Wasabi entered into a joint venture agreement with Western Canadian Coal Corp to earn up to a 50% interest in the Lillyburt coal property located in British Columbia, Canada. The consolidated entity can earn up to a 50% interest in the property by the expenditure of C$2.5 million by December 2008 on the exploration and development of the project.

An initial study has been undertaken reviewing and reassessing the existing geological database to determine the project resources and their classification. Although the available data is sufficient to estimate of the size of the deposit, it is lacking adequate coal quality information to provide a resource estimation. A concise four borehole exploration programme has been designed targeting the main seam to assess the coal quality. Application has been made for exploration permits.

The Lillyburt project evaluation is being carried out on a staged basis with minimal expenditure commitments. Once coal quality is verified, additional studies can be carried out which would take into account the project economics against the medium/long term demand for thermal & PCI coal. The Company is monitoring other project opportunities in the same area.

DIRECTORS' REPORT

REVIEW AND RESULTS OF OPERATIONS (continued)

EXERGY INC. INVESTMENT

Wasabi currently owns approximately 46% of the common stock and 100% of the preferential stock in Exergy Inc. ("Exergy"). Wasabi also holds outstanding promissory notes in Exergy of US$682,924. Exergy is a California-based energy technology corporation that owns the Kalina Cycle technology, a patented process that significantly improves the efficiency of conversion of heat to power for generation of electricity from low temperature geothermal and waste heat.

Wasabi is continuing to work to realise a suitable return on the Exergy investment. Wasabi intends to sell its investment in Exergy and therefore the investment is classified as an "Asset Classified as Held for Sale" in the balance sheet as at 30 June 2006.

DIVIDENDS

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

REVIEW OF FINANCIAL CONDITION

Liquidity and funding

The consolidated cash flow statement illustrates that there was a decrease in cash and cash equivalents in the year ended 30 June 2006 of $2,027,916 (2005: increase of $1,618,141). The decrease in cash and cash equivalents in comparison with the prior year is as a result of a loan to Exergy Inc. to assist it in its aim of a sale of the entity to realise a return on the investment of its shareholders and promissory note holders. In addition the Company has funded the initial evaluation of the Lillyburt Coal Project, the acquisition of an option to purchase mineral exploration tenements and an initial investment in a new company to specialise in the development of bio diesel plants and fuel marketing.

Cash flow from operations for the year resulted in a cash outflow of $383,706 (2005: outflow of $392,933).

STATE OF AFFAIRS

There were no other significant changes in the state of affairs of the Company during the year ended 30 June 2006.

EVENTS SUBSEQUENT TO REPORTING DATE

In July 2006 the Company purchased two mineral exploration tenements in the Northern Territory, Alice Springs and Woolner Dome, on the exercised of an option. The acquisition cost of $500,000 consisted of cash of $250,000 and 12,500,000 shares issued at 2 cents per share.

Wasabi contributed a further $25,000 to the bio diesel project during July for a total investment to date of $225,000. Wasabi's 50%-owned associate, Evolution Energy Pty Ltd, formed for the purpose of developing the bio-diesel business, was incorporated during August 2006.

LIKELY DEVELOPMENTS

Disclosure of information regarding likely developments in the operations of the Consolidated Entity in future financial years and the expected results of those operations is likely to result in unreasonable prejudice to the Consolidated Entity. Accordingly, this information has not been disclosed in this report.

DIRECTORS' AND OFFICERS' INTERESTS

The relevant interest of each director and officer in the shares or options over shares issued by the companies within the consolidated entity and other related bodies corporate, 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	Options (unlisted)*	Options (listed)**
T Wise	14,510,929	10,000,000	8,170,310
R Reynolds	600,000	-	-
R Vallender	-	-	-
P MacLeod	786,230	-	518,448

* Unlisted options have an exercise price of 2 cents and expire 10 February 2007.
** Listed options have an exercise price of 2 cents and expire 31 December 2006.

During or since the end of the financial year no shares or options have been issued by the company to any directors or specified executives of the company.

REMUNERATION REPORT

PRINCIPALS OF COMPENSATION (AUDITED)

Remuneration levels for key management personnel and other staff of the consolidated entity are competitively set to attract and retain appropriately qualified and experienced personnel. Remuneration is reviewed when considered appropriate by the Board.

All non-executive directors receive a fixed directors' fee. The aggregate amount of directors' fees payable by the Company must be presented for approval to the shareholders in general meeting.

The Company is intending, with shareholder approval, to grant options to non-executive directors in order to create a cost effective incentive for these directors continued services and to build shareholder value.

The Managing Director is employed on normal commercial terms by the Company. Currently the cash component of remuneration is not dependent on the satisfaction of any performance condition. The Managing Director was granted 10,000,000 options in the prior year.

DIRECTORS' REPORT

DIRECTORS' AND SENIOR EXECUTIVES' REMUNERATION (AUDITED)

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 2006 are:

		Short-term	Post Employment	Share-based payments	Total	Proportion of remuneration performance related	Value of options as proportion of remuneration
		Salary & fees	Super-annuation benefits	Options			
		$	$	$	$	%	%
Directors							
Non-executive directors							
F Reid	2006	20,000	-	-	20,000	-	-
(resigned 17 Nov 2005)	2005	30,000	-	-	30,000	-	-
W Blakeney	2006	20,000	1,800	-	21,800	-	-
(resigned 26 June 2006)	2005	20,000	1,800	-	21,800	-	-
R Reynolds	2006	18,750	1,688	-	20,438	-	-
(appointed 10 Aug 2005)	2005	-	-	-	-	-	-
R Vallender	2006	18,750	1,687	-	20,437	-	-
(appointed 10 Aug 2005)	2005	-	-	-	-	-	-
Executive director							
T Wise	2006	96,000	8,640	-	104,640	-	-
	2005	96,000	8,640	136,122	240,762	-	56.50
Total	2006	173,500	13,815	-	187,315	-	-
	2005	146,000	10,440	136,122	292,562	-	-
Executive							
P MacLeod	2006	19,320	-	-	19,320	-	-
(appointed 24 Dec 2004)	2005	24,000	-	-	24,000	-	-

REMUNERATION REPORT (continued)

VALUE OF OPTIONS TO DIRECTORS (AUDITED)

The fair value of the Director options has been ascertained using the Black-Scholes valuation method and is based upon the following inputs and assumptions:

a) share issue price at time of seeking approval for grant was 2.4 cents;
b) an estimated volatility factor of 138%;
c) option exercise price of 2 cents each;
d) a risk free rate of 5.25%; and
e) term to expiry of 24 months.

In deriving the valuation, the Black-Scholes method relies on the following assumptions:

a) the Director Options can be exercised at any time during the period;
b) there are no transaction costs and the securities are infinitely divisible and information is available to all without cost; and
c) the risk free interest rate is known and constant throughout the duration of the option contract.

OPTIONS AND RIGHTS OVER EQUITY INSTRUMENTS GRANTED A COMPENSATION (AUDITED)

No options were granted to director's or senior executives during the financial year as remuneration. No options have been issued subsequent to the end of the financial year to the date of this report.

During the last financial year, the Company granted 10,000,000 Director participating options over unissued ordinary shares to a nominee of Mr T Wise, following shareholder approval given at a meeting held 7 February 2005.

The terms of the options granted to Mr Wise are:

Director	Expiry Date	Exercise price	Number of shares	Fair value per option
T. Wise	10 February 2007	$0.02	10,000,000	$0.0136

- The options entitle the holder to participate in pro rata rights issues to shareholders.
- The options are not quoted on the Australian Stock Exchange.
- The options vested immediately on issue.

There were no other options granted to directors or senior executives of the Company during the year as part of their remuneration.

DIRECTORS' REPORT

SHARE OPTIONS

UNISSUED SHARES UNDER OPTION

At the date of this report unissued ordinary shares of the Company under option are:

Expiry Date	Exercise price	Number of shares
31 December 2006	$0.02	124,126,038 (1)
10 February 2007	$0.02	10,000,000 (2)
		134,126,038

(1) During the financial year, the Company issued 40,900 fully paid ordinary shares as a result of the exercise of options. 30,750,000 options have been exercised since the end of the period.

These options do not entitle the holder to participate in any share issue of the Company or any other body corporate.

(2) No options were exercised during or since the end of the financial year. These options may participate in pro rata issues to holders of ordinary shares in the Company.

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.

NON-AUDIT SERVICES

During the year KPMG, the Company's auditor, has performed no other services other than their statutory duties as auditor to the Company.

INDEMNIFICATION AND INSURANCE OF OFFICERS AND AUDITORS

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.

The Company has not provided any insurance or indemnification for the Auditor of the Company.

LEAD AUDITOR'S INDEPENDENCE DECLARATION UNDER SECTION 307C OF THE CORPORATIONS ACT 2001

The lead auditor's independence declaration is set on page 38 and forms part of the directors' report for the financial year ended 30 June 2006.

This report is made with a resolution of the directors.

T. WISE
Director

Dated at Perth this 29th day of September 2006

INCOME STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2006

		Consolidated		The Company	
		2006	2005	2006	2005
	Note	$	$	$	$
Other income		258,183	13,740	58,183	13,740
Depreciation		(3,320)	(3,158)	(3,320)	(3,158)
Employee and directors costs		(169,825)	(292,562)	(169,825)	(292,562)
Legal & professional fees		(201,966)	(146,489)	(201,966)	(146,489)
Exploration costs		(80,260)	-	(80,260)	-
Foreign exchange loss		-	(9,923)	-	(9,923)
Administration costs		(156,789)	(125,372)	(156,789)	(125,172)
Impairment of assets held for sale	4	(200,663)	(42,833)	(200,663)	(42,833)
		(812,823)	(620,337)	(812,823)	(620,237)
Loss before financing		(754,640)	(606,597)	(754,640)	(606,497)
Financial income		219,211	106,742	219,211	106,742
Financial expenses		(41)	(1,513)	(41)	(1,513)
Net financing income	3	219,170	105,229	219,170	105,229
Loss before tax		(535,470)	(501,368)	(535,470)	(501,268)
Income tax expense	6	-	-	-	-
Loss for the year attributable to equity holders of the parent		(535,470)	(501,368)	(535,470)	(501,268)
Loss per share for loss attributable to the ordinary equity holders of the Company					
Basic loss per share	7	(0.14) cents	(0.18) cents		

As the Company incurred a loss for the year ended 30 June 2006 the options on issue have an antidilutive effect therefore the diluted earnings per share is equal to the basic earnings per share

The income statements are to be read in conjunction with the notes to the financial statements.

