



21 April 2011

The Manager Companies
ASX Limited
20 Bridge Street
SYDNEY NSW 2000

(71 pages by email)

Dear Madam

ANNUAL REPORT AND NOTICE OF AGM

In accordance with Listing Rule 4.7 and 3.17, I attach the Company's Annual Report for the year ended 31 December 2010 and the Company's Notice of Annual General Meeting to be held at 11:00 am on 25 May 2011.

In accordance with Listing Rule 15.4 two hard copies of the Company's Annual Report will be delivered to the Company's Home Exchange.

Yours sincerely

A handwritten signature in black ink, appearing to read "PJN", is written over a large, faint, stylized orange and white circular graphic that resembles a sun or a target.

Peter J. Nightingale
Director

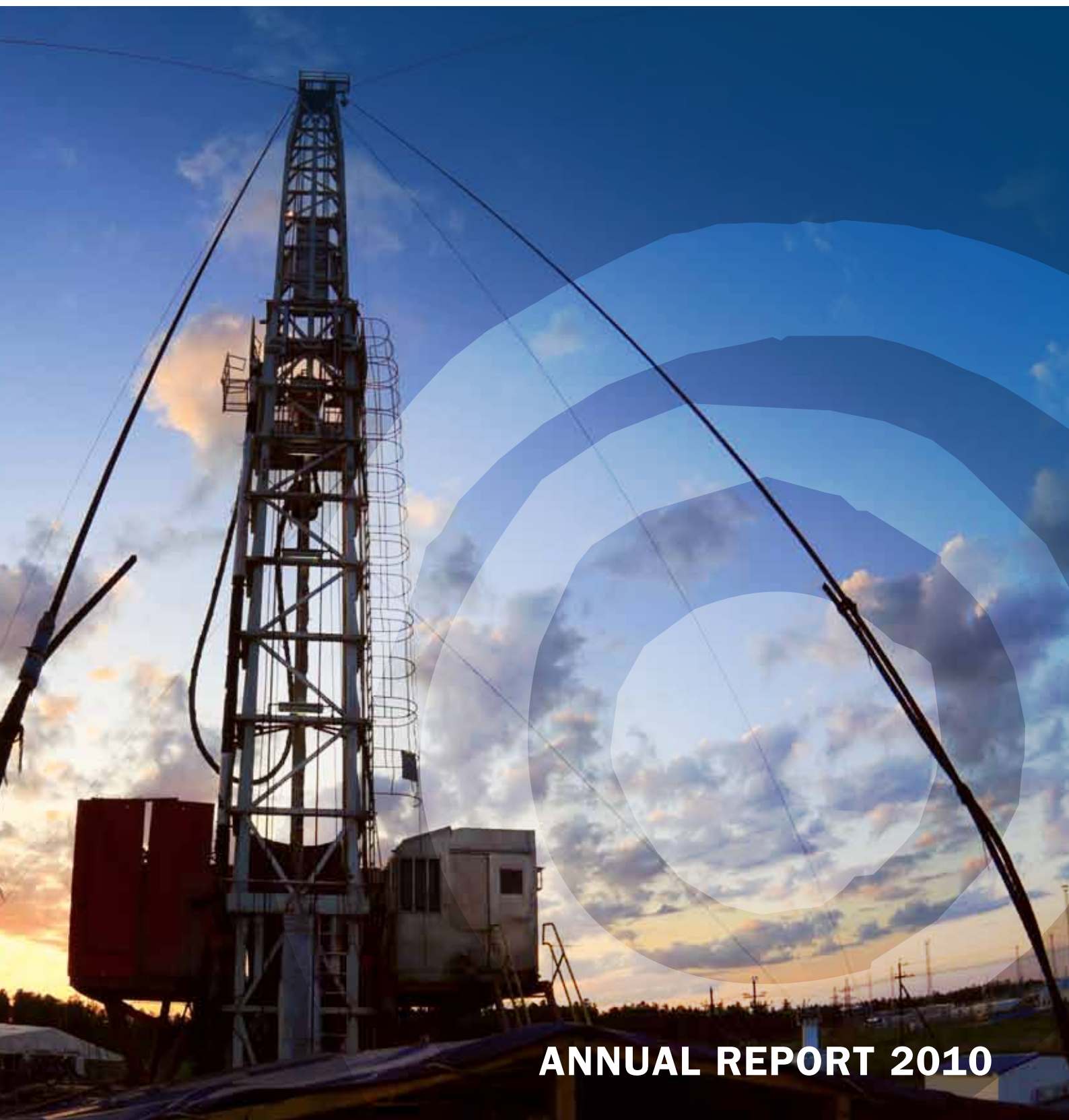
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Planet Gas Limited and its Controlled Entities
ABN 46 098 952 035



ANNUAL REPORT 2010

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CHAIRMAN'S LETTER



Dear Fellow Shareholder,

Sadly, in September Sharif Oussa, one of our founders, and the incumbent Managing Director, passed away. Sharif will be remembered as one of the pioneers of Coal Bed Methane ('CBM') in Eastern Australia.

In my last communication to you I noted that we had been busy consolidating our finances and positioning our business through the building of a portfolio of unconventional resource assets.

As a result of a changing energy marketplace, and rapidly changing energy priorities, however, we have had to adapt and have taken significant steps in rationalising our business during 2010. The rationalisation continues.

I noted previously that we were looking to diversify our resource base. We have been successful in achieving this through our farm-in to three well addressed, CBM prospective, petroleum exploration licences in New South Wales. The licences sit in the main CBM fairway adjacent to existing projects and/or CBM discoveries in the Sydney and Gunnedah Basins. We are close to commencing drilling operations on those licences.

We have also been busy interpreting data from PELA 514 in the Cooper/Eromanga Basin, concurrent with finalising the Native Title arrangements on the licence. In addition to conventional oil and gas, the licence appears to be prospective for CBM and contains hydrocarbon rich shales, which are currently the focus of exploration by other Cooper Basin permit holders.

I am firmly of the belief that the current portfolio of assets provides an excellent platform for growth.

Yours faithfully

A handwritten signature in black ink, appearing to read 'Norman A. Seckold'. The signature is fluid and cursive, with a long, sweeping tail that extends to the right.

Norman A. Seckold
Chairman

REVIEW OF OPERATIONS



SUMMARY

The year ended 31 December 2010 was a tumultuous year for the energy sector, including Planet Gas Limited ('Planet Gas' or 'the Company'). The year saw a significant shift in global and national attitudes towards unconventional energy. In response to this changing environment, the Company broadened its focus by a diversification into conventional hydrocarbon and coal bed methane ('CBM') projects. The Company also commenced and continues its rationalisation of unconventional energy assets.

We were also saddened by the death of Sharif Oussa, the Company's Managing Director, during the financial year and express our sincere condolences to his family and friends.

During 2010 the Company:

- ⊙ Executed a farm-in agreement for a 50% equity interest in three CBM prospective Petroleum Exploration Licences (PELs 468, 469 and 470) in New South Wales, covering 5,579 km².
- ⊙ Progressed to Phase 2 of the farm-in agreement, and commenced planning for the acquisition of 80 line kilometres of seismic testing and the drilling of four exploration coreholes.
- ⊙ Commenced native title processes for Cooper Basin PELA 514 (CO2009-C) continuing technical evaluation of existing data and risk ranking of prospects.
- ⊙ Appointed a new Chief Executive Officer.
- ⊙ Was granted new Sydney Basin and Innot Springs geothermal licences and continued technical and commercial rationalisation of the geothermal project portfolio.
- ⊙ Commenced divestment efforts for the USA CBM assets.

REVIEW OF OPERATIONS



The year saw a significant shift in global and national attitudes towards unconventional energy.

CORPORATE ACTIVITIES

Management Changes

Regretfully, in September 2010, the Company's incumbent Managing Director, Sharif Oussa, passed away. Sharif was one of the Company's founders and had rejoined as Managing Director and CEO during 2009.

Ian Halstead, who joined the Company initially as Chief Operating Officer in July 2010, was appointed as Chief Executive Officer in October 2010. With a long history in oil and gas management and with the Company poised to enter operational phases in both its CBM and conventional oil and gas projects, Ian Halstead was an obvious selection as CEO. Ian Halstead is a geologist with more than 27 years of oil and gas exploration, development and production experience, 16 years of which were in senior management roles.

Along with normal executive duties, his duties include:

- ⊙ Rationalisation of the Company's geothermal project portfolio.
- ⊙ Rationalisation of the Company's non-performing and already impaired CBM assets in the USA.

REVIEW OF OPERATIONS

PROJECTS

The Company holds rights to the following projects:

Australia

- Sydney and Gunnedah Basins - CBM projects, New South Wales.
- Cooper/Eromanga Basin - oil and gas project, South Australia.
- Gradient Energy - geothermal projects.

USA

- Powder River Basin - CBM projects, Wyoming.

Map highlights the Planet Gas Australian Projects



REVIEW OF OPERATIONS

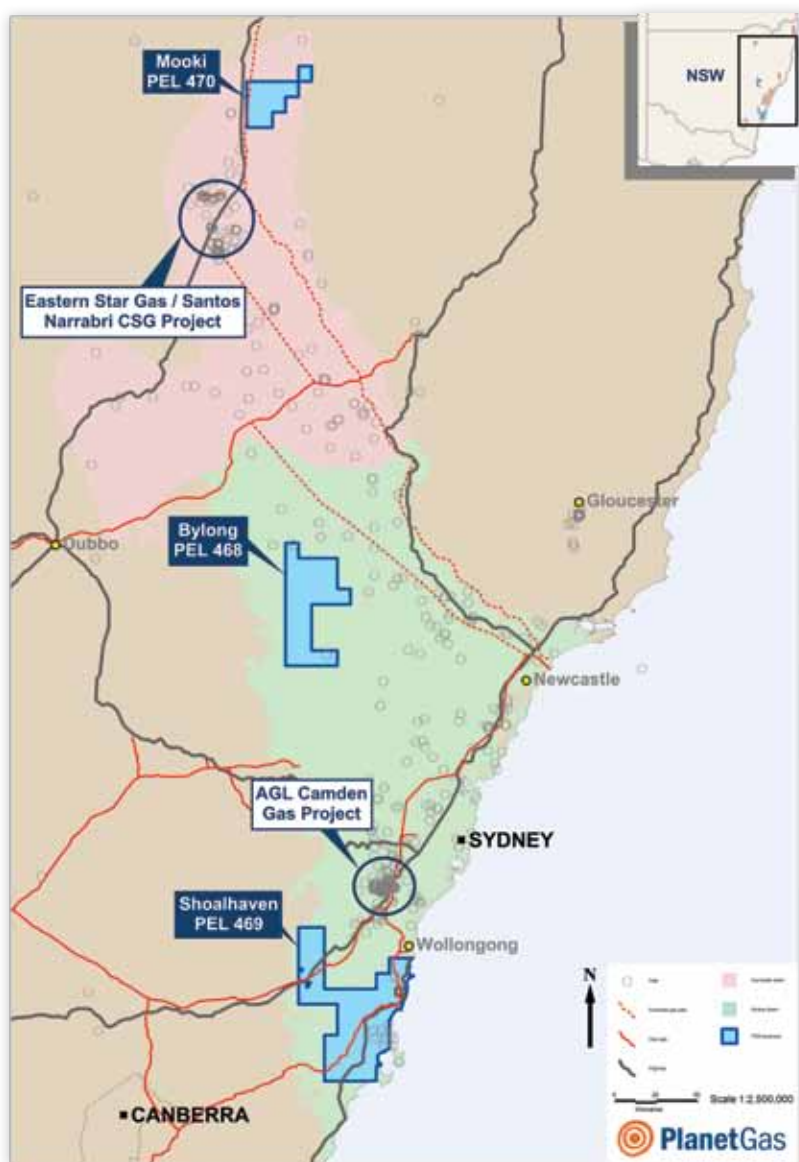
Sydney and Gunnedah Basins - CBM Projects

During the year, the Company entered into a farm-in agreement with Leichhardt Resources Pty Ltd with rights to earn a 50% equity interest in three highly prospective and well situated petroleum exploration licences in New South Wales. The farm-ins will be achieved by the Company, as operator, completing two exploration programs over each of the PELs.

The agreement covers a total tenement portfolio of 5,579 km² at Bylong (PEL 468) and Shoalhaven (PEL 469) in the Sydney Basin, and at Mooki (PEL 470) in the Gunnedah Basin.

In the Sydney Basin tenements, the Company will target CBM resources hosted by the geological sequences of the Illawarra Coal Measures (or equivalent) and the Shoalhaven Group. Such resources could potentially deliver natural gas production for electrical power generation and gas reticulation to serve Sydney's rapidly expanding electrical and energy demands.

The Gunnedah Basin tenement is adjacent to the Narrabri CBM development project, and the Company will target the Maules Creek coals in that PEL.



The farm-in agreement required no upfront payments by the Company. Each area is the subject of a three phase farm-in process, commencing with a 60 day due diligence period which has been satisfactorily completed. The estimated minimum expenditure for the technical works, or in ground costs, by the Company over the three year life of the farm-ins is \$15.9 million, including approximately \$4.2 million during Phase 2. The Company retains the option not to proceed on any, or all, of the farm-ins upon completion of the Phase 2 work program, or during the course of the Phase 3 work program.

The three farm-ins, whilst separate, have been designed so that they can be run concurrently, in order to reduce overall overheads, management costs, and more importantly to manage rig and equipment availability and scheduling, plant and personnel, over the three petroleum licences during the course of the field activities.

Planning is well advanced for the execution of the Phase 2 work program. Community consultation is underway, seismic lines and preliminary wellsite locations have been selected contracts for the seismic testing and exploratory corehole drilling have been awarded in anticipation of the commencement of operations early in the second quarter of 2011.

REVIEW OF OPERATIONS

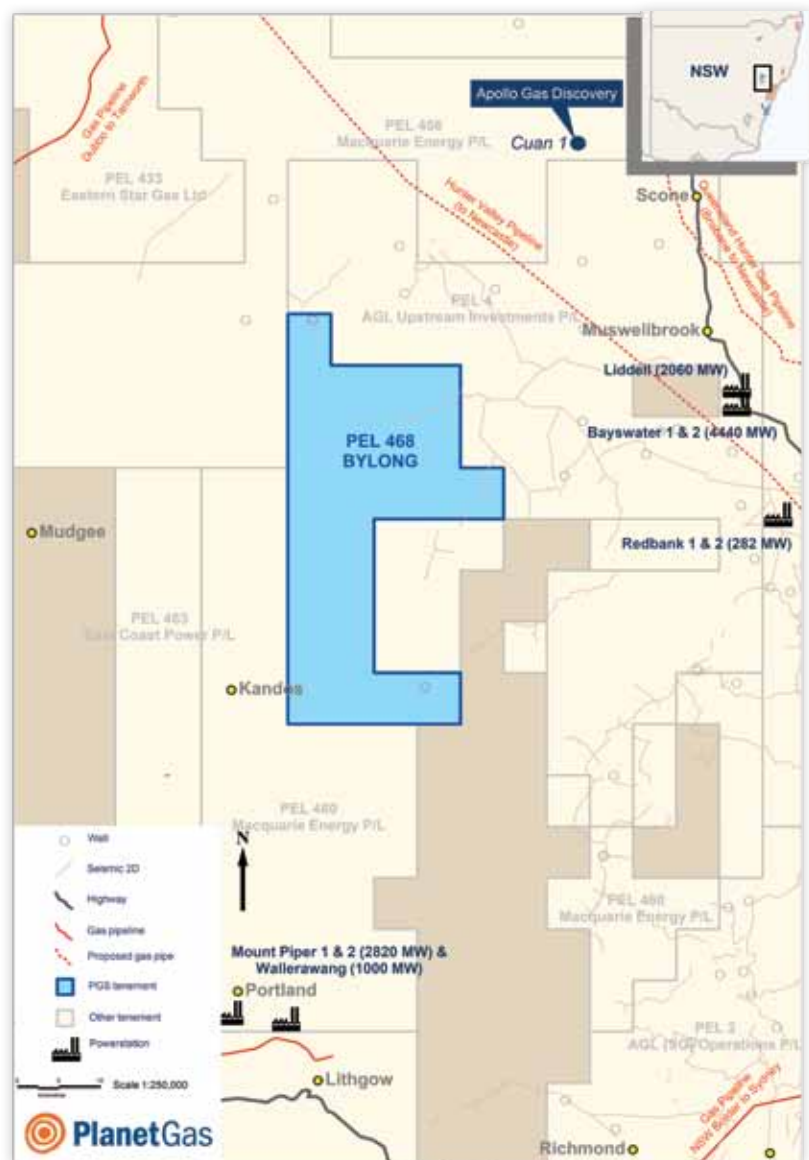
PEL 468 - Bylong

Bylong (PEL 468) covers some 1,736 km² and is located on the boundary of the Gunnedah Basin and Sydney (Hunter Coalfield) Basins. It is 300 kilometres northwest of Sydney and approximately equidistant from the regional centres of Dubbo, Tamworth and Newcastle.

To date, some 48 NSW Government commissioned drillholes, and a number of oil and gas exploration wells drilled within close proximity to the margins of the licence, have been reviewed. These holes intersected the Late Permian Black Jack Formation/Wittingham Coal Measures (Illawarra equivalent) at depths ranging from subcrop to 800 metres. Drilling of these coal seams in adjacent areas has indicated a coal thickness of up to 90 metres, with gas contents as high as 15m³ per tonne, as evidenced by a recent well, Cuan-1, drilled during 2010 in adjacent PEL 456.

The Phase 2 work program, which includes the completion of 30 line kilometres of seismic testing, drilling, logging and permeability testing of two exploration coreholes, will be undertaken during the first half of 2011.

Bylong (PEL 468) covers some 1,736 km² and is located on the boundary of the Gunnedah Basin and Sydney (Hunter Coalfield) Basins.