STATEMENTS OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2006

	Attributable to equity holders of the parent			
CONSOLIDATED	Issued capital $	Accumulated losses $	Reserve $	Total $
At 1 July 2004	9,233,773	(8,570,793)	-	662,980
Loss for the period	-	(501,368)	136,122	(365,146)
Total income/expense for the period	9,233,773	(9,072,161)	-	297,837
Exercise of options	3,617	-	-	3,617
Shares issued	2,478,324	-	-	2,478,324
At 30 June 2005	11,715,714	(9,072,161)	136,122	2,779,675
At 1 July 2005	11,715,714	(9,072,161)	136,122	2,779,675
Loss for the period	-	(535,470)	-	(535,470)
Total income/expense for the period	11,715,714	(9,607,631)	136,122	2,244,205
Exercise of options	818	-	-	818
Shares issued	400,000	-	-	400,000
At 30 June 2006	12,116,532	(9,607,631)	136,122	2,645,023
THE COMPANY				
At 1 July 2004	9,233,773	(8,566,739)	-	667,034
Total income and expense for the period recognised in equity	-	-	-	-
Loss for the period	-	(501,268)	136,122	(365,146)
Total income/expense for the period	9,233,773	(9,068,007)	136,122	301,888
Exercise of options	3,617	-	-	3,617
Shares issued	2,478,324	-	-	2,478,324
At 30 June 2005	11,715,714	(9,068,007)	136,122	2,783,829
At 1 July 2005	11,715,714	(9,068,007)	136,122	2,783,829
Total income and expense for the period directly recognised in equity	-	-	-	-
Loss for the period	-	(535,470)	-	(535,470)
Total income/expense for the period	11,715,714	(9,603,477)	136,122	2,248,359
Exercise of options	818	-	-	818
Shares issued	400,000	-	-	400,000
At 30 June 2006	12,116,532	(9,603,477)	136,122	2,649,177

The statements of recognised income and expense are to be read in conjunction with the notes to the financial statements.

BALANCE SHEETS

AS AT 30 JUNE 2006

	Note	Consolidated 2006 $	Consolidated 2005 $	The Company 2006 $	The Company 2005 $
CURRENT ASSETS					
Cash and cash equivalents		274,750	2,302,666	274,750	2,302,666
Trade and other receivables	8	11,099	18,246	11,099	18,246
Other financial assets	9	-	530,294	-	530,293
Assets classified as held for sale	9	2,238,500	-	2,238,500	-
TOTAL CURRENT ASSETS		2,524,349	2,851,206	2,524,349	2,851,205
NON-CURRENT ASSETS					
Investments	10	269,431	-	269,435	4
Plant and Equipment	11	3,801	4,833	3,801	4,833
TOTAL NON-CURRENT ASSETS		273,232	4,833	273,236	4,837
TOTAL ASSETS		2,797,581	2,856,039	2,797,585	2,856,042
CURRENT LIABILITIES					
Trade and other payables	12	152,558	76,364	148,408	72,213
TOTAL CURRENT LIABILITIES		152,558	76,364	148,408	72,213
TOTAL LIABILITIES		152,558	76,364	148,408	72,213
NET ASSETS		2,645,023	2,779,675	2,649,177	2,783,829
EQUITY					
Total equity attributable to equity holders of the parent					
Issued capital	13	12,116,532	11,715,714	12,116,532	11,715,714
Reserves	13	136,122	136,122	136,122	136,122
Accumulated losses	14	(9,607,631)	(9,072,161)	(9,603,477)	(9,068,007)
TOTAL EQUITY		2,645,023	2,779,675	2,649,177	2,783,829

The balance sheets are to be read in conjunction with the notes to the financial statements.

STATEMENTS OF CASH FLOWS

FOR THE YEAR ENDED 30 JUNE 2006

		Consolidated		The Company	
		2006	2005	2006	2005
	Note	$	$	$	$
Cash flows from operating activities					
Cash receipts from customers		6,118	1,200	6,118	1,200
Cash paid to suppliers and employees		(459,987)	(457,992)	(459,987)	(457,992)
Interest received		70,204	63,859	70,204	63,859
Interest paid		(41)	-	(41)	-
Net cash used in operating activities	19(b)	(383,706)	(392,933)	(383,706)	(392,933)
Cash flows from investing activities					
Acquisition of plant and equipment		(1,704)	(409)	(1,704)	(409)
Acquisition of investments		(200,000)	(530,293)	(200,000)	(530,293)
Acquisition of exploration assets		(70,000)	-	(70,000)	-
Payments for exploration, evaluation and development		(65,118)	-	(65,118)	-
Proceeds from sale of investments		-	59,835	-	59,835
Net cash used in investing activities		(336,822)	(470,867)	(336,822)	(470,867)
Cash flows from financing activities					
Loans to associate entity		(1,708,206)	-	(1,708,206)	-
Proceeds from issue of shares		400,818	2,590,517	400,818	2,590,517
Share issue costs		-	(108,576)	-	(108,576)
Net cash (used in)/from financing activities		(1,307,388)	2,481,941	(1,307,388)	2,481,941
Net increase (decrease) in cash and cash equivalents		(2,027,916)	1,618,141	(2,027,916)	1,618,241
Cash and cash equivalents at 1 July		2,302,666	684,525	2,302,666	684,425
Cash and cash equivalents at 30 June	19(a)	274,750	2,302,666	274,750	2,302,666

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

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

Wasabi Energy Limited (the 'Company') is a company domiciled in Australia. The consolidated financial report of the Company for the financial year ended 30 June 2006 comprise the Company and its subsidiaries (together referred to as the 'consolidated entity') and the consolidated entity's interest in associates and jointly controlled entities.

The financial report was authorised for issue by the directors on 29 September 2006

The consolidated financial statements and notes of Wasabi Energy Limited Limited also comply with IFRSs and interpretations adopted by the International Accounting Standards Board. The parent financial statements and notes do not comply with IFRSs as the Company has elected to apply the relief provided to parent entities by AASB 132 Financial Instruments: Presentation and Disclosure in respect of certain disclosure requirements.

(A) STATEMENT OF COMPLIANCE

The financial report is a general purpose financial report which has been prepared in accordance with Australian Accounting Standards ('AASBs') adopted by the Australian Accounting Standards Board ('AASB') and the Corporations Act 2001. International Financial Reporting Standards ('IFRSs') form the basis of Australian Accounting Standards ('AASBs') adopted by the AASB, and for the purpose of this report are called Australian equivalents to IFRS ('AIFRS') to distinguish from previous Australian GAAP.

This is the consolidated entity's first financial report prepared in accordance with Australian Accounting Standards, being AIFRS and IFRS, and AASB 1 First-Time Adoption of Australian Equivalents to International Financial Reporting Standards has been applied. An explanation of how the transition to AIFRS has affected the reported financial position, financial performance and cash flows of the consolidated entity and the Company is provided in note 22.

(B) BASIS OF PREPARATION

The financial report is presented in Australian dollars.

The entity has elected to early adopt the following accounting standards and amendments:

- AASB 119 Employee Benefits (December 2004)
- AASB 2004-3 Amendments to Australian Accounting Standards (December 2004) amending AASB 1 First time Adoption of Australian Equivalents to International Financial Reporting Standards (July 2004), AASB 101 Presentation of Financial Statements and AASB 124 Related Party Disclosures
- AASB 2005-1 Amendments to Australian Accounting Standards (May 2005) amending AASB 139 Financial Instruments: Recognition and Measurement
- AASB 2005-3 Amendments to Australian Accounting Standards (June 2005) amending AASB 119 Employee Benefits (either July or December 2004)
- AASB 2005-4 Amendments to Australian Accounting Standards (June 2005) amending AASB 139 Financial Instruments: Recognition and Measurement, AASB 132 Financial Instruments: Disclosure and Presentation, AASB 1 First-time Adoption of Australian Equivalents to International Financial Reporting Standards (July 2004), AASB 1023 General Insurance Contracts and AASB 1038 Life Insurance Contracts
- AASB 2005-5 Amendments to Australian Accounting Standards (June 2005) amending AASB 1 First time Adoption of Australian Equivalents to International Financial Reporting Standards (July 2004), and AASB 139 Financial Instruments: Recognition and Measurement
- AASB 2005-6 Amendments to Australian Accounting Standards (June 2005) amending AASB 3 Business Combinations

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2006

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(B) BASIS OF PREPARATION (continued)

- AASB 2006-1 Amendments to Australian Accounting Standards (January 2006) amending AASB 121 The Effects of Changes in Foreign Exchange Rates (July 2004)
- UIG 4 Determining whether an Arrangement contains a Lease
- UIG 5 Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds
- UIG 7 Applying the Restatement Approach under AASB 129 Financial Reporting in Hyperinflationary Economies
- UIG 8 Scope of AASB 2

The following standards and amendments were available for early adoption, but have not been applied by the consolidated entity in these financial statements:

- AASB 7 Financial instruments: Disclosure (August 2005) replacing the presentation requirements of financial instruments in AASB 132. AASB 7 is applicable for annual reporting periods beginning on or after 1 January 2007
- AASB 2005-9 Amendments to Australian Accounting Standards (September 2005) requires that liabilities arising from the issue of financial guarantee contracts are recognised in the balance sheet. AASB 2005-9 is applicable for annual reporting periods beginning on or after 1 January 2006 (i)
- AASB 2005-10 Amendments to Australian Accounting Standards (September 2005) makes consequential amendments to AASB 132 Financial Instruments: Disclosures and Presentation, AASB 101 Presentation of Financial Statements, AASB 114 Segment Reporting, AASB 117 Leases, AASB 133 Earnings per Share, AASB 139 Financial Instruments: Recognition and Measurement, AASB 1 First-time Adoption of Australian Equivalents to International Financial Reporting Standards, AASB 4 Insurance Contracts, AASB 1023 General Insurance Contracts and AASB 1038 Life Insurance Contracts, arising from the release of AASB 7. AASB 2005-10 is applicable for annual reporting periods beginning on or after 1 January 2007

(i) These standards/amendments are not relevant to the Company or the consolidated entity.