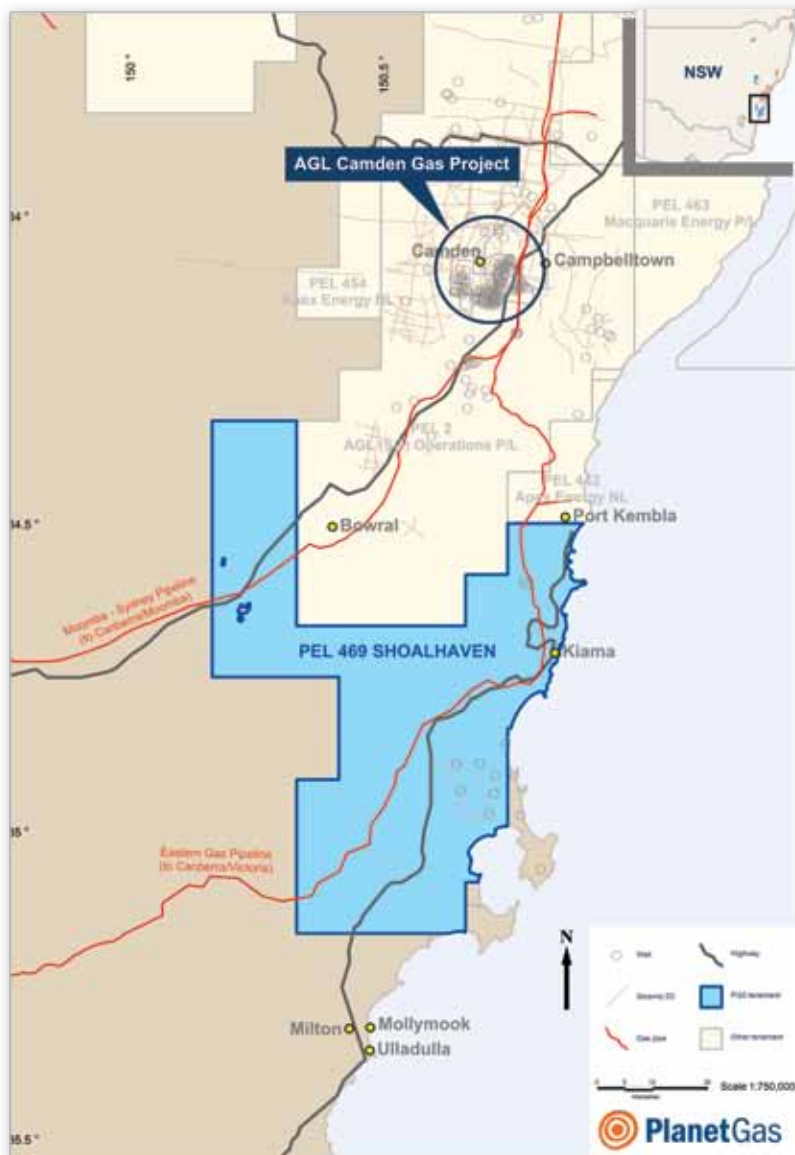
REVIEW OF OPERATIONS

PEL 469 - Shoalhaven

Shoalhaven (PEL 469) covers 3,173 km² and is located in the Southern Coalfield of the Sydney Basin. The PEL is located 80 kilometres south of Sydney and adjacent to PEL 2 (AGL Camden gas project). The Moomba to Sydney regional pipeline linking Sydney, Canberra and Victoria to Moomba gas field passes through PEL 469 and the proposed 40TJ/Day Rosalind Park gas plant is less than 40 kilometres away.

To date, 56 existing drillholes and two seismic lines to the north west of the PEL have been reviewed. The Clyde and Illawarra coals are prospective for CBM gas resources in this PEL. The Clyde Coal Measures are up to 15 metres thick and the Illawarra up to 25 metres thick. The Illawarra Coal Measures contain 11 named coal seams including four main prospective target seams, being the Bulli, Balgownie, Wongawilli and Tongarra Seams. Coal vitrinite reflectance data for these seams average 1.2 and historical mine gas data indicates gas contents of 10m³ to 16m³ per tonne.

The Phase 2 work program, which includes the completion of 20 line kilometres of seismic testing, drilling, logging and permeability testing of a single exploration corehole, will be undertaken during the first half of 2011.



Shoalhaven (PEL 469) covers 3,173 km² and is located in the Southern Coalfield of the Sydney Basin.

REVIEW OF OPERATIONS

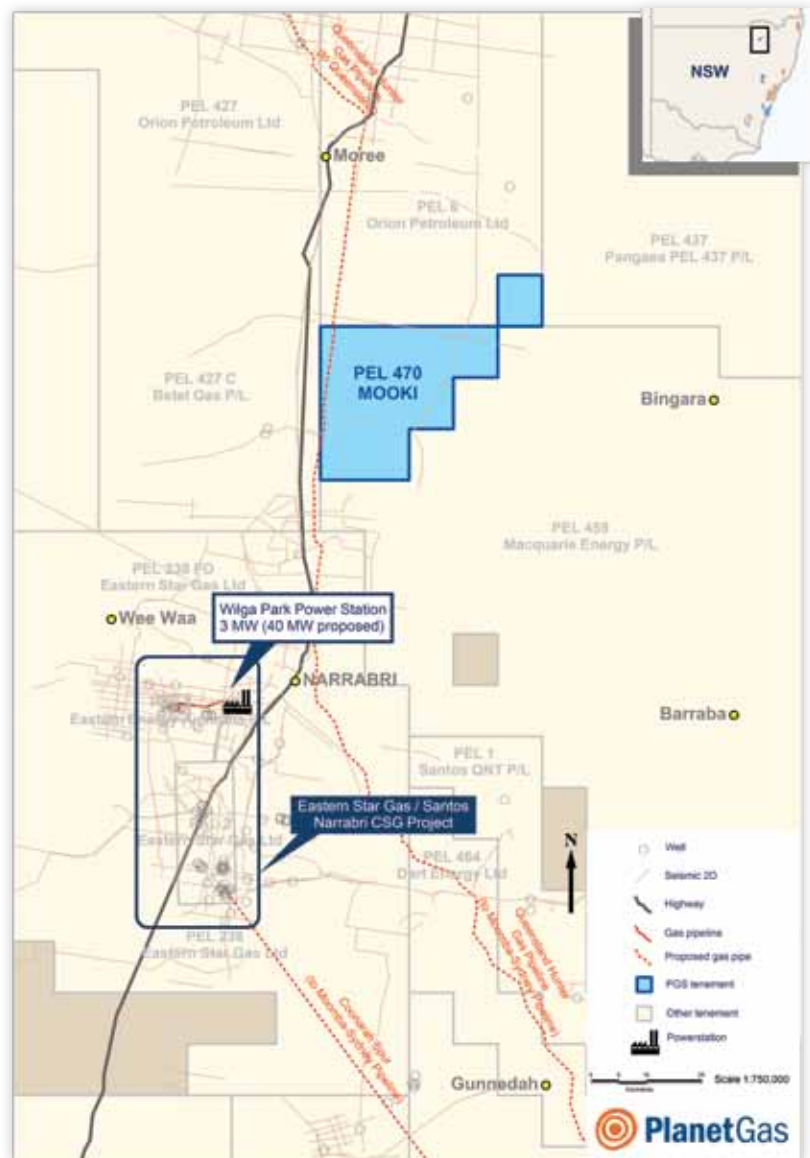
PEL 470 - Mooki

Mooki (PEL 470) covers some 670 km² and is located between the regional centres of Moree and Narrabri, less than 100 kilometres from the Wilga Park Gas Fired Power Station. The proposed Queensland to Hunter gas pipeline development from the Roma Gas Fields to Newcastle runs through the area, providing numerous potential options for future gas offtake.

The PEL is located in the Northern Gunnedah Basin. The eastern boundary of the prospect is adjacent to the Hunter-Mooki Fault, a regional feature active throughout deposition of the coal measures and a depocentre for thick accumulations of coal bearing sediments. Drilling in the area has intersected net coal thicknesses of between 15 to 20 metres from the early-mid Permian Black Jack/Maules Creek Formations and gas contents of up to 10m³ per tonne. A recent well drilled during 2010 at Edgeroi, about 12 kilometres south of the PEL 470 boundary, is reported to have contained between 33.5 metres and 42.5 metres of 'gas saturated' coal.

The Phase 2 work program, which includes the completion of 30 line kilometres of seismic testing, drilling, logging and permeability testing of a single exploration corehole, is expected to be undertaken during the first half of 2011.

Mooki (PEL 470) covers some 670 km² and is located between the regional centres of Moree and Narrabri.



REVIEW OF OPERATIONS

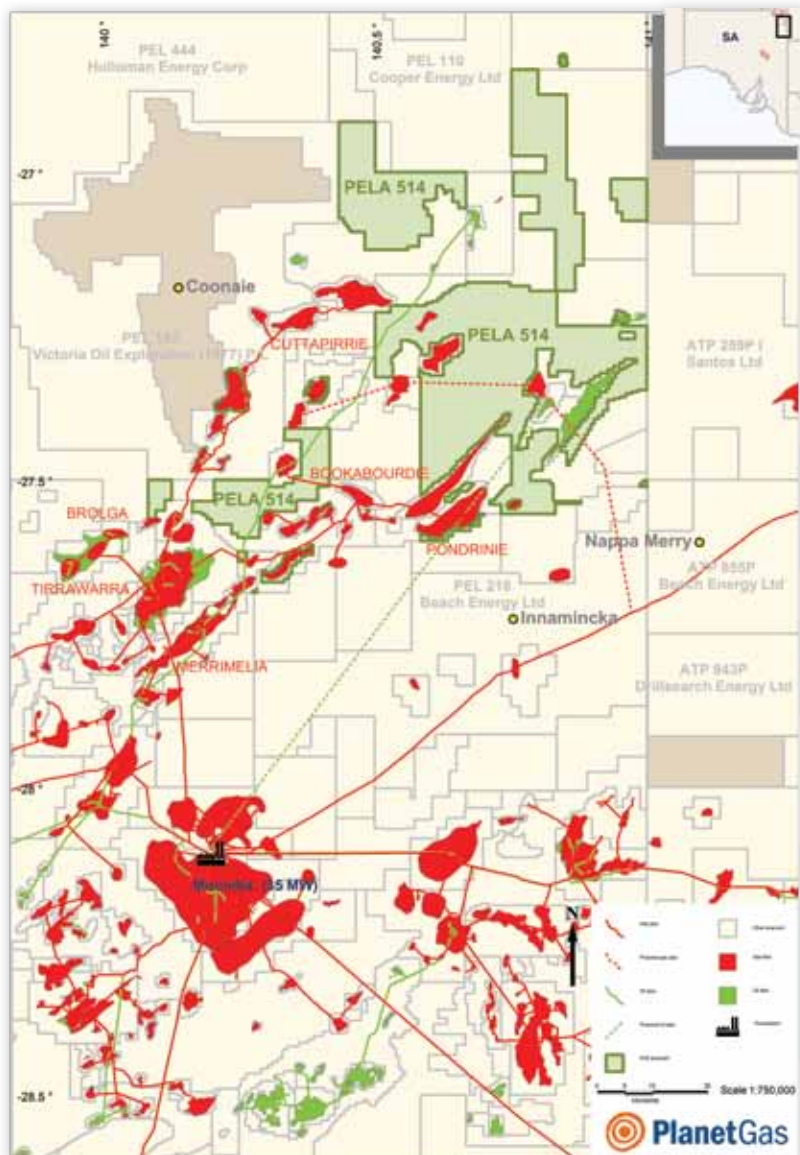
Cooper/Eromanga Basin - Oil and Gas Project, South Australia

PELA 514

The Company is in the final stages of completing native title processes on PELA 514 (C02009-C), which was the subject of a successful tender in late 2009.

PELA 514 is in the northern part of the Cooper/Eromanga basins, and is strategically located close to existing producing oil and gas fields, and existing under-utilised infrastructure. Nearby discoveries include Reg Sprigg-3, Acrasia, Flax, and Arrow. The Moondie gas field and James oil discovery lie within the licence area.

The northern part of the licence is underexplored and surrounds a trend of Jurassic and Triassic oil discoveries. The southern part of the licence area lies within the Permian Gas province. To the east there have also been several Permian oil and gas discoveries. Hydrocarbons in the northern area are sourced from the Patchawarra Trough and the Araburru Trough to the east and partially from the Poolowanna Trough to the west.



Preliminary work indicates oil prospectivity within the Jurassic and Cretaceous Namur and Hutton sandstones, Murta Formation, and also the Triassic sands; Permian gas in the Toolachee and Patchawarra Formations; and liquids-rich gas in the Tirrawarra Formation.

Good quality coals and hydrocarbon rich shales are also present across the area as evidenced by wells drilled within, and proximal to the licence area. This adds an unconventional prospectivity dimension. Specifically, there is CBM potential in the coals of the Cretaceous Winton, Permian Toolachee, and Patchawarra horizons and also shale gas potential in the Daralingie and Murteree shales. The Company is particularly encouraged by the recent encounter of a 400 metre thick section of gas rich shales in a well drilled in the adjacent PEL 218, located immediately south of PELA 514.

REVIEW OF OPERATIONS

Gradient Energy - Geothermal Projects

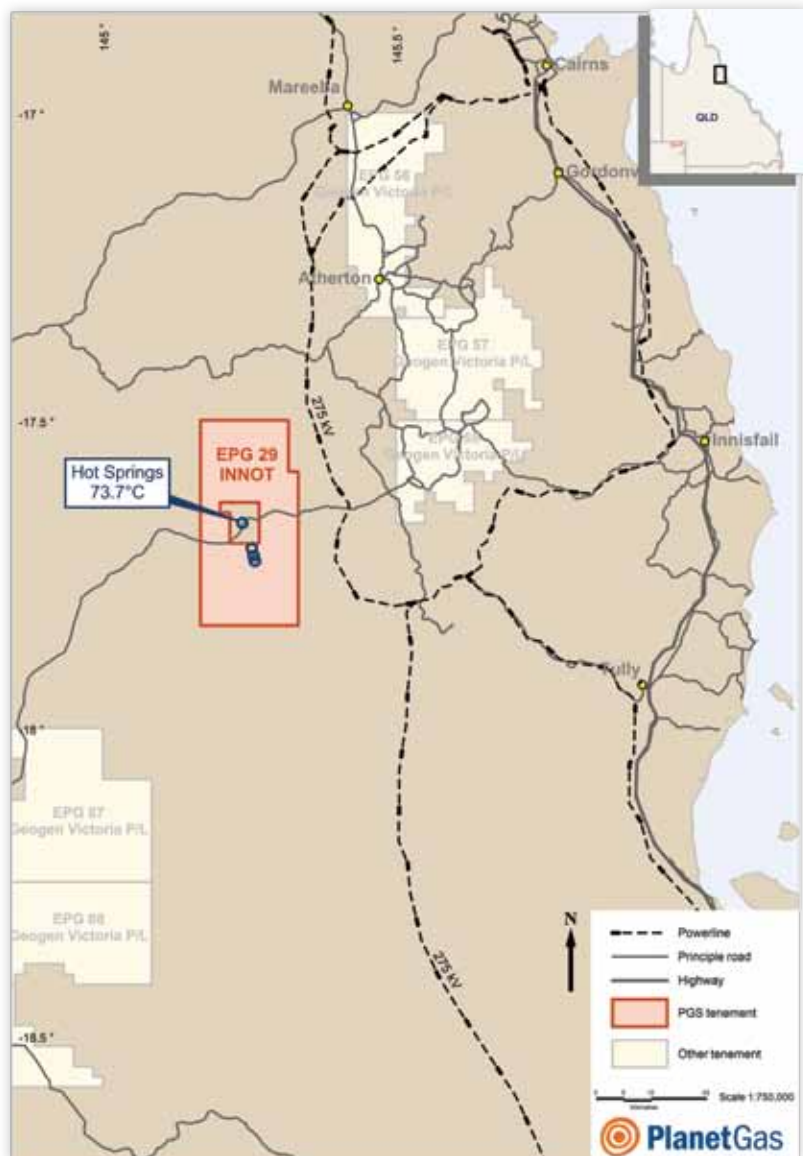
The Company operates several geothermal projects across Queensland, New South Wales and South Australia through its 100% owned subsidiary Gradient Energy Pty Limited. During 2010, the Company was awarded additional licences in the Sydney Basin in New South Wales and at Innot, near Cairns in Queensland.

Queensland - Innot

The Innot geothermal licence, covering 596 km², was awarded to the Company during 2010. The licence is located 10 kilometres from 275 KVa powerlines of the main east coast grid and is 100 kilometres from Cairns. The Innot project is distinct from most other geothermal projects in Australia, with a known geothermal spring system expressed at the surface with a temperature of 73.7°C. The main target at Innot is a Hot Fractured Aquifer ('HFA') system where the reservoir is a naturally permeable high flow rate structural zone.

Activities during 2010 included extensive geological and geophysical studies.

The Innot geothermal licence, covering 596 km², is located 10 kilometres from 275 KVa powerlines of the main east coast grid and is 100 kilometres from Cairns.



REVIEW OF OPERATIONS

New South Wales - Clarence Moreton/Gloucester and Sydney Basin

During the year, the Company was awarded three Sydney Basin geothermal exploration licences which cover approximately 5,077 km² of prospective ground in the Camden, Richmond and Ourimbah areas.

The Company plans to target exploration in these areas for large scale Hot Sedimentary Aquifer ('HSA') geothermal resources hosted by the Illawarra Coal Measures and the Shoalhaven Group. Exploration activities during the year included extensive geological and geophysical investigations, historic core sample collection and testing, and existing seismic data acquisition and reprocessing.

South Australia - Cooper/Eromanga Basin

These licences cover 6,101 km² in the Cooper/Eromanga geothermal province and are considered prospective for both HSA and HFA resources. Due to weather conditions, the Company applied for, and was granted, a six month suspension of the Eromanga licences. Exploration activities during 2010 focused on quantifying the heat-flow and thermal gradients of the licences. Thermal conductivity measurements were obtained from archived rock samples of underlying formations. Thermal heat-flow modelling indicates reasonably high temperature gradients and vertical conductive heat flow, probably due to the presence of the Big Lake Suite granites at the base of the Eromanga sequence. This is corroborated by gravity and magnetic data and is currently being targeted by another operator near Innamincka.

South Australia - Leigh Creek

The Leigh Creek licences cover 6,590 km² and are situated at the head of the NEM power lines that connect the Leigh Creek coal mine to Adelaide and Port Augusta. The Leigh Creek project is located within the South Australian heat flow anomaly. The primary target is a regional fault system known to host hot spring systems in the area, there may also be Hot Fractured Rock resources in a gravity low thought to represent buried radiogenic granites. During the year the Company was awarded a PACE grant from the South Australian Government to support project exploration activities. Through the use of mineral and thermal ASTER imaging (Advanced Spaceborne Thermal Emission and Reflectance Radiometer) it is hoped to identify and map the surface expression of HFA systems. ASTER has been acquired through Geoscience Australia and the Earth Remote Sensing Data Analysis Centre in Japan.

USA Operations

Pauper's Dream Company, the Company's 100% owned USA subsidiary, was renamed Planet Gas USA, Inc., and a management team was put in place, during the course of the year.