The consolidated entity plans to adopt the above standards, amendments and interpretations when they become effective.

The financial report is prepared on the historical cost basis except that available for sale financial assets are stated at their fair value.

The preparation of a financial report in conformity with Australian Accounting Standards requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. These estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. These accounting policies have been consistently applied by each entity in the consolidated entity.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The accounting policies set out below have been applied consistently to all periods presented in the consolidated financial report and in preparing an opening AIFRS balance sheet at 1 July 2004 for the purposes of the transition to Australian Accounting Standards – AIFRS.

The accounting policies have been applied consistently by all entities in the consolidated entity.

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(C) FINANCIAL POSITION

Convertible Notes

The consolidated entity holds unsecured convertible notes in Exergy Inc. acquired in January and May 2002. Exergy Inc. 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.

Exergy Inc. has not had the financial capacity to repay the convertible notes.

A provision for diminution of the gross value (including accrued interest) was established at 31 December 2002 and at 30 June 2006 is $752,412 (2005: $616,492). The directors have continued this treatment for the current period for these notes. Refer to Note 8 for the treatment of convertible notes acquired during June 2005.

The directors continue to believe the Kalina cycle technology has substantial merit and therefore that the value of the convertible notes will be realised. A proposed merger between Exergy Inc and AMP Resources Ltd was terminated prior to completion, however, all parties are continuing to work towards an alternative settlement that will realise value to Wasabi's investment.

Going Concern

The consolidated entity has incurred a loss from ordinary activities of $535,470 (2005: $501,368). The consolidated entity had working capital of $274,750 at 30 June 2006 (2005: $2,774,841).

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 consider this to be appropriate given notices by certain major option holders of their intent to exercise the options prior to expiry. Additional capital raisings are being considered to enable the Company fund its planned activities over the next 12 months. The Company also has the ability to significantly reduce it commitments to current ventures if required.

(D) BASIS OF CONSOLIDATION

Subsidiaries

Subsidiaries are entities controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable or convertible are taken into account. The financial statements of subsidiaries are included in the condensed consolidated interim financial report from the date that control commences until the date that control ceases.

Joint ventures

Joint ventures are those entities over whose activities the consolidated entity has joint control, established by contractual agreement. The interest of the consolidated entity in unincorporated joint ventures and jointly controlled assets are brought to account by recognising in its financial statements the assets it controls and the liabilities that it incurs, and the expenses it incurs and its share of income that it earns from the sale of goods or services by the joint venture.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2006

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(D) BASIS OF CONSOLIDATION (continued)

Transactions eliminated on consolidation

Intragroup balances, and any unrealised gains and losses or income and expenses arising from intragroup transactions, are eliminated in preparing the condensed consolidated interim financial statements.

(E) REVENUE RECOGNITION

Revenue from the sale of goods is recognised in the income statement when the significant risks and rewards of ownership have been transferred to the buyer. Revenue from services rendered is recognised in the income statement in proportion to the stage of completion of the transaction at the balance sheet date. The stage of completion is assessed by reference to surveys of work performed. No revenue is recognised if there are significant uncertainties regarding recovery of the consideration due, the costs incurred or to be incurred cannot be measured reliably, there is a risk of return of goods or there is continuing management involvement with the goods.

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 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.

(F) IMPAIRMENT

Current accounting policy

The carrying amounts of the consolidated entity's assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated as set below.

An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the income statement, unless an asset has previously been revalued, in which case the impairment loss is recognised as a reversal to the extent of that previous revaluation with any excess recognised through profit or loss.

Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to cash-generating units (group of units) and then, to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

Calculation of recoverable amount

The recoverable amount of the consolidated entity's investments in receivables carried at amortised cost is calculated as the present value of estimated future cash flows, discounted at the original effective interest rate (i.e., the effective interest rate computed at initial recognition of these financial assets). Receivables with a short duration are not discounted.

Impairment of receivables is not recognised until objective evidence is available that a loss event has occurred. Significant receivables are individually assessed for impairment.

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(F) IMPAIRMENT (continued)

Calculation of recoverable amount

When a decline in the fair value of an available-for-sale financial asset has been recognised directly in equity and there is objective evidence that the asset is impaired, the cumulative loss that had been recognised directly in equity is recognised in profit or loss even though the financial asset has not been derecognised. The amount of the cumulative loss that is recognised in profit or loss is the difference between the acquisition cost and current fair value, less any impairment loss on that financial asset previously recognised in profit or loss.

Reversals of impairment

Impairment losses, other than in respect of goodwill, are reversed when there is an indication that the impairment loss may no longer exist and there has been a change in the estimate used to determine the recoverable amount.

An impairment loss in respect of a held-to-maturity security or receivable carried at amortised cost is reversed if the subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised.

An impairment loss in respect of an investment in an equity instrument classified as available for sale is not reversed through profit or loss. If the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss shall be reversed, with the amount of the reversal recognised in profit or loss.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Derecognition of financial assets and liabilities

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- the rights to receive cash flows from the asset have expired; or
- the consolidated entity retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party; or
- the consolidated entity has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expired. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in profit and loss.

Refer to comparative period policy.

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(F) IMPAIRMENT (continued)

Comparative period policy – financial instruments impairment and derecognition

The carrying amounts of non-current financial assets valued on the cost basis were reviewed to determine whether they are in excess of their recoverable amount at reporting date. If the carrying amount of a non-current financial asset exceeded its recoverable amount (i.e. was not considered probable of recovery), the financial asset was written down to the lower amount. The write-down was expensed in the reporting period in which it occurred.

Impairment losses were reversed through the profit and loss but only to extent of original cost.

An asset was derecognised when the contractual right to receive or exchange cash no longer existed. A liability was derecognised when the contractual obligation to deliver or exchange cash no longer existed.

(G) TAXATION

Income tax

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: initial recognition of goodwill, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Additional income taxes that arise from the distribution of dividends are recognised at the same time as the liability to pay the related dividend.

The Company recognises deferred tax assets arising from unused tax losses of the tax-consolidated group to the extent that it is probable that future taxable profits of the tax-consolidated group will be available against which the asset can be utilised.

(H) NON-CURRENT ASSETS HELD FOR SALE

Immediately before classification as held for sale, the measurement of the assets (and all assets and liabilities in a disposal group) is brought up-to-date in accordance with applicable accounting standards. Then, on initial classification as held for sale, non-current assets and disposal groups are recognised at the lower of carrying amount and fair value less costs to sell.

Impairment losses on initial classification as held for sale are included in profit or loss, even when there is a revaluation. The same applies to gains and losses on subsequent re-measurement.

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(I) TRADE AND OTHER RECEIVABLES

Trade and other receivables are stated at their amortised cost less impairment losses.

(J) INVESTMENTS

Subsidiaries

Subsidiaries are entities controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable or convertible are taken into account. The financial statements of subsidiaries are included in the condensed consolidated interim financial report from the date that control commences until the date that control ceases.

Investments in subsidiaries are carried at their cost of acquisition in the Company's financial statements.

Joint ventures

Joint ventures are those entities over whose activities the consolidated entity has joint control, established by contractual agreement. The interest of the consolidated entity in unincorporated joint ventures and jointly controlled assets are brought to account by recognising in its financial statements the assets it controls and the liabilities that it incurs, and the expenses it incurs and its share of income that it earns from the sale of goods or services by the joint venture.

Transactions eliminated on consolidation

Intragroup balances, and any unrealised gains and losses or income and expenses arising from intragroup transactions, are eliminated in preparing the condensed consolidated interim financial statements.

(K) PLANT AND EQUIPMENT

Items of plant and equipment are stated at cost less accumulated depreciation (see below) and impairment losses

Acquisition

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

Depreciation and amortisation

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

	2006	2005
Plant and equipment	20%-40% straight line	20% - 40% straight line

Assets are depreciated or amortised from the date of acquisition.

(L) TRADE AND OTHER PAYABLES

Trade and other payables are stated at their amortised cost. Trade payables are non-interest bearing and are normally settled on 60-day terms.

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(M) EMPLOYEE BENEFITS

Defined contribution superannuation funds

Obligations for contributions to defined contribution superannuation funds are recognised as an expense in the income statement as incurred.

Wages, salaries, annual leave, sick leave and non-monetary benefits

Liabilities for employee benefits for wages, salaries, annual leave and sick leave that are expected to be settled within 12 months of the reporting date represent present obligations resulting from employees' services provided to reporting date, are calculated at undiscounted amounts based on remuneration wage and salary rates that the consolidated entity expects to pay as at reporting date including related on-costs, such as workers compensation insurance and payroll tax.

Share-based payment transactions

The fair value of options granted to officers and employees is recognised as an employee expense with a corresponding increase in equity. The fair value is measured at grant date and spread over the period during which the employees become unconditionally entitled to the options. The fair value of the options granted is measured using a recognised option-pricing model, taking into account the terms and conditions upon which the options were granted. The amount recognised as an expense is adjusted to reflect the actual number of share options that vest except where forfeiture is only due to share prices not achieving the threshold for vesting.

(N) 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.

(O) INTEREST BEARING BORROWINGS

Current accounting policy

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the income statement over the period of the borrowings on an effective interest basis.

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(P) 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.

(Q) EXPLORATION AND EVALUATION ASSETS

Exploration and evaluation costs, including the costs of acquiring licences, are capitalised as exploration and evaluation assets on an area of interest basis. All other exploration and evaluation costs are expensed as incurred. Costs incurred before the consolidated entity has obtained the legal rights to explore an area are recognised in the income statement.

Exploration and evaluation assets are only recognised if the rights of the area of interest are current and either:

(i) the expenditures are expected to be recouped through successful development and exploitation of the area of interest; or

(ii) activities in the area of interest have not at the reporting date, reached a stage which permits a reasonable assessment of the existence or other wise of economically recoverable reserves and active and significant operations in, or in relation to, the area of interest are continuing.

Exploration and evaluation assets are assessed for impairment if (i) sufficient data exists to determine technical feasibility and commercial viability, and (ii) facts and circumstances suggest that the carrying amount exceeds the recoverable amount (see impairment accounting policy (f)). For the purposes of impairment testing, exploration and evaluation assets are allocated to cash-generating units to which the exploration activity relates. The cash generating unit shall not be larger than the area of interest.

Once the technical feasibility and commercial viability of the extraction of mineral resources in an area of interest are demonstrable, exploration and evaluation assets attributable to that area of interest are first tested for impairment and then reclassified from intangible assets to mining property and development assets within property, plant and equipment.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2006

	Consolidated 2006 $	Consolidated 2005 $	The Company 2006 $	The Company 2005 $
2. OTHER INCOME				
Office and equipment use fee	6,527	1,200	6,527	1,200
Gain on sale of other financial assets	-	12,540	-	12,540
Unrealised foreign exchange gain	51,656	-	51,656	-
	58,183	13,740	58,183	13,740
3. NET FINANCING INCOME				
Interest income	219,211	106,742	219,211	106,742
Interest expense	(41)	(58)	(41)	(58)
Financial expenses	-	(1,455)	-	(1,455)
	219,170	105,229	219,170	105,229
4. OTHER EXPENSE				
Depreciation of plant and equipment	3,320	3,158	3,320	3,158
Provision for impairment of value of convertible notes	200,663	42,833	200,663	42,833
5. AUDITORS REMUNERATION				
Audit services				
Audit and review of financial reports KPMG Australia	22,500	16,000	22,500	16,000
6. INCOME TAX EXPENSE				
Numerical reconciliation between tax expense and pre-tax net loss				
Loss before tax	(535,470)	(501,368)	(535,470)	(501,268)
Income tax using the domestic corporation tax rate of 30% (2005: 30%)	(160,641)	(150,410)	(160,641)	(150,380)
Decrease in income tax benefit relating to:				
non tax deductible expenses	-	608	-	608
equity settled transactions	-	40,836	-	40,836
Deferred tax asset not brought to account	160,641	108,966	160,641	108,936
Income tax benefit on pre-tax net loss recognised in the income statement	-	-	-	-

	Consolidated		The Company	
	2006	2005	2006	2005
	$	$	$	$

6. INCOME TAX EXPENSE (continued)

DEFERRED TAX ASSET NOT RECOGNISED

The deductible temporary differences and tax losses do not expire under current tax legislation. Deferred tax assets have not been recognised in respect of these items because it is not probable that future taxable profit will be available against which the consolidated entity can utilise the benefits from.

	2006	2005	2006	2005
Temporary differences and income tax losses	**788,884**	628,243	**772,474**	611,833

	Consolidated	
	2006	2005
	$	$

7. LOSS PER SHARE

The calculation of basic loss per share at 30 June 2006 was based on the loss attributable to ordinary share holders of $535,470 (2005: $501,368)

	2006	2005
Weighted average number of ordinary shares outstanding during the financial year	378,121,338	272,312,790
Basic loss per share	(0.14) cents	(0.18) cents

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

	Consolidated		The Company	
	2006	2005	2006	2005
	$	$	$	$

8. TRADE AND OTHER RECEIVABLES

	2006	2005	2006	2005
CURRENT				
Trade receivables	**1,193**	1,100	**1,193**	1,100
Other receivables	**9,906**	17,146	**9,906**	17,146
	11,099	18,246	**11,099**	18,246

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2006

	Consolidated 2006	Consolidated 2005	The Company 2006	The Company 2005
	$	$	$	$
9. ASSETS HELD FOR SALE				
CURRENT				
Loan to Exergy Inc. (ii)	1,708,206	-	1,708,206	-
Convertible note – Exergy Inc. (including accrued interest) available for sale (iii)	752,142	616,492	752,142	616,492
Provision for diminution of value of convertible note and accrued interest	(752,142)	(616,492)	(752,142)	(616,492)
	1,708,206	-	1,708,206	-
Unlisted shares, convertible notes and accrued interest in Exergy Inc. (acquired 2 June 2005) at cost(iii) available for sale (1)	530,294	-	530,294	-
	2,238,500	-	2,238,500	-
OTHER FINANCIAL ASSETS				
Unlisted shares, convertible notes and accrued interest in Exergy Inc. (acquired 2 June 2005) at cost(iii) available for sale (1)	-	530,294	-	530,294

(1) In the prior year these interests were classified as "Other financial assets"

(i) It is the intention of the Directors to sell the investment in Exergy Inc. A potential purchaser is currently undertaking due diligence of Exergy. The Company expects a gain on sale of the investment but the amount is not known at this time.

(ii) Loan to Exergy Inc.

Under a revolving credit note dated 28 February 2006 the Company has advanced US$1.2million. The agreement is for a total facility of US$1.5million with an expiry date of 28 February 2008 at an interest rate of 6% per annum.

(iii) 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. The loans have been issued by way of convertible notes. The notes are convertible into common stock in Exergy Inc. 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 has been included in this balance.

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 have in prior years fully provided for the diminution of the gross value of the loan amounts including accumulated interest. The directors have continued this treatment for the current period for these notes until the certain outcome of the Exergy Inc. sale negotiations.

9. ASSETS HELD FOR SALE (continued)

(iv) Unlisted shares, convertible notes and accrued interest – Exergy Inc.

On 2 June 2005, the consolidated entity acquired loans (convertible notes) and equity in Exergy Inc. from Unotec Holdings AG and QI-X Holdings LDC for US$400,000. This gives the Company approximately 46% of the equity of Exergy Inc. This investment was acquired and continues to be held exclusively with a view to disposal in the near future. The directors have elected to carry this investment at cost (less any financial effects of changes in the exchange rates at balance date) and have not accounted for this as an associate. The Company is actively seeking a purchaser and it's disposal is expected to occur within one year.

	Consolidated		The Company	
	2006	2005	2006	2005
	$	$	$	$
10. INVESTMENTS				
Non current				
Exploration tenements	69,431	-	69,431	-
Investment in bio diesel entity	200,000	-	200,000	-
Controlled entities	-	-	4	4
	269,431	-	269,435	4
The Company acquired an option for $69,431 to purchase mineral exploration tenements. The option was exercised and the tenements purchased subsequent to year end.				
During June 2006 the Company made an initial payment of $200,000 on behalf of an entity to be incorporated to develop bio diesel plants and market the fuel.				
11. PLANT AND EQUIPMENT				
Plant and equipment – at recoverable amount	20,444	18,156	20,444	18,156
Less: accumulated depreciation	(16,643)	(13,323)	(16,643)	(13,323)
	3,801	4,833	3,801	4,833
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	4,833	7,582	4,833	7,582
Additions	2,288	409	2,288	409
Depreciation charge for the year	(3,320)	(3,158)	(3,320)	(3,158)
Carrying value at end of year	3,801	4,833	3,801	4,833

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2006

	Consolidated 2006 $	Consolidated 2005 $	The Company 2006 $	The Company 2005 $
12. TRADE AND OTHER PAYABLES				
Trade payables and accrued expenses	**152,558**	76,364	**148,408**	72,213
13. CAPITAL AND RESERVES				
Reconciliation of movement in capital and reserves attributable to equity holders of the parent				
Share capital				
391,348,444 (2005: 377,974,211) ordinary shares fully paid	**12,116,532**	11,715,714	**12,116,532**	11,715,714
Movement in share capital represented by:				
Balance at 1 July 2005			**11,715,714**	9,233,773
161,681,268 shares issued at 1.6 cents each				2,586,900
180,849 shares issued at 2 cents each on exercise of options			-	3,617
13,333,333 shares issued at 3 cents each			**400,000**	-
40,900 shares issued at 2 cents each on exercise of options			**818**	-
			12,116,532	11,824,290
Less share issue costs			-	(108,576)
Balance at 30 June 2006			**12,116,532**	11,715,714

Terms and conditions

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.

In the event of winding up of the Company, ordinary shareholders rank after all other shareholders and creditors and are fully entitled to any proceeds of liquidation.

No shares were issued on exercise of options.

Effective 1 July 1998, the Company Law Review Act abolished the concept of par value shares and the concept of authorised capital. Accordingly, the Company does not have authorised capital or par value in respect of its issued shares.

	The Company 2006 $	The Company 2005 $
Share option reserve		
Opening share option reserve	**136,122**	-
Issue of Options to director	-	136,122
Closing share option reserve	**136,122**	136,122

13. CAPITAL AND RESERVES (continued)

OPTIONS

Listed Options

During the period 40,900 (2005: 180,849) options were exercised at a price of 2 cents.

Pursuant to a placement, 13,333,333 options were issued during the year. In the prior year the Company issued, pursuant to a pro rata rights issue, 129,264,454 listed options exercisable at $0.02 per share expiring 31 December 2006. The options were issued at no cost to existing shareholders.

The listed options carry no voting rights until converted to fully paid ordinary shares.

As at 30 June 2006 there were 142,376,038 (2005: 129,083,605) listed options on issue.

Unlisted Director Options

No unlisted options were granted or exercised during the financial year. During the prior period the Company issued, following shareholder approval, 10,000,000 unlisted participating Director options exercisable at $0.02 per share expiring 10 February 2007. The options were issued at no cost to a nominee of director, Mr T Wise. The Director options carry no voting rights until converted to fully paid ordinary shares. The options may participate in pro rata issues to holders of ordinary shares.

No options were exercised during the prior period.

Incentive Shares

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 performance criteria. As at 30 June 2006 the term of this option has expired.