Two well workovers were undertaken on West Esponda state lease wells, #16-1 and #16-5. The water enhancement treatments were unsuccessful and resultant water production rates were lower than anticipated in the low permeability coals.

Given the very poor economic environment in the Powder River Basin of Eastern Wyoming, with wellhead gas prices below US\$2.00/MCF, many operators, including at the Company's Oriva and East Esponda projects, shut-in wells, rather than operate at a loss.

As a result of the unsuccessful re-stimulation and poor economics, work on all projects was suspended, pending abandonment. The Esponda and Oriva projects had been written off (impaired) by the Company at the end of 2008.

The USA team continued to evaluate opportunities in the Company's areas of interest, namely the Williston, Denver/Julesberg and Raton Basins of the Rocky Mountain Region, and the Anadarko and Permian Basins of the Mid-Continent Region, but none of the opportunities reviewed were deemed to have the requisite balance of risk and reward.

STATEMENT OF CORPORATE GOVERNANCE

The role and responsibilities of the Board of Directors is for the overall Corporate Governance of the Company and oversight of management, protecting the rights and interests of the shareholders, by adopting systems of control and managed risk as the basis for the administration.

CORPORATE GOVERNANCE STATEMENT

The Board is committed to maintaining the highest standards of Corporate Governance. Corporate Governance is about having a set of core values and behaviours that underpin the Company's activities and ensure transparency, fair dealing and protection of the interests of stakeholders.

The Board of Directors supports the Principles of Good Corporate Governance and Best Practice Recommendations developed by the ASX Corporate Governance Council (Council). Whilst the Company's practices are largely consistent with the Council's guidelines, the Board considers that the implementation of some recommendations are not appropriate having regard to the nature and scale of the Company's activities and size of the Board. The Board uses its best endeavours to ensure exceptions to the Council's guidelines do not have a negative impact on the Company and the best interests of shareholders as a whole. When Planet Gas is not able to implement one of the Council's recommendations the company applies the "if not, why not" explanation approach by applying practices in accordance with the spirit of the relevant principle.

The following discussion outlines the ASX Corporate Governance Council's eight principles and associated recommendations and the extent to which the Company complies with those recommendations.

Principle 1 - Lay Solid Foundations for Management and Oversight

The Company has adopted recommendation 1.1 to disclose the functions reserved to the Board and those delegated to senior executives in the context of every new director and senior executive appointment.

BOARD OF DIRECTORS - ROLE AND RESPONSIBILITIES

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. The Board is also responsible for the overall corporate governance and management oversight of the Company, and recognises the need for the highest standards of behaviour and accountability in acting in the best interests of the Company as a whole.

The Board also ensures that the Company complies with all of its contractual, statutory and any other legal or regulatory obligations. The Board has the final responsibility for the successful operations of the Company.

Where the Board considers that particular expertise or information is required, which is not available from within their members, appropriate external advice may be taken and reviewed prior to a final decision being made by the Board.

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

- formulation and approval of the strategic direction, objectives and goals of the Company;
- the prudential control of the Company's finances and operations and monitoring the financial performance of the Company;
- the resourcing, review and monitoring of executive management;
- ensuring that adequate internal control systems and procedures exist and that compliance with these systems and procedures is maintained;
- the identification of significant business risks and ensuring that such risks are adequately managed;
- the timeliness, accuracy and effectiveness of communications and reporting to shareholders and the market; and
- the establishment and maintenance of appropriate ethical standards.

The Company has adopted recommendation 1.2 of evaluating the performance of senior executives.

From January 2010 the Board reviewed face to face the performance of its senior executives.

The Company has not adopted recommendation 1.3 due to the small size of the company.

The performance evaluation for the CEO will be conducted on the process described in Recommendation 1.2 by the Chairman of the Board once the CEO completes at least 1 year of services on the role. No other evaluation will be carried out.

Principle 2 - Structure the Board to Add Value

BOARD OF DIRECTORS - COMPOSITION, STRUCTURE AND PROCESS

The Board has been formed so that it has effective composition, size and commitment to adequately discharge its responsibilities and duties given the Company's current size, scale and nature of its activities.

INDEPENDENT DIRECTORS

The Board is made up of six Directors of which four Directors are independent non-executive Directors. The Company has adopted recommendation 2.1.

STATEMENT OF CORPORATE GOVERNANCE

REGULAR ASSESSMENT OF INDEPENDENCE

An Independent Director, in the view of the Company, is a Non-executive Director who:

- is not a substantial shareholder of the Company or an officer of, or otherwise associated directly with, a substantial shareholder of the Company;
- within the last three years has not been employed in an executive capacity by the Company, or been a Director after ceasing to hold any such employment;
- within the last three years has not been a principal of a material professional advisor or a material consultant to the Company, or an employee materially associated with a service provider;
- is not a material supplier or customer of the Company, or an officer of or otherwise associated directly or indirectly with a material supplier or customer;
- has no material contractual relationship with the Company other than as a Director of the Company;
- 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
- 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 composition of the Board is reviewed periodically with regards to the optimum number and skills of Directors required for the Board to properly perform its responsibilities and functions.

CHAIRMAN AND MANAGING DIRECTOR/CEO

Since December 2001 the office of Chair has been held by Norman A. Seckold. The Company does not follow recommendation 2.2. However the Board considers that the office of Chair is best served by Mr Seckold due to his extensive experience in the industry.

The Chairman leads the Board and has responsibility for ensuring the Board receives accurate, timely and clear information to enable Directors to perform their duties as a Board.

The CEO is responsible and accountable to the Board for the Company's management. Ian G. Halstead is the CEO of the Company.

The Company follows recommendation 2.3. The role of the Chair and the CEO is not exercised by the same person.

BOARD NOMINATIONS

Given the nature of the Company the Board has not established a Remuneration and Nomination Committee. The Company does not follow recommendation 2.4. However, the Board has taken the responsibilities of such a committee and considers nominations for the appointment or election of Directors that may arise from time to time having regard to the corporate and governance skills required by the Company and procedures outlined in the Constitution.

The responsibilities assumed by the Board include:

- Board and senior executive functions;
- Board composition;
- number of Board members;
- criteria for nomination of Directors;
- selection and appointment of the Chairperson;
- selection and appointment of the Secretary;
- determine the frequency of meetings of the Committee;
- responsibilities of the Committee; and
- oversight of Board and executive succession plans.

PERFORMANCE REVIEW AND EVALUATION

It is the policy of the Board to ensure that the Directors and executives of the Company are equipped with the knowledge and information they need to discharge their responsibilities effectively, and that individual and collective performance is regularly and fairly reviewed. Although the Company is not of a size to warrant the development of formal processes for evaluating the performance of its Board, individual Directors and executives, there is on-going monitoring by the Chairman and the Board. The Chairman also speaks to Directors individually regarding their role as a Director.

ACCESS TO INFORMATION

Each Director has access to Board papers and all relevant documentation.

SKILLS KNOWLEDGE AND EXPERIENCE

Directors are appointed based on the specific corporate and governance skills and experience required by the Company. The Board consists of a relevant blend of personal experience in accounting and finance, law, financial and investment markets, financial management and public company administration, and, director-level business or corporate experience required by the Company.

STATEMENT OF CORPORATE GOVERNANCE

INDEPENDENT DIRECTORS

The Company considers that as at 31 December 2010 four Directors of the Company are classified as Independent.

PROFESSIONAL ADVICE

Board members with the approval of the Chairman may seek from time to time external professional advice.

PERIOD OF OFFICE HELD BY EACH DIRECTOR

- Norman A. Seckold since December 2001.
- Peter J. Nightingale since December 2002.
- Anthony J. McClure since August 2003.
- Anthony J. McDonald since November 2003.
- Robert M. Bell since October 2007.
- Robert C. Neale since November 2009.
- Sharif Oussa since May 2009 (deceased 14 September 2010).

TERMS OF APPOINTMENT AS A DIRECTOR

The current Directors of the Company by virtue of the Company's constitution are appointed for 36 months. The Constitution of the Company provides that a Director, other than an Executive Director, may not retain office for more than three calendar years or beyond the third Annual General Meeting following his or her election, whichever is longer, without submitting himself or herself for re-election. One third of the Directors (excluding Executive Directors) must retire each year and are eligible for re-election. The Directors who retire by rotation at each Annual General Meeting are those with the longest length of time in office since their appointment or last election.

MEETINGS OF THE REMUNERATION AND NOMINATION COMMITTEE

As mentioned under heading 'Board Nominations' the functions of the Committees during the financial year ended 31 December 2010 were performed by the entire Board. Therefore is no Remuneration or Nomination Committee in place.

Principle 3 - Promote Ethical and Responsible Decision Making

CODE OF CONDUCT AND ETHICAL STANDARDS

The Company has adopted recommendation 3.1 by establishing a code of conduct policy that guides compliance with all levels of legal and other obligations to stakeholders. The Code is focused on ensuring that all Directors, executives and employees act with the utmost integrity and objectivity in carrying out their duties and responsibilities, striving at all times to enhance the reputation and performance of the Company.

ACCESS TO COMPANY INFORMATION AND CONFIDENTIALITY

All Directors have the right of access to all relevant Company books and to the Company's executive management. In accordance with legal requirements and agreed ethical standards, Directors and executives of the Company have agreed to keep confidential information received in the course of exercising their duties and will not disclose non-public information except where disclosure is authorised or legally mandated.

SHARE DEALINGS AND DISCLOSURES

The Company adopted recommendation 3.2, establishing a policy relating to the trading of Company securities. The Board restricts Directors, executives and employees from acting on material information until it has been released to the market. Executives, employees and Directors are required to consult the Chairman and the Board respectively, prior to dealing in securities in the Company or other companies in which the Company has a relationship.

Share trading by Directors, executives or employees is not permitted at any time whilst in the possession of price sensitive information not already available to the market. In addition, the Corporations Act prohibits the purchase or sale of securities whilst a person is in possession of inside information.

As at the date of this report the Company has modified its share trading policy as follows:

- The trading windows for restricted persons are now 60 days after the release of the following:
 - the half year results;
 - the full year results; and
 - the holding of the Annual General Meeting.
- Restricted persons are otherwise prohibited from trading in the Company's securities unless in special circumstances and with the approval of the Chairman.

CONFLICT OF INTEREST

To ensure that Directors are at all times acting in the best interests of the Company, 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 seven days or such further period as may be permitted, 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 required by the Corporations Act, absent himself from the room when Board discussion and/or voting occurs on matters about which the conflict relates.

STATEMENT OF CORPORATE GOVERNANCE

RELATED PARTY TRANSACTIONS

Related party transactions include any financial transaction between a Director and the Company as defined in the Corporations Act or the ASX Listing Rules. The Company also discloses related party transactions in its financial statements as required under relevant Accounting Standards.

PUBLICLY AVAILABLE INFORMATION

The Company has adopted recommendation 3.3 by making publicly available on the Company's website, www.planetgas.com, the Code of Conduct and Share Trading Policy under the corporate governance section.

Principle 4 - Safeguard Integrity in Financial Reporting

AUDIT AND RISK COMMITTEE

The Company has not established an Audit and Risk Committee or a corresponding charter.

The objective of a Committee is to make recommendation to the Board regarding among various matters the adequacy of the external audit, risk management and compliance procedures. A Committee is asked to evaluate from time to time the effectiveness of the financial statements prepared for the Board meetings and to insure that an independent judgement is always exercised.

The functions of the Audit and Risk Committee are performed by the full Board because of the small size of the Company. Therefore recommendation 4.2 has not been adopted.

The duties and responsibilities of recommendation 4.3 were not adopted because the Company does not have an Audit and Risk Committee. However all the normal duties and responsibilities of an Audit and Risk Committee are presently carried out jointly by the Board.

Because the functions of an Audit and Risk Committee are performed by the Board recommendation 4.4 provides the name and qualification of all Directors.

- Norman A. Seckold - Bachelor of Economics, University of Sydney.
- Peter J. Nightingale - Bachelor of Economics, University of Sydney.
- Robert M. Bell - Graduated from Birmingham University.
- Anthony J. McClure - Bachelor of Science, Macquarie University.
- Anthony J. McDonald - Bachelor of Law, Queensland University.
- Robert C. Neale Bachelor of Geology and Mineralogy, University of Queensland.

Principle 5 - Make Timely and Balanced Disclosure

The Company has adopted recommendation 5.1 by putting in place a continuous Disclosure Policy.

CONTINUOUS DISCLOSURE TO THE ASX

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. Accordingly the Company will notify the ASX promptly of information:

- 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
- 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.

The Company has adopted recommendation 5.2 by making publicly available on its website a summary of the Continuous Disclosure Policy.

Principle 6 - Respect the Rights of Shareholders

COMMUNICATIONS

The Company has adopted recommendation 6.1 by establishing a formal Shareholders' Communication Policy that has been in place for this reporting period and made publicly available on the Company's website.

The information indicated in recommendation 6.2 is adopted by Planet Gas and described under the heading 'Communication to the Market and Shareholders' below.

COMMUNICATION TO THE MARKET AND SHAREHOLDERS

The Board recognises its duty to ensure that its shareholders are informed of all major developments affecting the Company's state of affairs and has adopted a Shareholder Communication Policy. The Policy provides that information will be communicated to shareholders and the market through:

- the Annual Report which is distributed to shareholders (usually with the Notice of Annual General Meeting);
- the Annual General Meeting and other general meetings called to obtain shareholder approvals as appropriate;
- the half-yearly Directors' report and financial statements;
- quarterly activities and cash flow reports; and
- other announcements released to the ASX as required under the continuous disclosure requirements of the ASX Listing Rules and other information that may be mailed to shareholders.

STATEMENT OF CORPORATE GOVERNANCE

The Company actively promotes communication with shareholders through a variety of measures, including the use of the Company's website and email. The Company's reports and ASX announcements are made available on the Company's website, www.planetgas.com, and on the ASX website, www.asx.com.au, under ASX code 'PGS'.

Principle 7 - Recognise and Manage Risk

The Board is responsible for the identification, monitoring and management of significant business risks and the implementation of appropriate levels of internal control, recognising however that no cost effective internal control system will preclude all errors and irregularities. The Board regularly reviews and monitors areas of significant business risk.

Due to the size of the Company, recommendation 7.2 has not been adopted. The risk management functions and oversight of material business risks are performed directly by the Board and not by management.

INTERNAL CONTROL AND RISK MANAGEMENT

The primary vehicle for managing corporate risks is the Board. The Board reviews systems of external and internal controls and areas of significant operational, financial and property risk and ensures arrangements are in place to contain such risks to acceptable levels.

The Company ensures that appropriate insurance policies are kept current to cover potential risks and maintains Directors' and Officers' professional indemnity insurance.

INTERNAL AUDIT FUNCTION

The internal audit function is carried out by the Board. The Company does not have an internal audit department nor has an internal auditor. The size of Planet Gas does not warrant the need or the cost of appointing an internal auditor.

CEO AND CFO DECLARATIONS

The Company has adopted and complied with recommendation 7.3.

The Board has determined that the CEO and the Company Secretary are the appropriate persons to make the CEO and CFO declarations in respect of the year ended 31 December 2010, as required under section 295A of the Corporations Act and recommended by the ASX Corporate Governance Council. The Board is also satisfied that the internal control system is operating effectively in all material respects.

The Company has adopted and complied with recommendation 7.4 as follows:

- the Board has received the declarations from the CEO and Company Secretary;
- the Company does not have a written policy on risks oversight management because the number of people engaged in the Company's operations is minimal; and

- independent professional advice - subject to prior consultation with the Chairman, each Director has the right to seek independent legal and other professional advice at the Company's expense concerning any aspect of the Company's operations or undertakings in order to fulfil their duties and responsibilities as Directors.

Principle 8 - Remunerate Fairly and Responsibly

Due to the size of the Company, recommendation 8.1 has not been adopted and the Company does not have a Remuneration Committee. However, for the year ended 31 December 2010 the functions and responsibilities listed below were carried out by the Board.

REMUNERATION RESPONSIBILITIES

The role and responsibility of the Board is to review and make recommendations in respect of:

- executive remuneration policy;
- Executive Director and senior management remuneration;
- executive incentive plan;
- Non-executive Directors' Remuneration;
- performance measurement policies and procedures;
- termination policies and procedures;
- equity based plans; and
- required remuneration and remuneration benefits public disclosure.

REMUNERATION POLICY

The Directors remuneration is adopted by shareholders at the Annual General Meeting. The salary and emoluments paid to officers are approved by the Board. Consultants are engaged as required pursuant to service agreements. The Company ensures that fees, salaries and emoluments are in line with general standards for publicly listed companies of the size and type of the Company. All salaries of Directors and statutory officers are disclosed in the Annual Report of the Company each year.

In line with recommendation 8.2 the Company has a policy to remunerate its Directors and officers based on fixed and incentive component salary packages to reflect the short and long term objectives of the Company.

The salary component of the CEO's remuneration is made up of:

- fixed remuneration; and
- equity based remuneration when invited to participate by the Board in the executive share option plan of the Company.

The salary component of Non-executive and Executive Directors is made up of:

- fixed remuneration; and
- equity based remuneration when invited to participate by the Board in the executive share option plan of the Company.

The Company has not adopted recommendation 8.3 because it does not have a Remuneration Committee.

DIRECTORS' REPORT

The Directors present the consolidated financial report of Planet Gas Limited ('Planet Gas' or 'the Company') and its controlled entities for the financial year ended 31 December 2010. In order to comply with the provisions of the Corporations Act 2001, the Directors' report as follows:

Directors

The names and particulars of the Directors at any time during or since the end of the financial year are:

Norman A. Seckold

Executive Chairman

Director since 4 December 2001.

Norman Seckold graduated with a Bachelor of Economics degree from the University of Sydney in 1970. He has spent more than 30 years in the full time management of natural resource companies, both in Australia and overseas.

Mr Seckold has been the Chairman of a number of publicly listed companies including Moruya Gold Mines (1983) N.L., which acquired the Golden Reward heap leach gold deposit in South Dakota, USA, Pangea Resources Limited, which acquired and developed the Pauper's Dream gold mine in Montana, USA, Timberline Minerals, Inc. which acquired and completed a feasibility study for the development of the MacArthur copper deposit in Nevada, USA, Perseverance Corporation Limited, which discovered and developed the Nagambie gold mine in Victoria, Valdora Minerals N.L., which developed the Rustler's Roost gold mine in the Northern Territory and the Ballarat East Gold Mine in Victoria, Viking Gold Corporation, which discovered a high grade gold deposit in northern Sweden and Mogul Mining N.L., which drilled out the Magistral and Ocampo gold deposits in Mexico and Bolnisi Gold N.L. which discovered and is currently operating the Palmarejo and Guadalupe gold and silver deposits in Mexico.

Mr Seckold is currently Chairman of Augur Resources Ltd, a minerals exploration and development company operating in Australia and Indonesia, Cerro Resources N.L., a precious metals exploration company currently developing a project in Mexico, Cockatoo Coal Limited, an Australian coal mining, exploration and project development company and unlisted public companies Equus Resources Limited and Nickel Mines Limited.

Peter J. Nightingale

Executive Director, Secretary and CFO

Director since 4 December 2002.

Peter Nightingale graduated with a Bachelor of Economics degree from the University of Sydney and is a member of the Institute of Chartered Accountants in Australia. He has worked as a chartered accountant in both Australia and the USA.

As a director or company secretary Mr Nightingale has, for more than 20 years, been responsible for the financial control, administration, secretarial and in-house legal functions of a number of private and public listed companies in Australia, the USA and Europe including Pangea Resources Limited, Timberline Minerals Inc., Perseverance Corporation Limited, Valdora Minerals N.L., Mogul Mining N.L. and Bolnisi Gold N.L. Mr Nightingale is currently Chairman of ASX listed Callabonna Uranium Limited and a director of Augur Resources Ltd, Cockatoo Coal Limited and Sumatra Copper & Gold plc and unlisted public companies Equus Resources Limited and Nickel Mines Limited.

Robert M. Bell

Independent and Non-Executive Director

Director since 30 October 2007.

Bob Bell graduated from Birmingham University in 1960 and moved to Australia in 1964, working as a geologist on the Roma gas fields. After a time with the Queensland Government Mines Department in the late 1970s he established his own consultancy business, specialising in oil and gas exploration in Australia and overseas. He was one of the first geologists in Australia to recognise the enormous potential of CBM in Queensland.

He has a continuing royalty interest in the Peat CBM field operated by Origin Energy and was one of the founders of Queensland Gas Company which was bought by British Gas in 2009.

Anthony J. McClure

Independent and Non-Executive Director

Director since 27 August 2003.

Anthony McClure graduated with a Bachelor of Science (Geology) degree from Macquarie University in 1986. Mr McClure has over 20 years technical, management and financial experience in the resource sector within Australia and the Americas in project management and executive development roles. He has also worked in the financial services sector and stockbroking, primarily as a resource analyst covering both mineral and energy sectors. His directorship over the last three years includes Managing Director of European Gas Limited until October 2009.

DIRECTORS' REPORT

Anthony J. McDonald

Independent and Non-Executive Director

Director since 19 November 2003.

Anthony McDonald graduated with a Bachelor of Laws degree from the Queensland University of Technology in 1981. He was admitted as a solicitor in 1982 and has been in private legal practice in Brisbane since that time.

Mr McDonald has been a director, company secretary and/or legal advisor to a number of listed and unlisted public companies in the resources sector. In October 2010 he was appointed as managing director of Cerro Resources N.L. He is also a non-executive director of Industrea Limited, a mining products and services company listed on ASX. He brings a diversity of resources sector experience to the Board. His directorship over the last three years includes Cerro Resources N.L., Industrea Limited and Deep Yellow Limited.

Robert C. Neale

Independent and Non-Executive Director

Director since 20 November 2009.

Mr Neale is the Managing Director of New Hope Corporation Limited and has more than 40 years' experience in the mining and exploration industries covering coal, base metals, gold, synthetic fuels, bulk materials shipping, and power generation. He joined New Hope Corporation Limited in 1996 as General Manager, has been Chief Executive Officer since 2005 and was appointed to the Board of Directors in November 2008.

Sharif A. Oussa

Managing Director and CEO

Director from 5 May 2009 until 14 September 2010.

Mr Oussa was a geologist and former resources and finance analyst with more than 17 years experience in the mining and resources sector. He had established himself as a leading coal bed methane company founder and executive, playing key roles in the establishment of some of Australia's best known CBM companies. He was an original founder of Planet Gas Limited.

Directors' and Executives' Remuneration

For details on the amount of remuneration for each Director, refer to the Remuneration Report below.

Directors' Meetings

The number of Directors' meetings and number of meetings attended by each of the Directors (while they were a Director) of the Company during the year are:

| Director | Board Meetings | |
|----------------------|----------------|----------|
| | Held | Attended |
| Norman A. Seckold | 8 | 8 |
| Peter J. Nightingale | 8 | 8 |
| Robert M. Bell | 8 | 8 |
| Anthony J. McClure | 8 | 7 |
| Anthony J. McDonald | 8 | 8 |
| Robert C. Neale | 8 | 7 |
| Sharif A. Oussa | 7 | 6 |

Directors' Interests

Directors' beneficial shareholdings at the date of this report are:

| Director | Fully Paid Ordinary Shares | Options |
|----------------------|----------------------------|-----------|
| Norman A. Seckold | 71,514,309 | - |
| Peter J. Nightingale | 11,551,564 | 8,000,000 |
| Robert M. Bell | 1,250,000 | 2,000,000 |
| Anthony J. McClure | 5,154,181 | 2,000,000 |
| Anthony J. McDonald | 7,275,000 | 8,000,000 |
| Robert C. Neale | - | - |

DIRECTORS' REPORT

Option Holdings

Options granted to Directors

At the date of this report, the beneficial interests of each Director of the Company in options over the unissued share capital of the Company are:

| Specified Directors | Held at 1 January 2010 | Granted as remuneration | Expired | Held at 31 December 2010 | Vested during the year | Vested and exercisable at date of report |
|----------------------|------------------------------|----------------------------|---------|--------------------------------|---------------------------|--|
| Norman A. Seckold | - | - | - | - | - | - |
| Peter J. Nightingale | 8,000,000 | - | - | 8,000,000 | - | 8,000,000 |
| Robert M. Bell | 2,000,000 | - | - | 2,000,000 | - | 2,000,000 |
| Anthony J. McClure | 2,000,000 | - | - | 2,000,000 | - | 2,000,000 |
| Anthony J. McDonald | 8,000,000 | - | - | 8,000,000 | - | 8,000,000 |
| Robert C. Neale | - | - | - | - | - | - |

No options have been granted to Directors subsequent to year end.

Unissued shares under option

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

| Number of options | Exercise price | Expiry date |
|-------------------|----------------|----------------|
| 76,500,000 | \$0.132 | 20 August 2014 |

Details of options issued by the Company are set out in the reserves note to the financial report. The names of persons who currently hold options are entered in the register of options kept by the Company pursuant to the Corporations Act 2001. This register may be inspected free of charge.

The persons entitled to exercise the options do not have, by virtue of the options, the right to participate in a share issue of any other body corporate.

Principal Activities

The Company is engaged in the acquisition, exploration, development, production and operation of oil, gas, geothermal energy and coal bed methane projects.

Financial Results

The consolidated loss after income tax attributable to members of the Company for the year was \$5,316,871 (2009 - \$10,282,193 loss).

DIRECTORS' REPORT

Review of Operations

The review of operations is set out on pages 2 to 11 of this Annual Report.

Dividends

The Directors do not recommend the payment of a dividend in respect of the financial year ended 31 December 2010. No dividends have been paid or declared during the financial year.

Changes in State of Affairs

In the opinion of the Directors, significant changes in the state of affairs of the Group that occurred during the year ended 31 December 2010 were as follows:

- Planet Gas issued 16.5 million options.
- Appointment of a new CEO.
- Execution of Farm-In agreement for three PELs with Leichhardt Resources Pty Ltd.
- Rationalisation of the Company's non-performing and already impaired assets in the USA.

Environmental Regulations

The Company's operations are subject to significant environmental regulations under both Australian Commonwealth and State legislation in relation to its activities.

The Board of Directors regularly monitors compliance with environmental regulations. The Directors are not aware of any breaches of these regulations up to the date of this report.

Subsequent Events

On 8 March 2011, the Group issued 1,000,000 options to Mr Thomas G. Evans pursuant to the executive share option plan, the options are exercisable at 13.2 cents with an expiry date on 20 August 2014. Half of the options can be exercised immediately and half between 6 September 2011 and 20 August 2014.

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

Likely Developments

Further information as to likely developments in the operations of the Group and the expected results of those operations in subsequent years has not been included in this report because disclosure of this information would be likely to result in unreasonable prejudice to the Company.

Indemnification of Officers and Auditors

During or since the financial year, the Company has not indemnified or made a relevant agreement to indemnify an officer or auditor of the Company against a liability incurred as such by an officer or auditor. In addition, the Company has not paid or agreed to pay, a premium in respect of a contract insuring against a liability incurred by an officer or auditor.

DIRECTORS' REPORT

Remuneration Report - Audited

The remuneration policy of Directors and senior executives is to ensure the remuneration package properly reflects the persons' duties and responsibilities, and that remuneration is competitive in attracting, retaining and motivating people of the highest quality.

Other than the Managing Director, the Directors are not employed directly by the Group. Their services are provided by way of arrangements with related parties. The remuneration disclosed below represents the cost to the Group for the services provided under these fee arrangements.

Details of the nature and amount of each major element of the remuneration of each Director of the Company and each of the named executive officers of the Company and Group are:

| Specified Directors and Executives | Year | Primary Fees/Salary \$ | Superannuation \$ | Fair value of Options | Total \$ | Options as % of Remuneration |
|--|------|------------------------|-------------------|-----------------------|-----------|------------------------------|
| Executive Directors | | | | | | |
| Norman A. Seckold (Chairman) | 2010 | 90,000 | - | - | 90,000 | - |
| | 2009 | 90,000 | - | - | 90,000 | - |
| Sharif A. Oussa (Managing Director)* | 2010 | 149,999 | 13,500 | - | 163,499 | - |
| | 2009 | 147,948 | 13,315 | 2,547,802 | 2,709,065 | 94% |
| Peter J. Nightingale (Director, Secretary and CFO) | 2010 | 75,000 | - | - | 75,000 | - |
| | 2009 | 75,000 | - | 509,561 | 584,561 | 87% |
| Non-executive Directors | | | | | | |
| Robert M. Bell | 2010 | 24,000 | - | - | 24,000 | - |
| | 2009 | 24,000 | - | 127,390 | 151,390 | 84% |
| Anthony J. McClure | 2010 | 25,000 | - | - | 25,000 | - |
| | 2009 | 24,432 | - | 127,390 | 151,822 | 84% |
| Anthony J. McDonald | 2010 | 60,000 | - | - | 60,000 | - |
| | 2009 | 60,000 | - | 509,561 | 569,561 | 89% |
| Robert C. Neale | 2010 | - | - | - | - | - |
| | 2009 | - | - | - | - | - |
| Total, all specified Directors | 2010 | 423,999 | 13,500 | - | 437,499 | - |
| | 2009 | 421,380 | 13,315 | 3,821,704 | 4,256,399 | 90% |
| Executives | | | | | | |
| Ian G. Halstead CEO [^] | 2010 | 84,090 | 7,568 | 76,621 | 168,279 | 46% |
| | 2009 | - | - | - | - | - |
| Total, all specified executives | 2010 | 84,090 | 7,568 | 76,621 | 168,279 | 46% |
| | 2009 | - | - | - | - | - |

No bonuses were granted to Directors or executive officers as part of their remuneration.

* Sharif Oussa deceased on 14 September 2010.

[^] Ian Halstead appointed CEO on 25 October 2010.

No Directors or executives of the Group receive performance related remuneration. There are no service contracts and no bonuses or other performance related compensation was paid during the current or prior year. No shares were granted to key management personnel during the year ended 31 December 2010 or 31 December 2009 as compensation.

DIRECTORS' REPORT

Options granted as compensation - Audited

Details of options that were granted as compensation to each key management person during the reporting period and details of options that vested during the reporting period are as follows:

| | Number of options granted | Grant date | Fair value at grant date | Exercise price | Expiry date | Options vested | Options exercised | Options lapsed | Options forfeited |
|-----------------|---------------------------|----------------|--------------------------|----------------|----------------|----------------|-------------------|----------------|-------------------|
| Ian G. Halstead | 4,000,000 | 17 August 2010 | 153,241 | \$0.132 | 20 August 2014 | 2,000,000 | - | - | - |

There were no options exercised, forfeited or lapsed unexercised during the year. Half of the options granted during the year vested immediately and other half vest on 6 September 2011. The options were provided at no cost to the recipients.

In the event that the employment or office of the option holder is terminated, any options which have not reached their vesting date will lapse and any options which have reached their vesting date may be exercised within one month from the date of termination of employment. Vesting conditions relate solely to service periods.

The fair value of the options at grant date was determined based on the Black-Scholes formula, taking into account the terms and conditions upon which the options were granted. The Black-Scholes formula model inputs were the Company's share price of \$0.09 at the grant date, a volatility factor of 55.68% based on historic share price performance and a risk free interest rate of 5.29% based on the 10 year government bond rate.

Consequences of performance on shareholders' wealth - Audited

In considering the Group's performance and benefits for shareholders' wealth, the Board has regard to the following indices in respect of the current financial year and the previous four financial years.

| | 2010 | 2009 | 2008 | 2007 | 2006 |
|---|-----------|------------|------------|-----------|-----------|
| Net loss attributable to equity holders of the parent | 5,316,871 | 10,282,193 | 17,067,776 | 1,867,776 | 1,684,394 |
| Dividends paid | - | - | - | - | - |
| Change in share price | (\$0.07) | \$0.110 | (\$0.117) | (\$0.130) | \$0.105 |

The overall level of key management personnel's compensation has been determined based on market conditions and advancement of the Group's projects.

Non-audit Services

During the year KPMG, the Group's auditor, has performed certain other services in addition to their statutory duties.

The Board has considered the non-audit services provided during the year by the auditor and is satisfied that the provision of those non-audit services during the year by the auditor is compatible with, and did not compromise, the auditor independence requirements of the Corporations Act 2001 for the following reasons:

- all non-audit services were subject to the corporate governance procedures adopted by the Group to ensure they do not impact the integrity and objectivity of the auditor; and
- the non-audit services provided do not undermine the general principles relating to auditor independence as set out in APES 110 *Code of Ethics for Professional Accountants*, as they did not involve reviewing or auditing the auditor's own work, acting in a management or decision making capacity for the Group, acting as an advocate for the Group or jointly sharing risks and rewards.

DIRECTORS' REPORT

Details of the amounts paid to the auditor of the Group, KPMG, and its related practices for audit and non-audit services provided during the year are set out below.

| | 2010 | 2009 |
|--|--------|--------|
| | \$ | \$ |
| Statutory Audit | | |
| Auditors of the Company | | |
| - audit and review of financial reports | 84,465 | 69,116 |
| Services other than Statutory audit | | |
| Other services | | |
| - project review and strategy | 26,500 | - |

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

The lead auditor's independence declaration is set out on page 24 and forms part of the Directors' report for the year ended 31 December 2010.

Signed at Sydney this 30th day of March 2011 in accordance with a resolution of the Board of Directors:



Norman A. Seckold
Director



Peter J. Nightingale
Director

LEAD AUDITOR'S INDEPENDENCE DECLARATION



Lead Auditor's Independence Declaration under Section 307C of the Corporations Act 2001 to the Directors of Planet Gas Limited

I declare that, to the best of my knowledge and belief, in relation to the audit for the year ended 31 December 2010, 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.

A handwritten signature in black ink, appearing to read 'Simon Crane', written over the KPMG logo.

KPMG

A handwritten signature in black ink, appearing to read 'Simon Crane', written below the KPMG logo.

Simon Crane
Partner

30 March 2011

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2010

| | Notes | 2010 \$ | 2009 \$ |
|---|-------|--------------------|---------------------|
| Revenue from the sale of coal bed methane | | 3,638 | 73,666 |
| | | <u>3,638</u> | <u>73,666</u> |
| Financial income | 4 | 613,411 | 110,695 |
| Financial expenses | 4 | (191,995) | (191) |
| Net finance income | | <u>421,416</u> | <u>110,504</u> |
| Other income | 4 | - | 3,774,874 |
| Production and transport costs | | (17,593) | (171,622) |
| Consultants' and administration expenses | | (1,181,038) | (1,505,235) |
| Share based remuneration | 24 | (237,254) | (3,821,704) |
| Depreciation expense | 4 | (8,146) | (2,960) |
| Amortisation expense | 4 | - | (78,838) |
| Pre-licence costs - exploration expenditure | | (1,703,741) | (315,995) |
| Impairment loss - investments | 7 | (1,933,600) | (1,930,200) |
| Impairment loss - write-off of development expenditure | 8 | (562,650) | (1,656,758) |
| Impairment loss - write-off of production expenditure | 8 | (2,196) | (2,456,383) |
| Impairment loss - goodwill | | - | (2,028,000) |
| Share of loss in associate | | - | (92,859) |
| Other expenses | | (95,707) | (180,683) |
| Loss before income tax expense | | <u>(5,316,871)</u> | <u>(10,282,193)</u> |
| Income tax expense | 5 | - | - |
| Loss for the period | | <u>(5,316,871)</u> | <u>(10,282,193)</u> |
| Other comprehensive income | | | |
| Foreign currency translation differences for foreign operations | 14 | (46,918) | (524,112) |
| Net change in fair value of available-for-sale financial assets | 7 | (1,933,600) | (1,930,200) |
| Net change in fair value of available-for-sale financial assets transferred to profit or loss | 7 | 1,933,600 | 1,930,200 |
| Total comprehensive loss for the period | | <u>(5,363,789)</u> | <u>(10,806,305)</u> |
| Basic loss per share | 15 | <u>1.08 cents</u> | <u>3.58 cents</u> |
| Diluted loss per share | 15 | <u>1.08 cents</u> | <u>3.58 cents</u> |