	Consolidated		The Company	
	2006	2005	2006	2005
	$	$	$	$
14. RECONCILIATION OF MOVEMENT IN ACCUMULATED LOSSES				
Balance at beginning of period	**(9,072,161)**	(8,570,793)	**(9,068,007)**	(8,566,739)
Total recognised income and expense	**(535,470)**	(501,368)	**(535,470)**	(501,268)
Balance at end of period	**(9,607,631)**	(9,072,161)	**(9,603,477)**	(9,068,007)

15. FINANCIAL INSTRUMENTS

Effective interest rates and repricing analysis

In respect of income-earning financial assets and interest-bearing financial liabilities, the following table indicates their effective interest rates at the balance sheet date and the periods in which they reprice:

The Company	Effective interest rate %	Variable Interest Rate	Fixed Interest Rate		Non Interest Bearing	Total
			Maturity Less than 1 Year	Maturity 1-5 Years		
		$	$	$	$	$
2006						
Financial Assets						
Cash	5.50	274,750	-	-	-	274,750
Other receivables	-	-	-	-	11,099	11,099
Assets held for sale	7.42	-	2,238,500	-	-	2,238,500
		274,750	2,238,500	-	11,099	2,524,349
Financial Liabilities						
Payables	-	-	-	-	(152,558)	(152,558)
Net financial assets/ (liabilities)		274,750	2,238,500	-	(141,459)	2,371,791
2005						
Financial Assets						
Cash	5.25	2,302,666	-	-	-	2,302,666
Other receivables	-	-	-	-	18,246	18,246
Assets held for sale	12.00	-	530,294	-	-	530,294
		2,302,666	530,294	-	18,246	2,851,206
Financial Liabilities						
Payables	-	-	-	-	(76,364)	(76,364)
Net financial assets/ (liabilities)		2,302,666	530,294	-	(58,118)	2,774,842

Reconciliation of net financial assets to net assets

	2006 $	2005 $
Net financial assets as above	**2,371,791**	2,774,842
Non-financial assets and liabilities		
- Exploration tenements	**69,431**	-
- Investment in bio diesel entity	**200,000**	-
- Plant and equipment	**3,801**	4,833
Net Assets per Balance Sheet	**2,645,0233**	2,779,6755

16. EMPLOYEE BENEFITS

Superannuation

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

17. CONSOLIDATED ENTITIES

	2006 %	2005 %
Parent		
Wasabi Energy 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 and consolidated entity operates predominately in one business segment being energy and energy technology investments. The Company and consolidated entity in now operating in three geographical segments being Australia, Canada and the USA.

Geographical Segments

30 June 2006	Australia $	Canada $	USA $	Total $
Segment income	76,461	-	200,663	277,124
Segment result/loss after eliminations	(285,344)	(80,260)	(169,866)	(535,470)
Segment assets after eliminations	559,081	-	2,238,500	2,797,581
Segment liabilities after eliminations	152,558	-	-	152,558
Non cash expenses:				
Depreciation	3,320	-	-	3,320
Impairment of assets held for sale	-	-	200,663	200,663
Capital expenditure	2,288	-	-	2,288
Non cash income:				
Interest	70,204	-	149,007	219,211
Unrealised foreign exchange gain	-	-	51,656	51,656

During the year ended 30 June 2005 the Company and consolidated entity sole operation was the management of its USA based investment in Exergy Inc.

	Consolidated 2006 $	Consolidated 2005 $	The Company 2006 $	The Company 2005 $
19. NOTES TO THE STATEMENT OF CASHFLOWS				
(A) CASH AND CASH EQUIVALENTS				
For the purposes of the cash flow statement cash and cash equivalents comprise the following at 30 June				
Cash at bank	274,750	2,302,666	274,750	2,302,666
(B) RECONCILIATION OF CASHFLOWS FROM OPERATING ACTIVITIES				
Cashflows from operating activities				
Loss for the period	(535,470)	(501,368)	(535,470)	(501,268)
Adjustments for:				
Depreciation	3,320	3,158	3,320	3,158
Provisions for impairment	200,663	200,663	-	-
Bad debts	700	-	700	-
Foreign exchange loss/(gain)	(51,656)	52,760	(51,656)	52,760
Change in fair value of financial assets	-	(45)	-	(45)
Profit on sale other financial assets included in financing activities	-	(12,540)	-	(12,540)
Equity settled share based payment expenses	-	136,122	-	136,122
Exploration expenses	80,260	-	80,260	-
Operating loss before changes in working capital and provisions	(302,183)	(321,913)	(302,183)	(321,913)
Change in assets and liabilities				
(Increase)/decrease in trade receivables	(5,624)	(27,023)	(5,624)	(27,023)
Increase/(decrease) in trade creditors and accruals	76,194	(1,114)	76,194	(1,114)
(Increase)/decrease in accrued interest	(149,007)	(42,883)	(149,007)	(42,883)
GST paid on exploration expenses	(3,086)	-	(3,086)	-
Net cash used in operating activities	(383,706)	(392,933)	(383,706)	(392,933)

20. CONTINGENCIES

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 number of shares to be issued to CTE is reduced proportionately.

21. RELATED PARTIES

The following were key management personnel of the consolidated entity at any time during the reporting period and unless otherwise indicated were key management personnel for the entire period

Non-executive directors

Frank Reid .... resigned 17 November 2005

Wayne Blakeney .... resigned 26 June 2006

Robert Reynolds .... appointed 10 August 2005

R Vallender .... appointed 10 August 2005

Executive director

Tim Wise .... Chairperson

Executives

Phil MacLeod .... Company secretary

The key management personnel compensation included in employee and directors costs are as follows:

	Consolidated		The Company	
	2006	2005	2006	2005
	$	$	$	$
Short term employee benefit	**192,820**	170,000	**192,820**	170,000
Other long term benefits	**-**	-	**-**	-
Post employment benefits	**13,815**	10,440	**13,815**	10,440
Share based payments	**-**	136,122	**-**	136,122
	206,635	316,562	**206,635**	316,562

Individual directors and executives compensation disclosures

Information regarding individual directors and executives compensation and some equity instruments disclosures as permitted by Corporations Regulations 2M.3.03 and 2M.6.04 is provided in the Remuneration Report section of the Directors' report.

Apart from the details disclosed in this note, no director has entered into a material contract with the Company or the consolidated entity since the end of the previous financial year and there were no material contracts involving directors' interests existing at year-end.

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

21. RELATED PARTIES (continued)

The following table provides the details of all directors and executives of the Company and the nature and amount of the elements of their remuneration for the year ended 30 June 2006. There are no other executives of the Company.

		Primary	Post employment	Equity	Total
		Salary & fees $	Superannuation benefits $	Options $	$
Directors					
Non-executive					
Mr F Reid	2006	20,000	-	-	20,000
	2005	30,000	-	-	30,000
Mr W Blakeney	2006	20,000	1,800	-	21,800
	2005	20,000	1,800	-	21,800
Mr R Reynolds	2006	18,750	1,688	-	20,438
	2005	-	-	-	-
Mr R Vallender	2006	18,750	1,687	-	20,437
	2005	-	-	-	-
Executive					
Mr T Wise	2006	96,000	8,640	-	104,640
(Managing Director)	2005	96,000	8,640	136,122	240,762
Total, all directors	2006	173,500	13,815	-	187,315
	2005	146,000	10,440	136,122	292,562
Executive					
P MacLeod	2006	19,320	-	-	19,320
(appointed 24 Dec 2004)	2005	24,000	-	-	24,000

The fair value of the Director options has been ascertained using the Black-Scholes valuation method and is based upon the following inputs and assumptions:

a) share issue price at time of seeking approval for grant was 2.4 cents;

b) an estimated volatility factor of 138%;

c) option exercise price of 2 cents each;

d) a risk free rate of 5.25%; and

e) a term to expiry of 24 months.

21. RELATED PARTIES (continued)

In deriving the valuation, the Black-Scholes method relies on the following assumptions:

a) the Director Options can be exercised at any time during the period;

b) there are no transaction costs and the securities are infinitely divisible and information is available to all without cost; and

c) the risk free interest rate is known and constant throughout the duration of the option contract.

OPTIONS AND RIGHTS OVER EQUITY INSTRUMENTS

All options refer to options over ordinary shares of Wasabi Energy Limited, which are exercisable on a one for one basis.

No options were granted to key management personnel during the reporting period as compensation in 2006 (2005: $136,122).

There have been no changes in key management personnel in the period after the reporting date and prior to the date when the financial report is authorised for issue

The movement during the reporting period in the number of options over ordinary shares in Wasabi Energy Limited held, directly, indirectly or beneficially, by each key management person, including their related parties is as follows:

	Held at 1 July 2005	Granted or purchased during the year	Exercised	Lapsed or expired	Held at 30 June 2006	Vested and exercisable at 30 June 2006
Directors						
Mr F Reid	-	-	-	-	-	-
Mr R Reynolds	-	-	-	-	-	-
Mr R Vallender	-	-	-	-	-	-
Mr W Blakeney	2,107,065	-	-	-	2,107,065	2,107,065
Mr T Wise	18,170,310	-	-	-	18,170,310	18,170,310
Executives						
Mr P MacLeod	267,782	250,666	-	-	518,448	518,448

	Held at 1 July 2004	Granted or purchased during the year	Exercised	Lapsed or expired	Held at 30 June 2005	Vested and exercisable at 30 June 2005
Directors						
Mr F Reid	-	-	-	-	-	-
Mr W Blakeney	-	2,107,065	-	-	2,107,065	2,107,065
Mr T Wise	-	18,170,310	-	-	18,170,310	18,170,310
Executives						
Mr P MacLeod	-	267,782	-	-	267,782	267,782

21. RELATED PARTIES (continued)

MOVEMENTS IN SHARES

The movement during the reporting period in the number of ordinary shares in Wasabi Energy Limited held, directly, indirectly or beneficially, by each key management person, including their related parties, is as follows:

	Held at 1 July 2005	Purchases	Sales	Held at 30 June 2006
Directors				
Mr F Reid	-	-	-	-
Mr W Blakeney	6,321,204	-	-	6,321,204
Mr T Wise	14,510,929	-	-	14,510,929
Executives				
Mr P MacLeod	803,345	250,666	-	1,054,011

	Held at 1 July 2004	Purchases	Sales	Held at 30 June 2005
Directors				
Mr F Reid	-	-	-	-
Mr W Blakeney	3,918,904	2,402,300	-	6,321,204
Mr T Wise	6,301,119	8,209,810	-	14,510,929
Executives				
Mr P MacLeod	500,000	303,346	-	803,346

Group entities

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 2006 $	The Company 2005 $
The aggregate amount receivable from and payable to wholly owned controlled entities by the Company at balance date:		
Receivables – Non-current	53,670	53,670
Non-current receivables comprise of balances receivable from controlled entities and have been fully provided for.		