The above consolidated statement of comprehensive income should be read in conjunction with accompanying notes.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2010

| | Attributable to equity holders of the Company | | | | Total equity \$ |
|---|---|------------------------------------|-----------------------------|---|--------------------|
| | Issued capital \$ | Option premium reserve \$ | Accumulated losses \$ | Foreign currency translation reserve \$ | |
| Balance at 1 January 2009 | 28,539,389 | - | (22,073,111) | (2,188,902) | 4,277,376 |
| Total comprehensive income for the year | | | | | |
| Loss for the year | - | - | (10,282,193) | - | (10,282,193) |
| <i>Other comprehensive income</i> | | | | | |
| Foreign currency translation | - | - | - | (524,112) | (524,112) |
| Total comprehensive loss for the year | - | - | (10,282,193) | (524,112) | (10,806,305) |
| Transactions with owners recorded directly in equity | | | | | |
| Contribution by and distribution to owners | | | | | |
| Share based remuneration | - | 3,821,704 | - | - | 3,821,704 |
| Issue of ordinary shares | 20,489,859 | - | - | - | 20,489,859 |
| Cost of issue | (363,964) | - | - | - | (363,964) |
| Balance at 31 December 2009 | 48,665,284 | 3,821,704 | (32,355,304) | (2,713,014) | 17,418,670 |
| Balance at 1 January 2010 | 48,665,284 | 3,821,704 | (32,355,304) | (2,713,014) | 17,418,670 |
| Total comprehensive income for the period | | | | | |
| Loss for the year | - | - | (5,316,871) | - | (5,316,871) |
| <i>Other comprehensive income</i> | | | | | |
| Foreign currency translation | - | - | - | (46,918) | (46,918) |
| Total comprehensive loss for the year | - | - | (5,316,871) | (46,918) | (5,363,789) |
| Transactions with owners recorded directly in equity | | | | | |
| Contribution by and distribution to owners | | | | | |
| Share based remuneration | - | 237,208 | - | - | 237,208 |
| Issue of options | - | 462,400 | - | - | 462,400 |
| Balance at 31 December 2010 | 48,665,284 | 4,521,312 | (37,672,175) | (2,759,932) | 12,754,489 |

The above consolidated statement of changes in equity should be read in conjunction with accompanying notes.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2010

| | Notes | 2010 \$ | 2009 \$ |
|--|-------|-------------------|-------------------|
| Current assets | | | |
| Cash and cash equivalents | 17 | 5,978,322 | 10,149,455 |
| Trade and other receivables | 6 | 78,060 | 86,679 |
| Other | 10 | - | 321,974 |
| Total current assets | | 6,056,382 | 10,558,108 |
| Non-current assets | | | |
| Investments | 7 | 1,956,195 | 3,889,800 |
| Property, plant and equipment | 8 | 78,399 | 8,678 |
| Exploration and evaluation expenditure | 9 | 4,777,478 | 3,657,239 |
| Other | 10 | 594,981 | 353,573 |
| Total non-current assets | | 7,407,053 | 7,909,290 |
| Total assets | | 13,463,435 | 18,467,398 |
| Current liabilities | | | |
| Trade and other payables | 11 | 433,887 | 938,854 |
| Provisions | 12 | 275,059 | - |
| Total current liabilities | | 708,946 | 938,854 |
| Non-current liabilities | | | |
| Provisions | 12 | - | 109,874 |
| Total non-current liabilities | | - | 109,874 |
| Total liabilities | | 708,946 | 1,048,728 |
| Net assets | | 12,754,489 | 17,418,670 |
| Equity | | | |
| Issued capital | 13 | 48,665,284 | 48,665,284 |
| Option premium reserve | 14 | 4,521,312 | 3,821,704 |
| Foreign currency translation reserve | 14 | (2,759,932) | (2,713,014) |
| Accumulated losses | | (37,672,175) | (32,355,304) |
| Total equity | | 12,754,489 | 17,418,670 |

The above consolidated statement of financial position should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2010

| | Notes | 2010 \$ | 2009 \$ |
|---|-------|-------------|-------------|
| Cash flows from operating activities | | | |
| Cash receipts from customers | | 3,638 | 129,050 |
| Cash paid to suppliers | | (2,475,012) | (2,037,690) |
| Payments for production | | (17,593) | (52,241) |
| Cash used in operations | | (2,488,967) | (1,960,881) |
| Interest received | | 383,488 | 85,118 |
| Net cash used in operating activities | 17 | (2,105,479) | (1,875,763) |
| Cash flows from investing activities | | | |
| Payments for development | | (703,083) | (547,336) |
| Payments for exploration and evaluation | | (1,231,494) | (132,687) |
| Payments for property, plant and equipment | | (76,158) | (3,773) |
| Payments for security deposits | | (55,407) | (62,000) |
| Payments for acquisition of controlled entity | | - | (1,350,000) |
| Cash acquired from acquisition of controlled entity | | - | 66,926 |
| Net cash used in investing activities | | (2,066,142) | (2,028,870) |
| Cash flows from financing activities | | | |
| Proceeds from issue of shares | | - | 14,275,939 |
| Costs of issue of shares | | - | (363,964) |
| Interest paid | | - | (191) |
| Proceeds from borrowings | | - | 1,500,000 |
| Repayment of borrowings | | - | (1,300,000) |
| Net cash provided by financing activities | | - | 14,111,784 |
| Net increase/(decrease) in cash held | | (4,171,621) | 10,207,151 |
| Cash and cash equivalents at 1 January | | 10,149,455 | 31,971 |
| Effect of exchange rate adjustments on cash held | | 488 | (89,667) |
| Cash and cash equivalents at the end of the financial year | 17 | 5,978,322 | 10,149,455 |

The above consolidated statement of cash flows should be read in conjunction with the accompanying notes.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. REPORTING ENTITY

Planet Gas Limited (the 'Company') is a company domiciled in Australia. The address of the Company's registered office is Level 2, 66 Hunter Street, Sydney, NSW, 2000. The consolidated financial report of the Company for the year ended 31 December 2010 comprises the Company and its subsidiaries (together referred to as the 'Group') and the Group's interest in associates. The Group is primarily engaged in the acquisition, exploration, development, production and operation of oil, gas, geothermal energy and CBM properties in Australia and USA.

2. BASIS OF PREPARATION

(a) Statement of compliance

The consolidated 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. The consolidated financial report of the Group complies with the International Financial Reporting Standards (IFRSs) and interpretations adopted by the International Accounting Standards Board (IASB).

The consolidated financial report was authorised for issue by the Directors on 30 March 2011.

(b) Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis except for the following material items in the Statement of Financial Position:

- Investments - Available-for-sale financial assets are measured at fair value.

(c) Functional and presentation currency

These consolidated financial statements are presented in Australian dollars, which is the Company's functional currency.

(d) Use of estimates and judgements

The preparation of the consolidated financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

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 and in any future periods affected.

In particular, information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amount recognised in the financial statements are described in the following notes:

- Note 5 - Unrecognised deferred tax asset
- Note 7 - Investments
- Note 8 - Property, plant and equipment
- Note 9 - Exploration and evaluation expenditure
- Note 12 - Provisions
- Note 24 - Share based payments

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3. SIGNIFICANT ACCOUNTING POLICIES

Except as described below, the accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, and have been applied consistently by entities in the Group.

Change in accounting policy

Presentation of transactions recognised in other comprehensive income

From 1 July 2010 the Group has applied amendments to AASB 101 *Presentation of Financial Statements* outlined in AASB 2010-4 *Further amendments to Australian Accounting Standards arising from the Annual Improvements Project*. The change in accounting policy only relates to disclosures and had no impact on consolidated earnings per share or net income. The changes have been applied retrospectively and allow the Group to disclose transactions recognised in other comprehensive income in the notes to the financial statements.

Removal of parent entity financial statements

The Group has applied amendments to the Corporations Act (2001) that remove the requirement for the Group to lodge parent entity financial statements. Parent entity financial statements have been replaced by the specific parent entity disclosures in Note 25.

Revenue recognition

Finance income and finance costs

Finance income comprises interest income on funds invested (including available-for-sale financial assets), dividend income and unwinding of the discount on certain assets. Interest income is recognised as it accrues in profit or loss, using the effective interest method. Dividend income is recognised in profit or loss on the date that the Group's right to receive payment is established, which in the case of quoted securities is the ex-dividend date.

Finance costs comprise interest expense on borrowings, unwinding of the discount on provisions and impairment losses recognised on financial assets. Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognised in profit or loss using the effective interest method.

Foreign currency gains and losses are reported on a net basis.

Sale of coal bed methane and oil and gas

Revenue from the sale of coal bed methane and oil and gas is recognised in the comprehensive income statement when the significant risks and rewards of ownership have been transferred to the buyer.

Exploration expenditure

Exploration and evaluation expenditure, including the costs of acquiring licences, are capitalised as intangible exploration and evaluation assets on an area of interest basis, less any impairment losses. Costs incurred before the Group has obtained the legal rights to explore an area are recognised in the comprehensive income statement.

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

- the expenditures are expected to be recouped through successful development and exploitation of the area of interest; or
- activities in the area of interest have not at the reporting date, reached a stage which permits a reasonable assessment of the existence or otherwise 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 sufficient data exists to determine technical feasibility and commercial viability and facts and circumstances suggest that the carrying amount exceeds the recoverable amount. 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 to developing mine properties.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3. SIGNIFICANT ACCOUNTING POLICIES (CONT.)

Property, plant and equipment

Developing mine properties

Developing mine properties represents the accumulation of all exploration and evaluation expenditure and development expenditure incurred by or on behalf of the entity in relation to its area of interest, less any impairment losses.

Amortisation is not charged on costs carried forward in respect of areas of interest in the development phase until production commences.

Producing mine properties

Producing mine properties represents the accumulation of all exploration and evaluation expenditure and development expenditure incurred by or on behalf of the entity in relation to an area of interest that has commenced production, less any impairment losses.

When further development expenditure is incurred in respect of a mine property after the commencement of production, such expenditure is carried forward as part of the cost of that mine property only when substantial future economic benefits are established, otherwise such expenditure is expensed.

Producing mine properties are amortised on a units of production basis over the life of the mine properties' reserves.

Depreciation

Items of plant and equipment are initially recorded at cost and are depreciated over their estimated useful lives using the declining balance method from the date of acquisition.

Office equipment is depreciated at rates between 30% and 60% per annum.

Plant and equipment is depreciated at a rate of 33.3% per annum.

Recognition and measurement

Items of property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses.

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the assets to a working condition for their intended use, the costs of dismantling and removing the items and restoring the site on which they are located, and capitalised borrowing costs. Cost also may include transfers from equity of any gain or loss on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

The gain or loss on disposal of an item of property, plant and equipment is determined by comparing the proceeds from disposal with the carrying amount of the property, plant and equipment, and is recognised net within other income/other expenses in profit or loss. When revalued assets are sold, any related amount included in the revaluation reserve is transferred to retained earnings.

Non-current assets held for sale

Non-current assets that are expected to be recovered primarily through sale rather than through continuing use are classified as held for sale. Immediately before classification as held for sale, the assets are remeasured at the lower of their carrying amount and fair value less cost to sell. Impairment losses on initial classification as held for sale and subsequent gains or losses on remeasurement are recognised in profit or loss. Gains are not recognised in excess of any cumulative impairment loss.

Rehabilitation costs

In accordance with applicable legal requirements, a provision for the estimated cost of rehabilitation has been made for all areas disturbed during operations based on the current estimates of costs to rehabilitate such areas, discounted to their present value. Significant uncertainty exists as to the amount of rehabilitation obligation which will be incurred due to the impact of changes in environmental legislation.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3. SIGNIFICANT ACCOUNTING POLICIES (CONT.)

The provision is recognised as a liability with the corresponding asset included in exploration and evaluation expenditure.

The amount of the provision relating to rehabilitation is recognised at the commencement of the development project where a legal or constructive obligation exists at that time. At each reporting date, the rehabilitation liability is remeasured and changes in the liability are added to or deducted from the related asset.

Financial instruments issued by the Company

Debt and equity instruments are classified as either liabilities or equity in accordance with the substance of the contractual arrangement. Interest and dividends are classified as expenses or as distributions of profit, consistent with the Statement of Financial Position classification of the related debt or equity instruments. Costs associated with the issue of equity are offset against equity.

Available-for-sale financial assets

The Group's investments in equity securities are classified as available-for-sale financial assets. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses, are recognised in other comprehensive income and presented within equity in the fair value reserve. When an investment is derecognised, the cumulative gain or loss in equity is transferred to profit or loss.

Basis of consolidation

Accounting for acquisitions of non-controlling interests

Acquisitions of non-controlling interests are accounted for as transactions with equity holders in their capacity as equity holders and therefore no goodwill is recognised as a result of such transactions.

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 financial report from the date that control commences until the date that control ceases. The accounting policies of the subsidiaries have been changed when necessary to align them with the policies adopted by the Group.

Joint ventures

Joint ventures are those entities over whose activities the Group has joint control, established by contractual agreement.

Jointly controlled operations

The interest of the Group 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.

Associates and jointly controlled entities (equity accounted investees)

Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies. Significant influence is presumed to exist when the Group holds between 20 and 50 percent of the voting power of another entity. Jointly controlled entities are those entities over whose activities the Group has joint control, established by contractual agreement and requiring unanimous consent for strategic financial and operating decisions.

Associates and jointly controlled entities are accounted for using the equity method (equity accounted investees) and are initially recognised at cost. The Group's investment includes goodwill identified on acquisition, net of any accumulated impairment losses. The consolidated financial statements include the Group's share of the income and expenses and equity movements of equity accounted investees, after adjustments to align the accounting policies with those of the Group, from the date that significant influence or joint control commences until the date that significant influence or joint control ceases. When the Group's share of losses exceeds its interest in an equity accounted investee, the carrying amount of that interest (including any long-term investments) is reduced to nil and the recognition of further losses is discontinued except to the extent that the Group has an obligation or has made payments on behalf of the investee.

Gains and losses are recognised as the contributed assets are consumed or sold by the associates and jointly controlled entities or, if not consumed or sold by the associate or jointly controlled entity, when the Group's interest in such entities is disposed.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3. SIGNIFICANT ACCOUNTING POLICIES (CONT.)

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 consolidated financial statements.

Unrealised gains arising from transactions with associates and jointly controlled entities are eliminated to the extent of the Group's interest in the entity with adjustments made to the 'Investment in associates' and 'Share of associates net profits' accounts. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

Trade and other receivables/payables

Trade receivables/payables are carried at amortised cost. For receivables/payables with a remaining life of less than one year, the notional amount is deemed to reflect the fair value. All other receivables/payables are discounted to determine the fair value.

Impairment

Financial assets

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate. An impairment loss in respect of an available-for-sale financial asset is calculated by reference to its fair value.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

Non-financial assets

The carrying amounts of the Group's assets, other than exploration and evaluation expenditure, inventories and deferred tax 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. For goodwill and intangible assets that have indefinite lives or that are not yet available for use, the recoverable amount is estimated each year at the same time.

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 the 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 Group's investments in receivables carried at amortised cost are 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.

The recoverable amount of other assets is the greater of their fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3. SIGNIFICANT ACCOUNTING POLICIES (CONT.)

Reversals of impairment

An impairment loss in respect of a 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 goodwill is not reversed.

In respect of other assets, an impairment loss is reversed if there has been a conclusive change in the estimates used to determine the recoverable amount. 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.

Foreign currency transactions

Transactions in foreign currencies are translated at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the reporting period. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising on retranslation are recognised in profit or loss, except for differences arising on the retranslation of available-for-sale equity instruments, a financial liability designated as a hedge of the net investment in a foreign operation, or qualifying cash flow hedges, which are recognised in other comprehensive income. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

Financial statements of foreign operations

The assets and liabilities of foreign entities are translated to Australian dollars at foreign exchange rates ruling at the balance sheet date. The revenues and expenses of foreign operations are translated to Australian dollars at rates approximating the foreign exchange rates ruling at the dates of the transactions. Foreign exchange differences arising on retranslation are recognised directly in foreign currency translation reserve (FCTR), a separate component of equity.

Foreign exchange gains and losses arising from a monetary item receivable or payable to a foreign operation, the settlement of which is neither planned nor likely in the foreseeable future, are considered to form part of a net investment in a foreign operation and are recognised directly in the FCTR.

Any references to functional currency, unless otherwise stated, are to the functional currency of the Company, Australian dollars.

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated to Australian dollars at exchange rates at the reporting date. The income and expenses of foreign operations are translated to Australian dollars at exchange rates at the dates of the transactions.

Foreign currency differences are recognised in other comprehensive income. Since 1 January 2004, the Group's date of transition to AASBs, such differences have been recognised in the foreign currency translation reserve (translation reserve, or FCTR). When a foreign operation is disposed of, in part or in full, the relevant amount in the FCTR is transferred to profit or loss as part of the profit or loss on disposal.

When the settlement of a monetary item receivable from or payable to a foreign operation is neither planned nor likely in the foreseeable future, foreign exchange gains and losses arising from such a monetary item are considered to form part of a net investment in a foreign operation and are recognised in other comprehensive income, and are presented within equity in the FCTR.

Income tax

Income tax on the statement of comprehensive income for the periods presented comprises current and deferred tax. Income tax is recognised in the comprehensive 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 substantially 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3. SIGNIFICANT ACCOUNTING POLICIES (CONT.)

The following temporary differences are not provided for: goodwill not deductible for tax purposes, 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.

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 an item of the expense.

Receivables and payables are stated inclusive of GST. 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.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits with an original maturity of three months or less.

Business combinations

Business combinations are accounted for by applying the acquisition method. For every business combination, the Group identifies the acquirer, which is the combining entity that obtains control of the other combining entities or businesses. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, the Group takes into consideration potential voting rights that currently are exercisable. The acquisition date is the date on which control is transferred to the acquirer. Judgement is applied in determining the acquisition date and determining whether control is transferred from one party to another.

Measuring goodwill

The Group measures goodwill as the fair value of the consideration transferred including the recognised amount of any non-controlling interest in the acquiree, less the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed, all measured as of the acquisition date.

Consideration transferred includes the fair values of the assets transferred, liabilities incurred by the Group to the previous owners of the acquiree, and equity interests issued by the Group. Consideration transferred also includes the fair value of any contingent consideration and share-based payment awards of the acquiree that are replaced mandatorily in the business combination (see below). If a business combination results in the termination of pre-existing relationships between the Group and the acquiree, then the lower of the termination amount, as contained in the agreement, and the value of the off-market element is deducted from the consideration transferred and recognised in other expenses.

Share-based payment awards

When share-based payment awards exchanged (replacement awards) for awards held by the acquiree's employees (acquiree's awards) relate to past services, then a part of the market-based measure of the awards replaced is included in the consideration transferred. If they require future services, then the difference between the amount included in consideration transferred and the market-based measure of the replacement awards is treated as post-combination compensation cost.

Contingent liabilities

A contingent liability of the acquiree is assumed in a business combination only if such a liability represents a present obligation and arises from a past event, and its fair value can be measured reliably.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3. SIGNIFICANT ACCOUNTING POLICIES (CONT.)

Non-controlling interest

The Group measures any non-controlling interest at its proportionate interest in the identifiable net assets of the acquiree.

Transaction costs

Transaction costs that the Group incurs in connection with a business combination, such as finder's fees, legal fees, due diligence fees, and other professional and consulting fees, are expensed as incurred.

Accounting for acquisitions of non-controlling interests

Acquisitions of non-controlling interests are accounted for as transactions with equity holders in their capacity as equity holders and therefore no goodwill is recognised as a result of such transactions.

Segment reporting

Determination and presentation of operating segments

The Group determines and presents operating segments based on the information that internally is provided to the CEO, who is the Group's chief operating decision maker.

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. All operating segments' operating results are regularly reviewed by the Group's CEO to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

Segment results that are reported to the CEO include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly corporate assets (primarily the Company's headquarters), head office expenses, and income tax assets and liabilities.

Segment capital expenditure is the total cost incurred during the period to acquire property, plant and equipment, and intangible assets other than goodwill.

Determination of fair values

A number of the Group's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

Property, plant and equipment

The fair value of property, plant and equipment recognised as a result of a business combination is based on market values. The market value of property is the estimated amount for which a property could be exchanged on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, and willingly.

Investments in equity and debt securities

The fair value of financial assets at fair value through profit or loss, held-to-maturity investments and available-for-sale financial assets is determined by reference to their quoted closing price at the reporting date. The fair value of held-to-maturity investments is determined for disclosure purposes only.

Share-based payment transactions

The fair value of the employee share options is measured using the Black-Scholes formula. Measurement inputs include share price on measurement date, exercise price of the instrument, expected volatility (based on weighted average historic volatility), expected dividends, and the risk-free interest rate (based on government bonds).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3. SIGNIFICANT ACCOUNTING POLICIES (CONT.)

Share-based payment transactions

The grant-date fair value of share-based payment awards is recognised as an expense, with a corresponding increase in equity, over the period that the recipient unconditionally become entitled to the awards. The amount recognised as an expense is adjusted to reflect the number of awards for which the related service and non-market vesting conditions are expected to be met, such that the amount ultimately recognised as an expense is based on the number of awards that meet the related service and non-market performance conditions at the vesting date. For share-based payment awards with non-vesting conditions, the grant date fair value of the share-based payment is measured to reflect such conditions and there is no true-up for differences between expected and actual outcomes.

The fair value of the amount payable to employees in respect of share appreciation rights, which are settled in cash, is recognised as an expense with a corresponding increase in liabilities, over the period that the employees unconditionally become entitled to payment. The liability is remeasured at each reporting date and at settlement date. Any changes in the fair value of the liability are recognised as personnel expense in profit or loss.

Share-based payment arrangements in which the Group receives goods or services as consideration for its own equity instruments are accounted for as equity-settled share-based payment transactions, regardless of how the equity instruments are obtained by the Group.

New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 July 2010, and have not been applied in preparing these consolidated financial statements. None of these are expected to have a significant effect on the consolidated financial statements of the Group, except for IFRS 9 *Financial Instruments*, which becomes mandatory for the Group's 2013 consolidated financial statements and could change the classification and measurement of financial assets. The Group does not plan to adopt this standard early and the extent of the impact has not been determined.

4. LOSS FROM OPERATING ACTIVITIES

Loss from ordinary activities includes the following items of revenue and expense:

Other Income

| | | |
|--------------------------------|---|-----------|
| Gain on disposal of investment | - | 3,324,650 |
| Reversal of liability | - | 450,224 |

Financial income and expense

| | | |
|---|-----------|--------|
| Interest revenue | 383,488 | 85,118 |
| Interest expense | - | (191) |
| Unwind of fair value discount - income | 229,923 | 25,577 |
| Unwind of fair value discount - expense | (191,995) | - |

Expenses

| | | |
|---|--------|--------|
| Amortisation of producing mine properties | - | 78,838 |
| Auditors' remuneration | | |
| - audit and review of financial reports | 84,465 | 69,116 |
| Non-statutory audit services | | |
| - project review strategy | 26,500 | - |
| Depreciation of plant and equipment | | |
| - office equipment | 5,217 | 1,241 |
| - software | 1,912 | - |
| - plant and equipment | 1,017 | 1,719 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

| | 2010 \$ | 2009 \$ |
|---|-------------|--------------|
| 5. INCOME TAX EXPENSE | | |
| Current tax expense | | |
| Current year | (1,052,826) | (1,595,784) |
| Adjustments for prior year | (2,049,246) | (714,019) |
| Losses not recognised | 3,102,072 | 2,309,803 |
| | - | - |
| Numerical reconciliation of income tax expense to prima facie tax payable: | | |
| Loss before tax | (5,316,871) | (10,282,193) |
| Prima facie income tax benefit at the Australian tax rate of 30% (2008 - 30%) | (1,595,061) | (3,084,658) |
| Increase/(decrease) in income tax expense due to: | | |
| - capital gain on disposals | - | - |
| - non-deductible expenses | 71,176 | 639,575 |
| - tax losses not recognised/(utilised) | 1,052,826 | 1,595,784 |
| - net loss of tax group | - | - |
| - effect of net deferred tax assets not brought to account | 471,059 | 849,299 |
| Income tax expense | - | - |
| Unrecognised deferred tax assets | | |
| Deferred tax assets have not been recognised in respect of the following items: | | |
| Tax losses | 8,791,687 | 5,689,616 |
| Net deductible temporary differences | 1,272,483 | 2,768,240 |
| Potential tax benefit at 30% | 10,064,170 | 8,457,856 |

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 Group can utilise the benefits therefrom.

| | | |
|-----------------------|--------|--------|
| 6. RECEIVABLES | | |
| Other debtors | 4,403 | 128 |
| GST receivable | 73,657 | 86,551 |
| | 78,060 | 86,679 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

| | 2010 \$ | 2009 \$ |
|--|------------|------------|
| 7. INVESTMENTS | | |
| Investments - available-for-sale at fair value | 1,956,195 | 3,889,795 |

Investments - available-for-sale

During the year ended 31 December 2010, the shareholders of Callabonna Uranium Limited ('Callabonna Uranium') passed a resolution at their annual general meeting for a 20 to 1 share consolidation. Prior to the consolidation, Planet Gas held 172,800,000 shares in Callabonna and after the consolidation the number of shares held in Callabonna was 8,640,000.

At 31 December 2010 the Directors compared the carrying value of the investment to market value and recorded an impairment loss of \$1,296,100 (2009 - \$1,555,200). This was based on a closing share price of 17 cents at 31 December 2010 (2009 - 1.6 cents per share based on 172,800,000 shares).

The Company holds 12,500,000 shares in Greenpower Energy Limited ('Greenpower'). At 31 December 2010 the Directors compared the carrying value of the investment to market value and recorded an impairment loss of \$637,500 (2009 - \$375,000). This was based on a closing share price of 3.9 cents at 31 December 2010 (2009 - 9 cents).

8. PROPERTY, PLANT AND EQUIPMENT

| | | |
|--------------------------------------|--------------|--------------|
| Office equipment - at cost | 72,053 | 47,325 |
| Accumulated depreciation | (46,952) | (41,774) |
| Net book value | 25,101 | 5,551 |
| Software - at cost | 53,324 | - |
| Accumulated depreciation | (1,912) | - |
| Net book value | 51,412 | - |
| Plant and equipment - at cost | 15,263 | 16,819 |
| Accumulated depreciation | (13,377) | (13,692) |
| Net book value | 1,886 | 3,127 |
| Developing mine properties - at cost | 14,059,288 | 14,918,789 |
| Impairments | (14,059,288) | (14,918,789) |
| Net book value | - | - |
| Producing mine properties - at cost | 2,878,277 | 3,176,208 |
| Impairments | (2,002,322) | (2,179,418) |
| Accumulated amortisation | (875,955) | (996,790) |
| Net book value | - | - |
| Total property, plant and equipment | 78,399 | 8,678 |

At 31 December 2010 and 2009, impairment testing was conducted on the developing mine properties (Esponda project). The Directors have determined that, given the ongoing nature of the dewatering process at the Esponda project and uncertainty regarding the financing necessary to progress the Esponda project from development into production, the full carrying value of the project be fully impaired at year end resulting in an impairment loss for the year of \$562,650 (2009 loss \$1,656,758).

At 31 December 2010 and 2009, impairment testing was conducted on the producing mine properties (Oriva project) and it was determined to fully impair the carrying value of the project, following the decision by the Company and its joint operating partner to shut the wells due to the low gas prices which resulted in an impairment loss for the year of \$2,196 (2009 loss \$2,456,383).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

8. PROPERTY, PLANT AND EQUIPMENT (CONT.)

Reconciliations of the carrying amounts for each class of plant and equipment are set out below:

Office equipment

| | 2010 \$ | 2009 \$ |
|---|---------------|--------------|
| Carrying amount at beginning of year | 5,551 | 3,019 |
| Additions | 24,727 | 3,773 |
| Depreciation | (5,217) | (1,241) |
| Net foreign currency differences on translation | 40 | - |
| Net book value | <u>25,101</u> | <u>5,551</u> |

Software

| | | |
|--------------------------------------|---------------|----------|
| Carrying amount at beginning of year | - | - |
| Additions | 53,324 | - |
| Depreciation | (1,912) | - |
| Net book value | <u>51,412</u> | <u>-</u> |

Plant and equipment

| | | |
|---|--------------|--------------|
| Carrying amount at beginning of year | 3,127 | 5,774 |
| Depreciation | (1,017) | (1,719) |
| Net foreign currency differences on translation | (224) | (928) |
| Net book value | <u>1,886</u> | <u>3,127</u> |

Developing mine properties

| | | |
|--|-----------|-------------|
| Carrying amount at beginning of year | - | 1,175,728 |
| Additions | 507,549 | 547,336 |
| Provision for rehabilitation | 3,010 | 5,158 |
| Impairments | (562,650) | (1,656,758) |
| Net foreign currency adjustment on translation | 52,091 | (71,464) |
| Net book value | <u>-</u> | <u>-</u> |

Producing mine properties

| | | |
|--|----------|-------------|
| Carrying amount at beginning of year | - | 2,903,064 |
| Additions | - | - |
| Provision for rehabilitation | 2,038 | 6,100 |
| Impairments | (2,196) | (2,456,383) |
| Net foreign currency adjustment on translation | 158 | (373,943) |
| Amortisation | - | (78,838) |
| Net book value | <u>-</u> | <u>-</u> |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

| | 2010 \$ | 2009 \$ |
|---|------------------|------------------|
| 9. EXPLORATION AND EVALUATION EXPENDITURE | | |
| Carrying amount at beginning of year | 3,657,239 | - |
| Additions | 1,120,239 | 323,772 |
| Acquired through acquisition of controlled entity | - | 3,333,467 |
| Net foreign currency adjustment on translation | - | - |
| Impairments | - | - |
| Net book value | <u>4,777,478</u> | <u>3,657,239</u> |

During the year ended 31 December 2010, the Company completed the incorporation of Planet Gas & CBM Pty Ltd, a coal bed methane exploration and development company, with a right to earn 50% of three CBM prospective Petroleum Exploration Licences in New South Wales, covering 5,579km².

The ultimate recoupment of exploration and evaluation expenditure is dependent on the successful development and commercial exploitation, or alternatively sale of the respective areas of interest.

10. OTHER

Current

| | | |
|-------------|---|----------------|
| Prepayments | - | <u>321,974</u> |
|-------------|---|----------------|

Non-current

| | | |
|-------------------|----------------|----------------|
| Security deposits | <u>594,981</u> | <u>353,573</u> |
|-------------------|----------------|----------------|

Non-interest bearing security deposits have been fair valued over the period which the deposit is expected to remain outstanding. A discount rate of 10% has been used.

11. TRADE AND OTHER PAYABLES

Current

| | | |
|------------------------|----------------|----------------|
| Creditors and accruals | <u>433,887</u> | <u>938,854</u> |
|------------------------|----------------|----------------|

12. PROVISIONS

A provision has been made in respect of the Group's obligation to rectify any environmental footprint left following the shut down of any of its wells. The provision has been calculated using a discount rate of 10%. The Group has assumed that the sites will be restored with technology and materials that are currently available.

Rehabilitation provision

| | | |
|--|----------------|----------------|
| Carrying amount at beginning of year | 109,874 | 129,156 |
| Additions | 5,048 | - |
| Net foreign currency adjustment on translation | (31,858) | (30,540) |
| Unwind of fair value discount | 191,995 | 11,258 |
| Net book value | <u>275,059</u> | <u>109,874</u> |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

| | 2010 \$ | 2009 \$ |
|---|------------|------------|
| 13. ISSUED CAPITAL | | |
| 493,853,305 (2009 - 493,853,305) fully paid ordinary shares | 48,665,284 | 48,665,284 |

| | 2010 | | 2009 | |
|--|-------------|------------|-------------|------------|
| | No. | \$ | No. | \$ |
| Fully paid ordinary shares | | | | |
| Balance at beginning of financial year | 493,853,305 | 48,665,284 | 202,384,903 | 28,539,389 |
| Issue of shares | - | - | 291,468,402 | 20,489,859 |
| Less costs of issue | - | - | - | (363,964) |
| Balance at end of financial year | 493,853,305 | 48,665,284 | 493,853,305 | 48,665,284 |

Fully paid ordinary shares carry one vote per share and carry the right to dividends.

Holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at the shareholders meetings. In the event of winding up of the Company, ordinary shareholders rank after creditors and are fully entitled to any proceeds of liquidation.

No shares were issued during the year ended 31 December 2010.

During the year ended 31 December 2009:

- The Company issued 30,357,720 ordinary shares at \$0.05 for cash totalling \$1,517,886. There were no amounts unpaid on shares issued. Share issue costs amounted to \$62,955.
- The Company issued 39,000,000 ordinary shares for \$3,978,000 as part consideration of the acquisition of Gradient Energy Limited.
- The Company issued 44,718,390 ordinary shares at \$0.05 totalling \$2,235,920 to retire outstanding liabilities.
- The Company issued 86,409,751 ordinary shares at \$0.095 for cash totalling \$8,208,926. There were no amounts unpaid on shares issued. There were no share issue costs.
- The Company issued 90,982,541 ordinary shares at \$0.05 for cash totalling \$4,549,127. There were no amounts unpaid on shares issued. Share issue costs amounted to \$301,009.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

| | 2010 \$ | 2009 \$ |
|-------------------------------|------------------|------------------|
| 14. RESERVES | | |
| Option premium reserve | | |
| Opening balance | 3,821,704 | - |
| Issue of options | 699,608 | 3,821,704 |
| Closing balance | <u>4,521,312</u> | <u>3,821,704</u> |

The issue of Company options results in a credit to the option premium reserve representing the fair value of the options granted. The exercise of Company options results in a debit to the option premium reserve.

During the year ended 31 December 2010, the Company granted 8,000,000 options exercisable at 13.2 cents each to acquire one fully paid ordinary share expiring on 20 August 2014. A further 8,500,000 options were granted exercisable at 13.2 cents each to acquire one fully paid ordinary shares expiring on 20 August 2014. During the year ended 31 December 2009, the Company granted 60,000,000 options exercisable at 13.2 cents each to acquire on fully paid ordinary share expiring on 20 August 2014. Refer Note 24.

| | | |
|--|--------------------|--------------------|
| Foreign currency translation reserve | | |
| Opening balance | (2,713,014) | (2,188,902) |
| Translation adjustment on controlled foreign entities financial statements during the year | (46,918) | (524,112) |
| Closing balance | <u>(2,759,932)</u> | <u>(2,713,014)</u> |

The foreign currency translation reserve records the foreign currency differences arising from the translation of the financial statements of foreign operations where their functional currency is different to the presentation currency of the reporting entity.

| | | |
|---|--------------------|--------------------|
| 15. LOSS PER SHARE | | |
| Basic and diluted earnings per share have been calculated using: | | |
| Net loss for the year attributable to equity holders of the parent | 5,316,871 | 10,282,193 |
| Weighted average number of ordinary shares | | |
| Issued ordinary shares at beginning of year | 493,853,305 | 202,384,903 |
| Effect of shares issued | - | 85,132,915 |
| Weighted average ordinary shares at the end of the year | <u>493,853,305</u> | <u>287,517,818</u> |
| Weighted average number of ordinary shares (diluted) | | |
| Weighted average ordinary shares at the end of the year | 493,853,305 | 287,517,818 |
| Effect of share options on issue | - | - |
| Weighted average number of ordinary shares (diluted) at year end | <u>493,853,305</u> | <u>287,517,818</u> |

16. RELATED PARTY DISCLOSURES

During the year ended 31 December 2010, Norman A. Seckold and Peter J. Nightingale had an interest in an entity, Mining Services Trust, which provided full administrative services, including rental accommodation, administrative staff, services and supplies, to the Group. Fees paid to Mining Services Trust during the year, which were in the ordinary course of business and on normal terms and conditions, amounted to \$205,000 (2009 - \$181,108). There were no amounts outstanding as at year end (2009 - nil).

During the year ended 31 December 2010, Anthony J. McClure provided consulting services to the Group. Fees paid to Anthony J. McClure during the year, which were in the ordinary course of business and on normal terms and conditions, amounted to \$55,750 (2009 - nil). There were no amounts outstanding as at year end.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

| | 2010 \$ | 2009 \$ |
|---|--------------------|--------------------|
| 17. STATEMENTS OF CASH FLOWS | | |
| Reconciliation of net loss from operating activities after tax to net cash used in operating activities | | |
| Loss from operating activities after tax | (5,316,871) | (10,282,193) |
| Items classified as investing/financing activities | | |
| Borrowing costs | - | 191 |
| Non-cash items | | |
| Gain on disposal of investment | - | (3,324,650) |
| Unwind of fair value discount - income | (229,923) | (450,224) |
| (Profit)/loss of associate equity accounted | - | 92,859 |
| Unwind of fair value discount - expense | 191,995 | (25,577) |
| Depreciation of plant and equipment | 8,146 | 2,960 |
| Amortisation of areas in production | - | 78,838 |
| Foreign exchange loss on cash | (488) | 89,667 |
| Impairment losses | 2,498,446 | 8,071,341 |
| Loss on disposal of controlled entity | - | - |
| Share based payments | 237,254 | 3,821,704 |
| Changes in assets and liabilities | | |
| Trade and other receivables | 8,619 | 36,170 |
| Other assets | 80,566 | 47,658 |
| Trade and other payables | 251,592 | (45,765) |
| Provisions | 165,185 | 11,258 |
| Net cash used in operating activities | (2,105,479) | (1,875,763) |
| Reconciliation of cash | | |
| For the purposes of the Statement of Cash Flows, cash includes cash on hand and at bank and cash on deposit net of bank overdrafts and excluding security deposits. Cash at the end of the financial year as shown in the Statement of Cash Flows is reconciled to the related items in the Statement of Financial Position as follows: | | |
| Cash | 5,978,322 | 10,149,455 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

18. KEY MANAGEMENT PERSONNEL DISCLOSURES

The CEO is the only key management personnel of the Group that is not a Director. Information regarding individual key management personnel's compensation and some equity instruments disclosures as permitted by Corporations Regulations 2M.3.03 are provided in the Remuneration Report Section of the Director's Report on pages 21 to 22.