22. SUBSEQUENT ENVENTS

In July 2006 the Company purchased two mineral exploration tenements in the Northern Territory, Alice Springs and Woolner Dome, on the exercised of an option. The acquisition cost of $500,000 consisted of cash of $250,000 and 12,500,000 shares issued at 2 cents per share.

Wasabi contributed a further $25,000 to the bio diesel during July for a total investment to date of $225,000. The company for this venture, Evolution Energy Pty Ltd was incorporated during August 2006.

23. IMPACTS OF ADOPTING THE AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS

As stated in significant accounting policies note 1(a) these are the consolidated entity's first consolidated financial statements prepared under AIFRSs.

The policies set out in the significant accounting policies section of this report have been applied in preparing the financial statements for the financial year ended 30 June 2006, the comparative information presented in these financial statements for the financial year ended 30 June 2005 and in the preparation of an opening AIRFS balance sheet at 1 July 2004.

Under AASB1 the consolidated entity, in complying with A-IFRS for the first time is required to restate its comparative financial statements to amounts reflecting the application of A-IFRS to that comparative period. Most adjustments required on transition to A-IFRS will be made, retrospectively, against opening retained earnings as at 1 July 2004 (the consolidated entity's date of transition).

In preparing its opening AIFRS balance sheet, the consolidated entity had adjusted amounts reported previously in financial statements prepared in accordance with it' old basis of accounting (previous GAAP). An explanation of how the transition from previous GAAP to AIFRS's has affected the consolidated entity's financial position, financial performance and cash flows is set out in the following tables and the notes that accompany the tables.

AASB 1 Transitional exemptions

The Group has made its election in relation to the transitional exemptions allowed by AASB 1 'First-time Adoption of Australian Equivalents to International Financial Reporting Standards' as follows:

Business combinations

AASB 3 'Business Combinations' was not applied retrospectively to past business combinations (i.e. business combinations that occurred before the date of transition to AIFRS).

Designation of previously recognised financial instruments

Financial instruments were designated as financial assets or liabilities at fair value through profit or loss or as available-for-sale at the date of transition to AIFRS.

Share-based payment transactions

AASB 2 'Share-Based Payments' is applied only to equity instruments granted after 7 November 2002 that had not vested on or before 1 January 2005.

Exemption from the requirement to restate comparative information for AASB 132 and AASB 139

The Group has elected to adopt this exemption and has applied AAASB 132 "Financial Instruments: Presentation and disclosure" and AASB 139 "Financial Instruments: Recognition and Measurement" to its comparative information.

23. IMPACTS OF ADOPTING THE AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (continued)

Notes to the reconciliation of equity

(A) SHARE BASED PAYMENTS

The consolidated entity applied AASB 2 to its active share-based payment arrangements at 1 July 2005 except for equity-settled share-based payment arrangements granted before 7 November 2002. The consolidated entity has granted equity-settled share-based payments during the 2005 financial year.

Under previous GAAP, the consolidated entity did not account for equity settled share based payments and share appreciation rights were accounted for at intrinsic value taking into account the expired vesting period at each reporting date. Such payments are now recognised at fair value in accordance with AASB 2.

The effect in the consolidated entity of accounting for equity-settled share-based payment transactions at fair value is to increase employee and director costs by $136,122 for the financial year ended 30 June 2005. The adoption of AASB 2 is equity-neutral for equity-settled transactions. The expense recognised for the consumption of employee services received as consideration for share options granted will be deductible for tax purposes when the share options are exercised.

(B) REVENUE

Although not impacting upon the profit of the consolidated entity, the adoption of A-IFRS resulted in a number of transactions being recorded on a "net" rather than "gross" basis. In addition the adoption of A-IFRS resulted in the reclassification of proceeds from the sale of non current assets from "revenue from ordinary activities" to "other income and expense" items in the statement of financial performance.

As a consequence, proceeds from the sale of other financial assets decreased by $59,835 and the cost of other financial assets disposed decreased by $47,295. The difference was a gain on sale of other financial assets of $12,539 that was recognised for the financial year ended 30 June 2005 as part of "other income". This was a reclassification and did not impact upon the profit and loss of the consolidated entity.

(C) FINANCIAL INSTRUMENTS

The Company and Consolidated Entity have elected not to retrospectively apply AASB132 and 139. Accordingly there were no financial impacts on the financial statements in relation to these two standards as at 30 June 2005.

(D) PLANT AND EQUIPMENT

On initial adoption of A-IFRS items of plant and equipment are measured at the A-IFRS cost. The directors have not elected to use fair value or revaluation as deemed cost to measure an item of property, plant and equipment.

23. IMPACTS OF ADOPTING THE AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (continued)

(i) Reconciliation of total equity as presented under AGAAP to that under AIFRS

	Consolidated	
	30-June-05	01-July-04
	$	$
Issued capital	**11,715,714**	9,233,773
Accumulated losses	**(8,936,039)**	(8,570,793)
Employee equity - share based payment reserve	-	-
Total equity under AGAAP	**2,779,675**	662,980
Adjustments to equity:		
Accumulated losses	**(136,122)**	-
Employee equity – share based payment reserve	**136,122**	-
Total equity under AIFRS	**2,779,675**	662,980

The consolidated entity issued 10,000,000 share options on 11 February 2005 that are fully vested.

As a consequence share based payment expense increased by $136,122 for the year ended 30 June 2005 and was recognised as an employee equity – share based payment reserve.

(ii) Reconciliation of loss after tax under AGAAP to that under AIFRS

	Consolidated	
	Year ended 30-June-05	Half-year ended 31-Dec-04
	$	$
Loss after tax as previously reported	**(365,246)**	(148,230)
Adjustments to losses:		
Share based payment expense	**(136,122)**	-
Loss after tax under AIFRS	**(501,368)**	(148,230)

There are no material differences between the cash flow statements presented under AIFRS and those presented under AGAAP.

DIRECTORS' DECLARATION

1. In the opinion of the directors of Wasabi Energy Limited ("the Company"):

   (a) the financial statements and notes and the remuneration disclosures that are contained in the remuneration report set out in pages 11 to 13 of the Directors' report, 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 2006 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 Australian Accounting Standards and the Corporations Regulations 2001; and

   (b) the remuneration disclosures that are contained in the remuneration report set out on pages 11 to 13 in the directors' report comply with Australian Accounting Standard AASB 124 Related Party Disclosures.

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

2. The directors have been given the declarations required by Section 295A of the Corporations Act 2001 from the chief executive officer and chief financial officer for the financial year ended 30 June 2006.

Signed in accordance with a resolution of the directors:

Dated at Perth this 29th day of September 2006.

Director

T Wise

KPMG

Lead Auditor's Independence Declaration under Section 307C of the Corporations Act 2001

To: the directors of Wasabi Energy Limited

I declare that, to the best of my knowledge and belief, in relation to the audit for the financial year ended 30 June 2006 there have been:

(i) no contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the audit; and

(ii) no contraventions of any applicable code of professional conduct in relation to the audit.

KPMG

KPMG

B P Steedman
Partner

Perth
29 September 2006

AUDITOR'S REPORT

KPMG

Independent audit report to members of Wasabi Energy Limited

Scope

The financial report, remuneration disclosures and directors' responsibility

The financial report comprises the income statements, statements of changes in equity, balance sheets, statements of cash flows, accompanying notes to the financial statements, and the directors' declaration for both Wasabi Energy Limited (the "Company") and Wasabi Energy Limited and its Controlled Entities (the "Consolidated Entity") for the year ended 30 June 2006. The Consolidated Entity comprises both the Company and the entities it controlled during that year.

As permitted by the Corporations Regulations 2001, the Company has disclosed information about the remuneration of directors and executives ("remuneration disclosures"), required by Australian Accounting Standard AASB 124 *Related Party Disclosures*, under the heading "Remuneration report" in the directors' report and not in the financial report.

The Remuneration report also contains information not required by Australian Accounting Standard AASB 124 which is not subject to our audit.

The directors of the Company are responsible for the preparation and true and fair presentation of the financial report and the Remuneration 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. The directors are also responsible for preparing the relevant reconciling information regarding the adjustments required under the Australian Accounting Standard AASB 1 *First-time Adoption of Australian equivalents to International Financial Reporting Standards*. The directors are also responsible for the remuneration disclosures contained in the directors' 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 and the remuneration disclosures comply with AASB 124. 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 and whether the remuneration disclosures comply with Australian Accounting Standard AASB 124.

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.

KPMG

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.

Audit opinion

In our opinion:

(1) 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 2006 and of their performance for the financial year ended on that date; and;

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

b) other mandatory financial reporting requirements in Australia; and

(2) the remuneration disclosures that are contained in the Remuneration report in the directors' report and identified as audited, comply with Australian Accounting Standard AASB 124 *Related Party Disclosures*.

KPMG

KPMG

B P Steedman
Partner

Perth
29 September 2006

ADDITIONAL SHAREHOLDER INFORMATION

Additional information required by the Australian Stock Exchange Listing Rules and not disclosed elsewhere in this report as at 17 October 2006.

TWENTY LARGEST SHAREHOLDERS

Name	Number of Shares	Percentage of Issued Capital
Xtract Energy PLC *	81,511,422	19.31
Invia Custodian Pty Limited *	45,000,000	10.66
ANZ Nominees Pty Ltd *	25,693,761	6.09
Sassey Pty Ltd *	23,270,000	5.52
Cambrian Mining PLC	20,916,667	4.95
Blackmort Nominees Pty Ltd	12,326,000	2.92
M A O'Brien Medical Pty Ltd	10,351,110	2.45
Marguerite Investments Pty Ltd	9,873,000	2.34
Mundena Holdings Pty Ltd	6,250,000	1.48
Finching Pty Ltd	5,850,000	1.39
Timothy Wise	5,055,338	1.20
Finind Pty Ltd	5,000,000	1.18
John Joseph Byrne	4,000,000	0.95
Ocean View Pty Ltd	3,400,000	0.81
Fairgrove Nominees Pty Ltd	3,214,129	0.76
Ian Boon	3,147,291	0.75
Antonia Wise	3,147,000	0.75
GL & KC Swinney	3,000,000	0.71
Green Drilling Pty Ltd	3,000,000	0.71
Muteroo Pastoral Co Pty Ltd	2,700,000	0.64
	276,705,718	64.20

SUBSTANTIAL SHAREHOLDERS

* denotes a substantial shareholder.

DISTRIBUTION OF SHAREHOLDINGS

Range	Number of Shareholders	Number of Ordinary Shares
1 - 1,000	167	61,657
1,001 - 5,000	158	493,796
5,001 - 10,000	109	931,537
10,001 - 100,000	323	14,631,123
100,001 - OVER	272	405,980,331
Total	1,029	422,098,444

The number of shareholders holding less than a marketable parcel is 537.

ADDITIONAL SHAREHOLDER INFORMATION

VOTING RIGHTS

All shares carry one vote per share without restriction.

TWENTY LARGEST LISTED OPTION HOLDERS

Name	Number of Options	Percentage of Issued Listed Options
Cambrian Mining PLC	16,528,089	13.32
Invia Custodian Pty Limited	15,100,000	12.17
Sassey Pty Ltd	9,420,000	7.59
Frijlink Pty Ltd	6,294,384	5.07
Finind Pty Ltd	5,000,000	4.03
Dr Morgan O'Brien	4,655,000	3.75
Walthamstow Pty Ltd	4,250,000	3.42
M A O'Brien Medical Pty Ltd	3,470,370	2.79
Marguerite Investments Pty Ltd	3,291,000	2.65
Hugh Davis	3,248,921	2.62
Ocean View Pty Ltd	3,030,041	2.44
John Joseph Byrne	3,000,000	2.42
Blackmort Nominees Pty Ltd	2,000,000	1.61
The Swann Capital Group Pty Ltd	1,973,333	1.59
Running Water Limited	1,800,000	1.45
Timothy Wise	1,685,113	1.36
Craig Ian Burton	1,666,000	1.34
ANZ Nominees Limited	1,302,600	1.05
Ian Boon	1,049,097	0.85
Antonia Wise	1,049,000	0.85
	89,812,948	72.37

DISTRIBUTION OF OPTION HOLDINGS

Range			Number of Shareholders	Number of Ordinary Shares
1	-	1,000	14	6,564
1,001	-	5,000	61	217,087
5,001	-	10,000	17	148,750
10,001	-	100,000	108	4,777,986
100,001	-	OVER	108	118,975,651
Total			308	124,126,038

ON-MARKET BUY-BACK

There is no current on-market buy-back.

RESTRICTED SECURITIES

The Company does not have any restricted securities on issue.

CORPORATE GOVERNANCE

The Company is committed to implementing the highest standards of corporate governance. In determining what those high standards should involve the Company has turned to the ASX Corporate Governance Council's Principles of Good Corporate Governance and Best Practice Recommendations. Consistency with the guidelines is an ongoing process.

Where the Company's corporate governance practices do not correlate with the practices recommended by the Council, the Company is either working towards compliance or does not consider that particular practices are appropriate at this time due to the size and operations of the Company and the number of Directors on the Board.

1. BOARD OF DIRECTORS

1.1 ROLE OF THE BOARD

The Board's role is to govern the Company rather than to manage it. In governing the Company, the Directors must act in the best interests of the Company as a whole. It is the role of senior management to manage the Company in accordance with the direction and delegations of the Board and the responsibility of the Board to oversee the activities of management in carrying out these delegated duties.

In carrying out its governance role, the main task of the Board is to drive the performance of the Company. The Board must also ensure that the Company complies with all of its contractual, statutory and any other legal obligations, including the requirements of any regulatory body. The Board has the final responsibility for the successful operations of the Company.

1.2 COMPOSITION OF THE BOARD

To add value to the Company the Board has been formed so that it has effective composition, size and commitment to adequately discharge it responsibilities and duties. The names of the Directors and their qualifications and experience are stated in the Directors' Report along with the term of office held by each of the Directors. Directors are appointed based on the specific skills required by the Company and on their decision-making and judgment.

The Company recognises the importance of Non-Executive Directors and the external perspective and advice that Non-Executive Directors can offer. Mr Robert Reynolds and Mr Robert Vallender are Non-Executive Directors. In addition to being Non-Executive Directors, they also meet the following criteria for independence adopted by the Company.

An Independent Director:

1. is a Non-Executive Director and:
2. is not a substantial shareholder of the Company or an officer of, or otherwise associated directly with, a substantial shareholder of the Company;
3. within the last three years has not been employed in an executive capacity by the Company or another group member, or been a Director after ceasing to hold any such employment;
4. within the last three years has not been a principal of a material professional adviser or a material consultant to the Company or another group member. Or an employee materially associated with the service provided;
5. is not a material supplier or customer of the Company or another group member, or an officer of or otherwise associated directly or indirectly with a material supplier or customer;
6. has no material contractual relationship with the Company or other group member other than as a Director of the Company;
7. has not served on the Board for a period which could, or could reasonably be perceived to, materially interfere with the Director's ability to act in the best interests of the Company; and
8. 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.

The Board continues to reviews these matters.

1. BOARD OF DIRECTORS (continued)

1.3 RESPONSIBILITIES OF THE BOARD

In general, the Board is responsible for, and has the authority to determine, all matters relating to the policies, practices, management and operations of the Company. It is required to do all things that may be necessary to be done in order to carry out the objectives of the Company.

Without intending to limit this general role of the Board, the principal functions and responsibilities of the Board include the following.

1. Leadership of the Organisation: overseeing the Company and establishing codes that reflect the values of the Company and guide the conduct of the Board, management and employees.
2. Strategy Formulation: working with senior management to set and review the overall strategy and goals for the Company and ensuring that there are policies in place to govern the operation of the Company.
3. Overseeing Planning Activities: overseeing the development of the Company's strategic plan and approving that plan as well as the annual and long term budgets.
4. Shareholder Liaison: ensuring effective communications with shareholders and promoting participation at general meetings of the Company.
5. Monitoring, Compliance and Risk Management: overseeing the Company's risk management, compliance, control and accountability systems and monitoring and directing the financial and operational performance of the Company.
6. Company Finances: approving expenses in excess of those approved in the annual budget and approving and monitoring acquisitions, divestitures and financial and other reporting.
7. Human Resources: appointing, and, where appropriate, removing the Chief Executive Officer (CEO) and senior management as well as reviewing the performance of the CEO and monitoring the performance of senior management in their implementation of the Company's strategy.
8. Ensuring the Health, Safety and Well-Being of Employees: in conjunction with the senior management team, developing, overseeing and reviewing the effectiveness of the Company's occupational health and safety systems to ensure the well-being of all employees.
9. Delegation of Authority: delegating appropriate powers to the CEO to ensure the effective day-to-day management of the Company and establishing and determining the powers and functions of the Committees of the Board.

1.4 BOARD POLICIES

1.4.1 Conflicts of Interest

Directors must:

- 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 and the interests of any other parties in carrying out the activities of the Company; and
- if requested by the Board, within such period as may be permitted and reasonable, take such necessary and reasonable steps to remove any conflict of interest.

If a Director cannot or is unwilling to remove a conflict of interest then the Director must, as per the Corporations Act, absent himself or herself from the room when discussion and/or voting occurs on matters about which the conflict relates.

CORPORATE GOVERNANCE

1. BOARD OF DIRECTORS (continued)

1.4 BOARD POLICIES (continued)

*1.4.2 **Commitments***

Each member of the Board is committed to spending sufficient time to enable them to carry out their duties as a Director of the Company.

*1.4.3 **Confidentiality***

In accordance with legal requirements and agreed ethical standards, Directors and key executives of the Company have agreed to keep confidential, information received in the course of the exercise of their duties and will not disclose non-public information except where disclosure is authorised or legally mandated.

*1.4.4 **Continuous Disclosure***

The Board has designated the Company Secretary as the person responsible for overseeing and coordinating disclosure of information to the ASX as well as communicating with the ASX. In accordance with the ASX Listing Rules the Company immediately notifies the ASX of information:

1. concerning the Company that a reasonable person would expect to have a material effect on the price or value of the Company's securities; and
2. that would, or would be likely to, influence persons who commonly invest in securities in deciding whether to acquire or dispose of the Company's securities.

*1.4.5 **Independent Professional Advice***

The Board collectively and each Director has the right to seek independent professional advice at the Company's expense, with the prior approval of the Chairman, to assist them to carry out their responsibilities. Any such advice is to be provided to all Directors.

*1.4.6 **Related Party Transactions***

Related party transactions include any financial transaction between a Director and the Company and will be reported in writing to each Board meeting. Unless there is an exemption under the Corporations Act from the requirement to obtain shareholder approval for the related party transaction, the Board cannot approve the transaction.

*1.4.7 **Shareholder Communication***

The Company respects the rights of its shareholders and to facilitate the effective exercise of those rights the Company is committed to:

1. communicating effectively with shareholders through releases to the market via ASX, information mailed to shareholders and the general meetings of the Company;
2. giving shareholders ready access to balanced and understandable information about the Company and corporate proposals;
3. making it easy for shareholders to participate in general meetings of the Company; and
4. requesting the external auditor to attend the annual general meeting and be available to answer shareholder questions about the conduct of the audit and the preparation and content of the auditor's report.

The Company has established a corporate web site.

The Company also makes available a telephone number and email address for shareholders to make enquiries of the Company.

1. BOARD OF DIRECTORS (continued)

1.4 BOARD POLICIES (continued)

1.4.9 Trading in Company Shares

Consistent with the law, Directors, members of senior management and other employees are prohibited from trading in the Company's securities while in the possession of unpublished price sensitive information concerning the Company. Unpublished price sensitive information is information regarding the Company, of which the market is not aware, that a reasonable person would expect to have a material effect on the price or value of the Company's securities.

Notice of an intention to trade must be given prior to trading in the Company's securities as well as a confirmation that the person is not in possession of any unpublished price sensitive information. The completion of any such trade by a Director must also be notified to the Company Secretary who in turn advises the ASX.

1.4.10 Performance Review / Evaluation

The Board has not conducted a formal independent evaluation of its performance. However, the Board is at all times aware of the need for it and individual Board members to perform to the benefit of all stakeholders.