The Board reviews remuneration arrangements annually based on services provided.

Movement in Shares

| Key management personnel | Held at 31 December 2008 | Purchased shares | Sales | Held at 31 December 2009 |
|--------------------------|--------------------------|------------------|-------|--------------------------|
| Norman A. Seckold | 23,250,003 | 48,264,306 | - | 71,514,309 |
| Sharif A. Oussa | 1,890,000 | 1,972,500 | - | 3,862,500 |
| Peter J. Nightingale | 3,625,001 | 7,575,000 | - | 11,200,001 |
| Anthony J. McClure | 3,000,000 | 2,154,181 | - | 5,154,181 |
| Anthony J. McDonald | 3,000,000 | 4,275,000 | - | 7,275,000 |
| Robert M. Bell | 200,000 | 1,050,000 | - | 1,250,000 |
| Robert C. Neale | - | - | - | - |
| Executives | | | | |
| Ian G. Halstead | - | - | - | - |

| Key management personnel | Held at 31 December 2009 | Purchased shares | Sales | Held at 31 December 2010 |
|--------------------------|--------------------------|------------------|-------------|--------------------------|
| Norman A. Seckold | 71,514,309 | - | - | 71,514,309 |
| Sharif A. Oussa* | 3,862,500 | - | (1,500,000) | 2,362,500 |
| Peter J. Nightingale | 11,200,001 | 351,563 | - | 11,551,564 |
| Anthony J. McClure | 5,154,181 | - | - | 5,154,181 |
| Anthony J. McDonald | 7,275,000 | - | - | 7,275,000 |
| Robert M. Bell | 1,250,000 | - | - | 1,250,000 |
| Robert C. Neale | - | - | - | - |
| Executives | | | | |
| Ian G. Halstead | - | - | - | - |

* Ceased to be a Director during the year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

18. KEY MANAGEMENT PERSONNEL DISCLOSURES (CONT.)

Movement in Options

| Key management personnel | Held at 31 December 2009 | Granted as remuneration | Exercised | Held at 31 December 2010 |
|--------------------------|--------------------------|-------------------------|-----------|--------------------------|
| Norman A. Seckold | - | - | - | - |
| Sharif A. Oussa* | 40,000,000 | - | - | 40,000,000 |
| Peter J. Nightingale | 8,000,000 | - | - | 8,000,000 |
| Robert M. Bell | 2,000,000 | - | - | 2,000,000 |
| Anthony J. McClure | 2,000,000 | - | - | 2,000,000 |
| Anthony J. McDonald | 8,000,000 | - | - | 8,000,000 |
| Robert C. Neale | - | - | - | - |
| Executives | | | | |
| Ian Halstead | - | 4,000,000 | - | 4,000,000 |

* Ceased to be a Director during the year.

| Key management personnel | Held at 31 December 2008 | Granted as remuneration | Exercised | Held at 31 December 2009 |
|--------------------------|--------------------------|-------------------------|-----------|--------------------------|
| Norman A. Seckold | - | - | - | - |
| Sharif A. Oussa | - | 40,000,000 | - | 40,000,000 |
| Peter J. Nightingale | - | 8,000,000 | - | 8,000,000 |
| Robert M. Bell | - | 2,000,000 | - | 2,000,000 |
| Anthony J. McClure | - | 2,000,000 | - | 2,000,000 |
| Anthony J. McDonald | - | 8,000,000 | - | 8,000,000 |
| Robert C. Neale | - | - | - | - |

Key management personnel compensation

| | 2010 \$ | 2009 \$ |
|--------------------------|----------------|------------------|
| Primary fees/salary | 508,089 | 421,380 |
| Superannuation | 21,068 | 13,315 |
| Share based remuneration | 76,621 | 3,821,704 |
| | <u>605,778</u> | <u>4,256,399</u> |

Apart from the details disclosed in this note and Note 16, no Director has entered into a contract with the Company during the year and there were no contracts involving Directors' interests subsisting at year end.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

19. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS DISCLOSURE

The activities of the Group expose it to the following financial risks:

- Credit risk.
- Liquidity risk.
- Market risk.

This note presents information about the Group's exposure to each of the above risks, its objectives, policies and processes for measuring and managing risk, the management of capital and financial instruments.

The Board of Directors has overall responsibility for the establishment and oversight of the risk management framework. Risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. These policies are reviewed regularly to reflect changes in market conditions and the Group's activities.

Credit risk

Exposure to credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligation, and arises principally from the Group's receivables from the ATO, bank balances and security deposits. The Group mitigates credit risk on cash balances by dealing with regulated banks in western countries.

Trade and other receivables

The majority of the Group's exposure to credit risk for trade receivables relates to GST due from the ATO.

The carrying amount of the Group's financial assets represents the maximum credit exposure. The Group's maximum exposure to credit risk at the reporting date as a result of cash and cash equivalents, trade and other receivables and security deposits was \$6,651,363 (2009 - \$10,589,707).

Impairment losses

None of the Company's receivables are past due (2009 - nil). No impairment has been taken up against other receivables.

Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligation as they fall due. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The following are the contractual maturities of financial liabilities:

| | 2010 \$ | 2009 \$ |
|--------------------|------------|------------|
| Less than one year | 433,888 | 938,854 |

Ultimate responsibility for liquidity management rests with the Board of Directors. The Group manages liquidity risk by maintaining adequate banking and borrowing facilities and through the monitoring of future rolling cash flow forecasts of its operations, which reflect management's expectations of the settlement of financial assets and liabilities.

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

19. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS DISCLOSURE (CONT.)

Currency risk

The Group is exposed to currency risk on sales, security deposits, purchases, borrowings and rehabilitation provision that are denominated in United States currency. The Group has not entered into derivative financial instruments to hedge purchases and sales denominated in foreign currencies.

The Group's exposure to foreign currency risk at balance date was as follows, based on notional amounts:

| | 2010 \$ | 2009 \$ |
|-----------------------------------|----------------|----------------|
| Cash and cash equivalents | 93,599 | 397,978 |
| Trade and other receivables | - | 128 |
| Property, plant and equipment | 2,963 | 2,470 |
| Other non-current assets | 452,139 | 249,686 |
| Trade and other payables | - | (47,551) |
| Provisions | (275,059) | (109,875) |
| Gross financial position exposure | <u>273,642</u> | <u>492,836</u> |

Sensitivity analysis

A 10% strengthening of the Australian dollar against the United States dollar at 31 December 2010 would have decreased in net assets of the Group by \$24,877 (2009 - \$54,760). A 10% weakening of the Australian dollar against the United States dollar at 31 December 2010 would have had the equal but opposite effect to the Group's net assets, on the basis that all other variables remain constant. The analysis is performed on the same basis for the comparative period.

The following significant exchange rates applied during the year:

| | Average rate | | Reporting date spot rate | |
|---------|--------------|--------|--------------------------|--------|
| | 2010 | 2009 | 2010 | 2009 |
| AUD/USD | 0.99154 | 0.7924 | 1.0163 | 0.8931 |

Interest rate risk

The Group's income statement is affected by changes in interest rates due to the impact of such changes on interest income and expenses from cash and cash equivalents.

With the exception of cash and cash equivalents, all the Group's financial assets and liabilities are non-interest bearing. At balance date, the Group's cash and cash equivalents exposed to variable interest rate risk that are not designated as cash flow hedges were:

| | 2010 \$ | 2009 \$ |
|---------------------------|------------------|-------------------|
| Cash and cash equivalents | <u>5,978,322</u> | <u>10,149,455</u> |

Sensitivity analysis

A change of 100 basis points in interest rates at the current and prior reporting date would have increased/(decreased) equity and loss for the period by an immaterial amount.

Other market price risk

Equity price risk arises from available-for-sale equity securities. As at 31 December 2010, the Group investments in available-for-sale assets consists of investment in Greenpower Energy Limited and in Callabonna Uranium Limited (refer Note 7). A 10% increase/decrease in these investments would result in a \$195,620 (2009 - \$388,980) increase/decrease in equity.

Capital management

The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business.

There were no changes in the Group's approach to capital management during the year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

19. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS DISCLOSURE (CONT.)

Net fair values of financial assets and liabilities

The carrying amounts of financial assets and liabilities approximate their net fair values, given the short time frames to maturity and or variable interest rates.

Fair value hierarchy

The table below analyses financial instruments carried at fair value, by valuation method.

The different levels have been defined as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices)
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

| | Level 1 \$ | Level 2 \$ | Level 3 \$ | Total \$ |
|--|---------------|---------------|---------------|-------------|
| 31 December 2010 | | | | |
| Investments available for sale at fair value | 1,956,195 | - | - | 1,956,195 |
| 31 December 2009 | | | | |
| Investments available for sale at fair value | 3,889,795 | - | - | 3,889,795 |

20. JOINT VENTURE OPERATIONS

| | Area | Output interest | |
|--|------|-----------------|----------------|
| | | 2010 % | 2009 % |
| East Esponda - Sections 9, 10, 11 and 15 (Western Gas) | USA | 0 [^] | 0 [^] |
| East Esponda - Section 2 (Western Gas) | USA | 0 [^] | 0 [^] |
| Oriva Federal | USA | 4.5* | 4.5* |
| Oriva Throne | USA | 61 | 61 |
| Bylong | NSW | 0 | 0 |
| Shoalhaven | NSW | 0 | 0 |
| Mooki | NSW | 0 | 0 |

[^]The Group's interest in East Esponda reverts to a 40% revenue interest for Sections 9, 10, 11 and 15 and a 20% revenue interest for Section 2 after all drilling, completion and production costs of the operating partner have been 300% repaid from production.

*The Group's interest in Oriva Federal reverts to a 23.625% revenue interest after all drilling, completion and production costs of the operating partner have been repaid from production.

The Group's interest in assets employed in the above joint venture operations includes capitalised exploration, evaluation and development expenditure totalling nil (2009 - nil), following the underlying USA projects being fully impaired and current accounts receivable totalling \$nil (2009 - \$128). All joint venture operations are engaged in the evaluation, exploration, development and production of coal bed methane or oil and gas properties.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

21. CONTROLLED ENTITIES

Parent entity

Planet Gas Limited is an Australian incorporated company listed on the Australian Stock Exchange.

Wholly owned controlled entities

| | Country of incorporation | Ownership Interest | |
|--|--------------------------|--------------------|-----------|
| | | 2010 % | 2009 % |
| Gradient Energy Limited | Australia | 100 | 100 |
| Planet Cooper Basin Pty Limited | Australia | 100 | 100 |
| Planet Gas & CBM Pty Limited | Australia | 100 | - |
| Planet Unconventional Energy Pty Limited | Australia | 100 | - |
| Planet Gas USA | USA | 100 | 100 |
| Planet Gas Properties LLC | USA | 100 | 100 |
| Planet Gas Resources LLC | USA | 100 | 100 |

The functional currency for Planet Gas USA, Planet Gas Properties LLC and Planet Gas Resources LLC is United States Dollars. The functional currency for Gradient Energy Limited, Planet Cooper Basin Pty Limited, Planet Gas & CBM Pty Limited and Planet Unconventional Energy Pty Limited is Australian Dollars.

22. COMMITMENTS AND CONTINGENCIES

| | 2011 \$ | 2012 \$ | 2013 \$ | 2014 \$ |
|---------------------------------------|------------|------------|------------|------------|
| Commitment with respect to tenements: | | | | |
| Oil and gas | 4,200,000 | 15,581,750 | 6,652,250 | 3,500,000 |
| Geothermal | 4,776,833 | 17,982,417 | 11,509,833 | 9,083,333 |
| Total commitment | 8,976,833 | 33,564,167 | 18,162,083 | 12,583,333 |

The Group is currently negotiating a reduction in its commitments in relation to its geothermal exploration and evaluation assets.

The group does not have any contingent liabilities or contingent assets as at 31 December 2010.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

23. SEGMENT REPORTING

Segment information is presented in respect of the Group's management and internal reporting structure.

Inter-segment pricing is determined on an arm's length basis.

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly income-earning assets and revenue, interest-bearing loans, borrowings and expenses, and corporate assets and expenses.

Segment capital expenditure is the total cost incurred during the period to acquire segment assets that are expected to be used for more than one period.

Geographical segments

The operating segment of oil and gas operates solely within the USA geographical segment and the operating segment of exploration and evaluation operates solely within the Australia geographical segment.

Segment reporting

The group has two reportable segments, as described below:

- Oil and gas - production and sale.
- Exploration and evaluation activities.

| | Oil and gas | | Exploration and evaluation | | Unallocated | | Consolidated total | |
|--|-------------|-------------|----------------------------|------------|-------------|-------------|--------------------|--------------|
| | 2010 \$ | 2009 \$ | 2010 \$ | 2009 \$ | 2010 \$ | 2009 \$ | 2010 \$ | 2009 \$ |
| External revenue | 3,638 | 73,666 | - | - | - | - | 3,638 | 73,666 |
| Interest income | - | - | 14,044 | - | 369,444 | 85,118 | 383,488 | 85,118 |
| Interest expense | - | (175) | - | - | - | (16) | - | (191) |
| Depreciation and amortisation | (1,216) | (80,228) | - | - | (6,930) | (1,570) | (8,146) | (81,798) |
| Segment loss before income tax | (1,221,102) | (3,911,903) | (486,377) | (364,428) | (3,609,392) | (6,005,862) | (5,316,871) | (10,282,193) |
| Other material non-cash items | - | - | - | - | - | - | - | - |
| Impairment of investments | - | - | - | - | (1,933,600) | (1,930,200) | (1,933,600) | (1,930,200) |
| Impairment of production and development expenditure | (564,846) | (4,113,141) | - | - | - | - | (564,846) | (4,113,141) |
| Segment assets | 3,639,705 | 3,718,677 | 1,972,482 | 1,065,897 | 7,851,248 | 13,682,824 | 13,463,435 | 18,467,398 |
| Segment liabilities | (279,542) | (157,426) | (157,319) | (22,901) | (272,085) | (868,401) | (708,946) | (1,048,728) |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

23. SEGMENT REPORTING (CONT.)

Reconciliations of reportable segment revenue, profit or loss, assets and non-current assets and other material items.

| | 2010 \$ | 2009 \$ |
|---|--------------------|---------------------|
| Revenues | | |
| Total revenue for reportable segments | 3,638 | 73,666 |
| Other revenue | - | - |
| Consolidated Revenue | <u>3,638</u> | <u>73,666</u> |
| Loss before tax | | |
| Loss before tax for reportable segments | (1,707,479) | (4,276,331) |
| Other loss before tax | (3,609,392) | (6,005,862) |
| Consolidated loss before tax | <u>(5,316,871)</u> | <u>(10,282,193)</u> |
| Assets | | |
| Total assets for reportable segments | 5,612,187 | 4,784,574 |
| Intercompany eliminations | (28,184,062) | (25,854,204) |
| Other assets | 36,035,310 | 39,537,028 |
| Consolidated assets | <u>13,463,435</u> | <u>18,467,398</u> |
| Liabilities | | |
| Total liabilities for reportable segments | 436,861 | 180,327 |
| Intercompany eliminations | (28,184,062) | (25,854,204) |
| Other liabilities | 28,456,147 | 26,722,605 |
| Consolidated liabilities | <u>708,946</u> | <u>1,048,728</u> |

| | Reportable segment totals | Adjustments | Consolidated totals |
|----------------------------------|------------------------------|-------------|------------------------|
| Other material items 2010 | | | |
| Interest revenue | 14,044 | 369,444 | 383,488 |
| Interest expense | - | - | - |
| Depreciation and amortisation | (1,216) | (6,930) | (8,146) |
| Impairment expense | (564,846) | (1,933,600) | (2,498,446) |
| Other material items 2009 | | | |
| Interest revenue | - | 85,118 | 85,118 |
| Interest expense | (175) | (16) | (191) |
| Depreciation and amortisation | (80,228) | (1,570) | (81,798) |
| Impairment expense | (4,113,141) | (1,930,200) | (6,043,341) |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

24. SHARE BASED PAYMENTS

The Company has a share option program that entitles key management personnel, senior employees and consultants to purchase shares in the entity.

The terms and conditions of the grants made up to 31 December 2010 are as follows:

| Grant date | Expiry date | Exercise price | Granted during the year | Balance at start of the year | Exercised during the year | Cancelled during the year | Balance at end of the year | Exercisable at end of the year |
|----------------|----------------|----------------|-------------------------|------------------------------|---------------------------|---------------------------|----------------------------|--------------------------------|
| | | \$ | Number | Number | Number | Number | Number | Number |
| 20 August 2009 | 20 August 2014 | 0.132 | - | 60,000,000 | - | - | 60,000,000 | 60,000,000 |
| 28 May 2010 | 20 August 2014 | 0.132 | 8,000,000 | - | - | - | 8,000,000 | 4,000,000 |
| 17 August 2010 | 20 August 2014 | 0.132 | 8,500,000 | - | - | - | 8,500,000 | 4,250,000 |
| | | | <u>16,500,000</u> | <u>60,000,000</u> | <u>-</u> | <u>-</u> | <u>76,500,000</u> | <u>68,250,000</u> |

The options granted during the year ended 31 December 2009 vested immediately and were provided at no cost to the recipients.

Half of the options granted during May 2010 vested immediately and the other half on 6 September 2011, the options were provided at no cost to the recipients.

Half of the options granted during August 2010 vested immediately and the other half on 6 September 2011, the options were provided at no cost to the recipients.

The contractual life of the options at 31 December 2010 was approximately 3 years and 8 months.

Fair value of options

The fair value of options granted is measured at grant date and recognised as an expense over the period during which the key management and senior employees become unconditionally entitled to the options. The fair value of the options granted is measured using Black-Scholes formulas, 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 options that vest.

The fair value of options granted during the year ended 31 December 2009 was \$3,821,704. The Black-Scholes formula model inputs were the Company's share price of \$0.102 at the grant date, a volatility factor of 79.94% based on historic share price performance and a risk free interest rate of 5.28% based on the 10 year government bond rate.

The fair value of options granted in May 2010 was \$462,400. The Black-Scholes formula model inputs were the Company's share price of \$0.10 at the grant date, a volatility factor of 79.94% based on historic share price performance and a risk free interest rate of 5.28% based on the 10 year government bond rate.