1.4.11 Attestations by CEO and CFO

It is the Board's policy that the CEO and the CFO made the attestations recommended by the ASX Corporate Governance Council as to the Company's financial condition prior to the Board signing the Annual Report. Mr Tim Wise and Mr Phillip MacLeod have been designated CEO and CFO for the purposes of this attestation.

2. BOARD COMMITTEES

2.1 AUDIT COMMITTEE

2.1.1 Role

An Audit Committee is responsible for reviewing the integrity of the Company's financial reporting and overseeing the independence of the external auditors.

Due to the size and scale of operations, the Company does not have an Audit Committee with all matters usually consider by this committee being dealt with during regular Board meetings.

2.2 REMUNERATION COMMITTEE

2.2.1 Role

The role of a Remuneration Committee is to assist the Board in fulfilling its responsibilities in respect of establishing appropriate remuneration levels and incentive policies for employees.

Given the size and scale of operations, the Company does not have a Remuneration Committee. It is considered that the establishment of this committee would not be a more efficient mechanism than the full Board for focusing the Company on specific issues.

CORPORATE GOVERNANCE

2. BOARD COMMITTEES (continued)

2.2 REMUNERATION COMMITTEE (continued)

2.2.2 Remuneration Policy

2.2.2.1 Senior Executive Remuneration Policy

The Company is committed to remunerating its senior executives in a manner that is market-competitive and consistent with best practice as well as supporting the interests of shareholders. The remuneration of senior executives may be comprised of the following:

- fixed salary that is determined from a review of the market and reflects core performance requirements and expectations;
- a performance bonus designed to reward actual achievement by the individual of performance objectives and for materially improved Company performance;
- participation in a Company option scheme with thresholds approved by shareholders; and
- statutory superannuation.

2.2.2.2 Non-Executive Director Remuneration Policy

Non-Executive Directors are paid their fees out of the maximum aggregate amount approved by shareholders for the remuneration of Non-Executive Directors.

Non-Executive Directors are entitled to statutory superannuation.

2.2.3 Current Director Remuneration

Full details regarding the remuneration of Directors is included in the Directors' Report.

2.3 NOMINATION COMMITTEE

2.3.1 Role

The role of a Nomination Committee is to help achieve a structured Board that adds value to the Company by ensuring an appropriate mix of skills are present in Directors on the Board at all times.

Given the size and scale of operations, the Company does not have a Nomination Committee. It is considered that the establishment of this committee would not be a more efficient mechanism than the full Board for focusing the Company on specific issues.

2.3.2 Criteria for selection of Directors

- Directors are appointed based on the specific skills required by the Company. Given the size of the Company and the business that it operates, the Company aims at all times to have at least one Director with experience in the Company's industry, appropriate to the Company's market.

3. COMPANY CODE OF CONDUCT

The Code of Conduct is a guide to compliance with legal and other obligations to legitimate stakeholders. These stakeholders include employees, clients, customers, government authorities, creditors and the community as whole. The Code includes the following.

Responsibilities to Shareholders and the Financial Community Generally

The Company complies with the spirit as well as the letter of all laws and regulations that govern shareholders' rights.

The Company has processes in place designed to ensure the truthful and factual presentation of the Company's financial position and prepares and maintains its accounts fairly and accurately in accordance with the generally accepted accounting and financial reporting standards.

Responsibilities to Clients, Customers and Consumers

Each employee has an obligation to use their best efforts to deal in a fair and responsible manner with each of the Company's clients, customers and consumers. The Company for its part is committed to providing clients, customers and consumers with fair value.

Employment Practices

The Company endeavours to provide a safe workplace in which there is equal opportunity for all employees at all levels of the Company. The Company does not tolerate the offering or acceptance of bribes or the misuse of Company assets or resources.

Obligations Relative to Fair Trading and Dealing

The Company aims to conduct its business fairly and to compete ethically and in accordance with relevant competition laws. The Company strives to deal fairly with the Company's customers, suppliers, competitors and other employees and encourages it employees to strive to do the same.

Responsibilities to the Community

As part of the community the Company is committed to conducting its business in accordance with applicable environmental laws and regulations.

Responsibility to the Individual

The Company is committed to keeping private information from employees, clients, customers, consumers and investors confidential and protected from uses other than those for which it was provided.

Conflicts of Interest

Employees and Directors must avoid conflicts as well as the appearance of conflicts between personal interests and the interests of the Company.

How the Company Complies with Legislation Affecting its Operations

Within Australia, the Company strives to comply with the spirit and the letter of all legislation affecting its operations. Outside Australia, the Company will abide by local laws in all countries in which it operates. Where those laws are not as stringent as the Company's operating policies, particularly in relation to the environment, workplace practices, intellectual property and the giving of "gifts", Company policy will prevail.

How the Company Monitors and Ensures Compliance with its Code

Disciplinary measures may be imposed for violating the proposed Code.

CORPORATE GOVERNANCE

ASX GUIDELINES ON CORPORATE GOVERNANCE

The ASX Corporate Governance Council has developed a set of guidelines, Principles of Good Corporate Governance and Best Practice Recommendations. This document articulates 10 core principles that the ASX Corporate Governance Council believes underlie good corporate governance. Each principle is then explained in detail, with implementation guidance in the form of best practice recommendations. ASX states that "the best practice recommendations are not prescriptions. They are guidelines, designed to produce an efficiency, quality or integrity outcome."

This means that under ASX Listing Rule 4.10 the Company must provide a statement disclosing the extent to which the ASX best practice recommendations have been followed in the reporting period. It is only where a best practice recommendation is not met or where a disclosure requirement is specifically identified that a disclosure obligation is triggered. Below, the Company provides explanation of any areas in the ASX best practice recommendations where Midas does not presently comply.

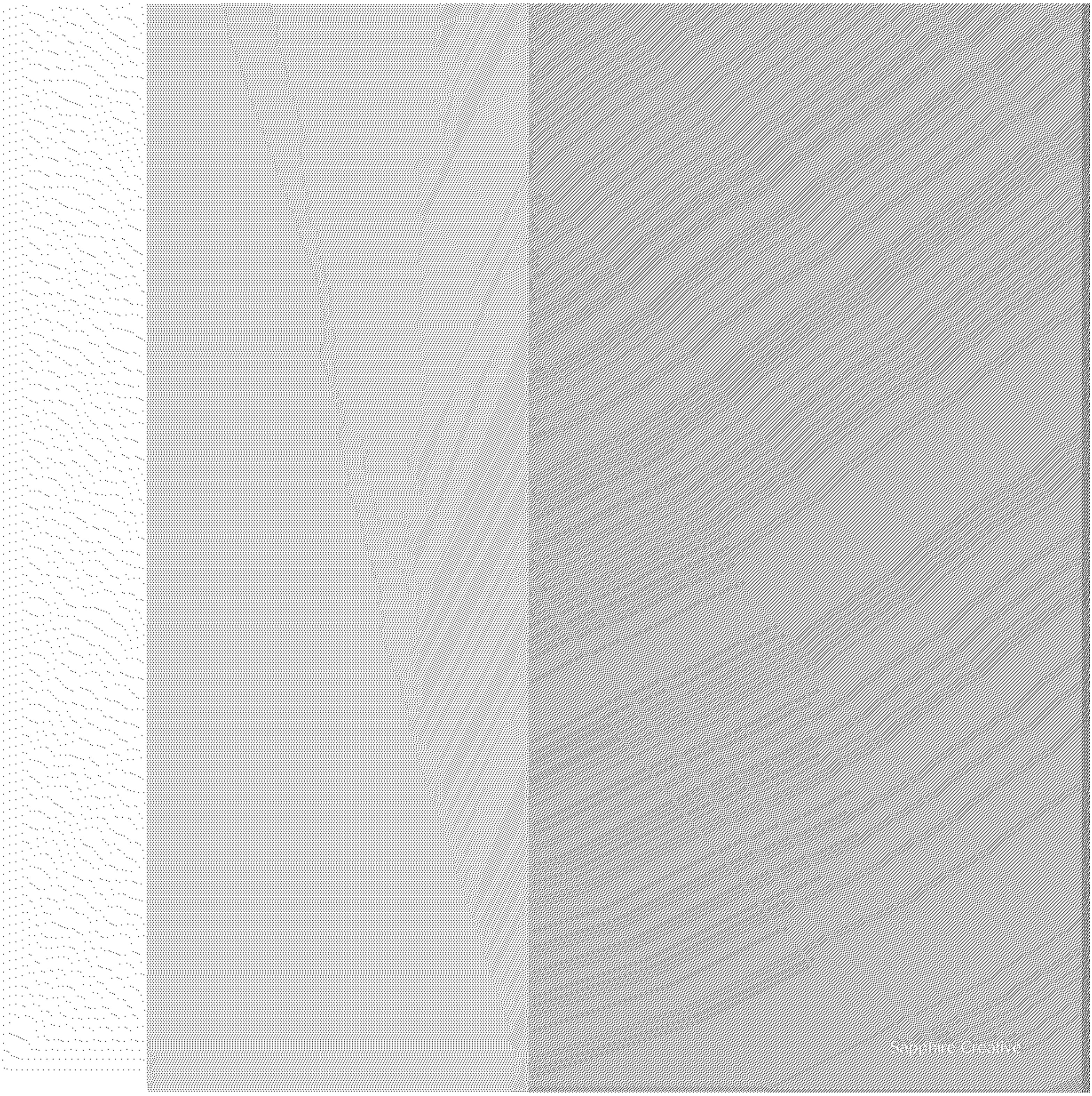
ASX CORPORATE GOVERNANCE BEST PRACTICE RECOMMENDATIONS WITH WHICH THE COMPANY DOES NOT PRESENTLY COMPLY

1. The Chairman is not an independent non-executive director.

   Mr Wise is the Company's Executive Chairman. The ASX Corporate Governance Council recommends that an independent non-executive director hold the position of Chairman. The Company considers it appropriate at this time for Mr Wise to hold this position given the size and operations of the Company and its Board and the independence exercised by the other Board members.

2. As commented above, the Board has not constituted any committees with all matters typically dealt with by the recommended committees addressed by the whole Board.

3. The guidelines also recommend that the Company maintain a dedicated corporate governance information section on its website. The Company is establishing this section of its website..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