The fair value of options granted in August 2010 was \$325,638. The Black-Scholes formula model inputs were the Company's share price of \$0.09 at the grant date, a volatility factor of 55.68% based on historic share price performance and a risk free interest rate of 5.29% based on the 10 year government bond rate.

Expenses arising from share-based payment transactions

Total expenses arising from share based payment transactions recognised during the year ended 31 December 2010 as part of share based remuneration expense was \$237,254 (2009 - \$3,821,704).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

25. PARENT ENTITY DISCLOSURES

As at 31 December 2010 the parent entity of the Group was Planet Gas Limited.

| | Company | |
|--|--------------------|---------------------|
| | 2010 | 2009 |
| | \$ | \$ |
| Result of the parent entity | | |
| Net loss | (6,478,930) | (15,300,783) |
| Other comprehensive Income | - | - |
| Total comprehensive loss | (6,478,930) | (15,300,783) |
| Financial position of the parent entity at year end | | |
| Current assets | 5,819,663 | 9,786,814 |
| Non - current assets | 1,874,417 | 4,278,373 |
| Total assets | 7,694,080 | 14,065,187 |
| Current liabilities | | |
| Non - current liabilities | 276,571 | 868,402 |
| Total liabilities | - | - |
| Net assets | 7,417,509 | 13,196,785 |
| Equity | | |
| Share capital | 48,665,284 | 48,665,284 |
| Option premium reserve | 4,521,358 | 3,821,704 |
| Accumulated losses | (45,769,133) | (39,290,203) |
| Total equity | 7,417,509 | 13,196,785 |

26. SUBSEQUENT EVENTS

On 8 March 2011, the Group issued 1,000,000 options to Thomas G. Evans pursuant to the executive share option plan, the options are exercisable at 13.2 cents with an expiry date on 20 August 2014. Half of the options can be exercised immediately and half between 6 September 2011 and 20 August 2014.

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

DIRECTORS' DECLARATION

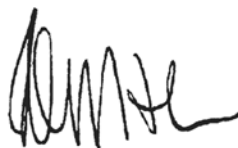
In the opinion of the Directors of Planet Gas Limited:

- (a) the financial statements and notes thereto, set out on pages 25 to 54, are in accordance with the Corporations Act 2001, including:
 - (i) giving a true and fair view of the financial position of the Group as at 31 December 2010 and of its performance, for the year ended on that date; and
 - (ii) complying with Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001; and
- (b) the financial report also complies with International Financial Reporting Standards as disclosed in Note 2.
- (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.
- (d) the Directors have been given the declarations by the Chief Executive Officer and Chief Financial Officer for the financial year ended 31 December 2010 pursuant to Section 295A of the Corporations Act 2001.

Signed at Sydney this 30th day of March 2011 in accordance with a resolution of the Board of Directors:



Norman A. Seckold
Director



Peter J. Nightingale
Director

INDEPENDENT AUDIT REPORT TO THE MEMBERS OF PLANET GAS LIMITED



Report on the financial report

We have audited the accompanying financial report of Planet Gas Limited (the "Company"), which comprises the consolidated statement of financial position as at 31 December 2010, and consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year ended on that date, Notes 1 to 26 comprising a summary of significant accounting policies and other explanatory information and the directors' declaration of the Group comprising the Company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' responsibility for the financial report

The directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement whether due to fraud or error. In Note 2, the directors also state, in accordance with Australian Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements of the Group comply with International Financial Reporting Standards.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We performed the procedures to assess whether in all material respects the financial report presents fairly, in accordance with the *Corporations Act 2001* and Australian Accounting Standards, a true and fair view which is consistent with our understanding of the Group's financial position and of its performance.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

INDEPENDENT AUDIT REPORT TO THE MEMBERS OF PLANET GAS LIMITED

Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*.

Auditor's opinion

In our opinion:

- (a) the financial report of Planet Gas Limited is in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the Group's financial position as at 31 December 2010 and of its performance for the financial year ended on that date; and
 - (ii) complying with Australian Accounting Standards and the Corporations Regulations 2001; and
- (b) the financial report also complies with International Financial Reporting Standards as disclosed in Note 2.

Report on the remuneration report

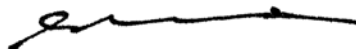
We have audited the Remuneration Report included in pages 21 to 22 of the Directors' Report for the year ended 31 December 2010. The directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with Section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with auditing standards.

Auditor's opinion

In our opinion, the Remuneration Report of Planet Gas Limited for the year ended 31 December 2010 complies with Section 300A of the *Corporations Act 2001*.



KPMG
31 March 2011



Simon Crane
Partner

ADDITIONAL STOCK EXCHANGE INFORMATION

Additional information as at 28 February 2011 required by the Australian Stock Exchange Listing Rules and not disclosed elsewhere in this report.

Home Exchange

The Company is listed on the Australian Stock Exchange. The Home Exchange is Sydney.

Audit Committee

As at the date of the Directors' Report, there was no audit committee of the Board of Directors, because the small number of Directors comprising the Board does not warrant the formal constitution of such a committee.

Class of Shares and Voting Rights

The voting rights attached to ordinary shares, as set out in the Company's Constitution, are that every member in person or by proxy, attorney or representative, shall have one vote on a show of hands and one vote for each share held on a poll.

A member holding partly paid shares is entitled to a fraction of a vote equivalent to the proportion which the amount paid up bears to the issue price for the share.

Distribution of Shareholders

As at 28 February 2011, the total distribution of fully paid shareholders, being the only class of equity, was as follows:

| Range | Total Holders | Units | % Issued Capital |
|------------------|---------------|-------------|------------------|
| 1 - 1,000 | 50 | 4,786 | 0.00% |
| 1,001 - 5,000 | 140 | 465,553 | 0.09% |
| 5,001 - 10,000 | 186 | 1,549,714 | 0.31% |
| 10,001 - 100,000 | 785 | 32,749,762 | 6.63% |
| 100,001 and over | 414 | 459,083,490 | 92.96% |
| Total | 1,575 | 493,853,305 | 100.00% |

As at 28 February 2011 275 shareholders held less than marketable parcels of 1,036,679 shares.

On Market Buy Back

There is no on market buy-back.

ADDITIONAL STOCK EXCHANGE INFORMATION

Twenty Largest Shareholders

As at 28 February 2011 the twenty largest quoted shareholders held 54.45% of the fully paid ordinary shares as follows:

| | Name | Number | % |
|----|---|------------|-------|
| 1 | Hueridge Pty Ltd | 98,277,039 | 19.90 |
| 2 | Permgold Pty Ltd <The Seckold Family S/F A/C> | 51,286,514 | 10.38 |
| 3 | Permgold Pty Limited | 15,690,293 | 3.18 |
| 4 | Mr Francesco Paul Violi | 9,881,790 | 2.00 |
| 5 | Frere & Associates Pty Limited <Derick Frere Super Fund A/C> | 8,739,337 | 1.77 |
| 6 | 0746946 B.C. | 7,500,000 | 1.52 |
| 7 | Rosignol Pty Ltd <Nightingale Family A/C> | 7,418,750 | 1.50 |
| 8 | Trio Investments Pty Limited | 7,275,000 | 1.47 |
| 9 | Exploration Capital Partners 2006 Limited Partnership | 7,200,000 | 1.46 |
| 10 | Frere & Associates Pty Limited <Derick Frere Super Fund A/C> | 6,676,741 | 1.35 |
| 11 | Brent Cook | 6,600,000 | 1.34 |
| 12 | Rigi Investments Pty Ltd | 6,294,220 | 1.27 |
| 13 | Mr Anthony Sheridan + Mrs Patricia Sheridan <Triston Superfund> | 5,820,000 | 1.18 |
| 14 | Mr Tony Valeri | 4,875,851 | 0.99 |
| 15 | Berpaid Pty Ltd | 4,625,000 | 0.94 |
| 16 | Evenlen Pty Limited | 4,537,500 | 0.92 |
| 17 | Removale Pty Ltd | 4,250,000 | 0.86 |
| 18 | Graywood Towers Pty Ltd | 4,179,950 | 0.85 |
| 19 | Mr Bruce Riederer | 4,000,000 | 0.81 |
| 20 | Rosignol Consultants Pty Ltd | 3,781,250 | 0.77 |

Options

| | Number of holders | Number of options | Grant date | Vesting date | Exercise price | Expiry date |
|---|-------------------|-------------------|----------------|----------------|----------------|----------------|
| 5 | | 60,000,000 | 20 August 2009 | 20 August 2009 | \$0.132 | 20 August 2014 |
| 9 | | 8,000,000 | 20 August 2009 | 20 May 2010 | \$0.132 | 20 August 2014 |
| 4 | | 8,500,000 | 20 August 2009 | 17 August 2010 | \$0.132 | 20 August 2014 |

CORPORATE DIRECTORY

DIRECTORS

Mr Norman A. Seckold (Chairman)

Mr Peter J. Nightingale

Mr Robert M. Bell

Mr Anthony J. McClure

Mr Anthony J. McDonald

Mr Robert C. Neale

COMPANY SECRETARY

Mr Peter J. Nightingale

PRINCIPAL PLACE OF BUSINESS AND REGISTERED OFFICE

Level 2, 66 Hunter Street
SYDNEY NSW 2000
Phone: +61 2 9300 3322
Fax: +61 2 9221 6333

AUDITORS

KPMG

Level 16, Riparian Plaza
71 Eagle Street
BRISBANE QLD 4000

SOLICITORS

Minter Ellison

88 Phillip Street
SYDNEY NSW 2000

SHARE REGISTRARS

Computershare Investor Services Pty Limited

117 Victoria Street
West End Queensland 4101
Phone: +61 7 3237 2100
Fax: +61 7 3229 9860







NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that the Annual General Meeting of members is to be convened at
Suite 2, Level 3, 66 Hunter Street, Sydney NSW 2000
on **25 May 2011** at **11.00 am**

AGENDA

BUSINESS

To receive and consider the Company's Annual Financial Report, the Directors' Report and the Auditors' Report for the year ended 31 December 2010.

To consider and, if thought fit, pass the following resolutions, with or without amendment:

Ordinary Resolution 1 Adoption of the Remuneration Report

'That the Remuneration Report for the year ended 31 December 2010 be and is hereby adopted.'

Ordinary Resolution 2 Re-election of a Director

'That Anthony J. McClure be and is hereby re-elected as a Director.'

Ordinary Resolution 3 Ratification of Option Issue

'That the issue of 8,000,000 options on 28 May 2010 exercisable at \$0.132 and expiring on 20 August 2014 be and is hereby ratified for the purposes of ASX Listing Rule 7.4.'

Ordinary Resolution 4 Ratification of Option Issue

'That the issue of 8,500,000 options on 17 August 2010 exercisable at \$0.132 and expiring on 20 August 2014 be and is hereby ratified for the purposes of ASX Listing Rule 7.4.'

Ordinary Resolution 5 Ratification of Option Issue

'That the issue of 1,000,000 options on 7 March 2011 exercisable at \$0.132 and expiring on 20 August 2014 be and is hereby ratified for the purposes of ASX Listing Rule 7.4.'

To transact any other business that may be brought forward in accordance with the Company's Constitution.

By order of the Board

A handwritten signature in black ink, appearing to read "Peter J. Nightingale".

Peter J. Nightingale
Director
21 April 2011

EXPLANATORY MEMORANDUM

to the Notice of Annual General Meeting to be held on 25 May 2011

Resolution 1

The Remuneration Report, which can be found on pages 21 and 22 of the Company's 2010 Annual Report, contains certain prescribed details, sets out the policy adopted by the Board of Directors and discloses the payments to Directors.

In accordance with section 250R of the Corporations Act, a resolution that the Remuneration Report be adopted must be put to the vote. The resolution is advisory only and does not bind the Directors.

Resolution 2

In accordance with Article 57 of the Company's Constitution, Listing Rule 14.4 and the Corporations Act, Anthony J. McClure retires as Director by rotation and, being eligible, offers himself for re-election.

Resolution 3

Resolution 3 seeks the ratification by shareholders of the issue on 28 May 2010 of 8,000,000 options which expire on 20 August 2014 and are each exercisable at \$0.132 to acquire one fully paid ordinary share in the Company. The options were issued to Global Ore Discovery Pty Ltd as consideration for the consultancy agreement for Australian geothermal exploration between Gradient Energy Ltd and Global Ore Discovery Pty Ltd.

This ratification will provide the Company with the ability to raise further funds, if required, will maximise the flexibility of the Company's funds management and will facilitate planning for the Company's ongoing activities.

Details of the issue, as required by ASX Listing Rule 7.4 are as follows:

| | |
|--------------------------------|--|
| Number of securities allotted: | 8,000,000 |
| Issue price: | Nil cash consideration |
| Terms: | Options each exercisable at \$0.132 to acquire one fully paid ordinary share in the Company at any time to 20 August 2014 |
| Vesting conditions: | Half the options became exercisable from 28 May 2010 and half from 6 September 2011 to 20 August 2014 unless terminated earlier. |
| Name of the allottee: | Global Ore Discovery Pty Ltd |
| Intended use of funds: | No funds were raised |

The Company will disregard any votes cast on Resolution 3 by:

- Global Ore Discovery Pty Ltd; and
- any associates of Global Ore Discovery Pty Ltd.

However, the Company need not disregard a vote if:

- it is cast by a person as proxy for a person who is entitled to vote, in accordance with the directions on the proxy form; or
- it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the proxy form to vote as the proxy decides.

Resolution 4

Resolution 4 seeks the ratification by shareholders of the issue on 17 August 2010 of 8,500,000 options which expire on 20 August 2014 and are each exercisable at \$0.132 to acquire one fully paid ordinary share in the Company. The options were issued pursuant to the Planet Gas Executive Share Option Plan to Ian G. Halstead (4,000,000), Jocelyn A. Edwards (2,000,000), Richard J. Edwards (2,000,000) and Meissa Roumieh (500,000).

Details of the issue, as required by ASX Listing Rule 7.4 are as follows:

| | |
|--------------------------------|---|
| Number of securities allotted: | 8,500,000 |
| Issue price: | Nil cash consideration |
| Terms: | Options each exercisable at \$0.132 to acquire one fully paid ordinary share in the Company at any time to 20 August 2014 |
| Vesting conditions: | Half the options became exercisable from 17 August 2010 and half from 6 September 2011 to 20 August 2014 unless terminated earlier. |
| Names of the allottees: | Ian G. Halstead (4,000,000), Jocelyn A. Edwards (2,000,000), Richard J. Edwards (2,000,000) and Meissa Roumieh (500,000) |
| Intended use of funds: | No funds were raised |

The Company will disregard any votes cast on Resolution 4 by:

- Ian G. Halstead, Jocelyn A. Edwards, Richard J. Edwards and Meissa Roumieh; and
- any associates of those persons.

However, the Company need not disregard a vote if:

- it is cast by a person as proxy for a person who is entitled to vote, in accordance with the directions on the proxy form; or
- it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the proxy form to vote as the proxy decides.

Resolution 5

Resolution 5 seeks the ratification by shareholders of the issue on 7 March 2011 of 1,000,000 options which expire on 20 August 2014 and are each exercisable at \$0.132 to acquire one fully paid ordinary share in the Company. The options were issued pursuant to the Planet Gas Executive Share Option Plan to Thomas G. Evans.

Details of the issue, as required by ASX Listing Rule 7.4 are as follows:

| | |
|--------------------------------|---|
| Number of securities allotted: | 1,000,000 |
| Issue price: | Nil cash consideration |
| Terms: | Options each exercisable at \$0.132 to acquire one fully paid ordinary share in the Company at any time to 20 August 2014 |
| Vesting conditions: | Half the options became exercisable from 7 March 2011 and half from 6 September 2011 to 20 August 2014 unless terminated earlier. |
| Name of the allottee: | Thomas G. Evans |
| Intended use of funds: | No funds were raised |

The Company will disregard any votes cast on Resolution 5 by:

- Thomas G. Evans; and
- any associates of Thomas G. Evans.

However, the Company need not disregard a vote if:

- it is cast by a person as proxy for a person who is entitled to vote, in accordance with the directions on the proxy form; or
- it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the proxy form to vote as the proxy decides.

Statement regarding the rights of option holders

Pursuant to ASX Listing Rule 6.19, the rights of an option holder will be changed to the extent necessary to comply with the ASX Listing Rules applying to a reorganisation of capital at the time of the reorganisation.

Pursuant to ASX Listing Rule 6.19, option holders cannot participate in new issues without exercising the option(s) first.



FORM OF PROXY

I/we _____

of _____

being a member/members of Planet Gas Limited HEREBY APPOINT

or failing him, the Chairman of the Meeting, as my/our Proxy to vote for me/us and on my/our behalf at the Annual General Meeting of Members of the Company to be held at 11.00 a.m. on 25 May 2011 and at any adjournment thereof.

The Proxy is directed by me/us to vote as indicated by the marks in the appropriate boxes below:

| RESOLUTION | FOR | AGAINST | ABSTAIN |
|--|--------------------------|--------------------------|--------------------------|
| 1. Adoption of the Remuneration Report | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 2. Re-election of Anthony J. McClure as a Director | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 3. Ratification of the issue of options to Global Ore Discovery | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 4. Ratification of the issue of options issued to Ian G. Halstead, Jocelyn A. Edwards, Richard J. Edwards and Meissa Roumieh | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 5. Ratification of the issue of options to Thomas G. Evans | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |

If no directions are given, the Proxy may vote as the Proxy thinks fit or may abstain. If you mark the abstain box for a particular item, you are directing your proxy not to vote on your behalf on a show of hands or on a poll and your votes will not be counted in computing the required majority on a poll.

Important:

If you do not wish to direct your Proxy how to vote, please place a mark in the box:

By marking this box, you acknowledge that the Chairman may exercise your proxy even if he has an interest in the outcome of the resolution and votes cast by him other than as proxy holder will be disregarded because of that interest. The Chairman intends to vote undirected proxies in favour of each item.

Dated this _____ day of _____ 2011.

Signatures of Member(s) _____

THE COMMON SEAL of _____ A.C.N. _____

was, if required, hereunto affixed in accordance with its Constitution in the presence of:

Director

Secretary

Planet Gas Limited ABN 46 098 952 035

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PROXY INSTRUCTIONS

1. A member entitled to attend and vote is entitled to appoint not more than 2 proxies.
2. Where more than 1 proxy is appointed, each proxy must be appointment to represent a specified proportion of the member's voting rights.
3. A proxy need not be a member.
4. All joint holders must sign.
5. All executors of deceased estates must sign.
6. The Company has determined, in accordance with regulation 7.11.37 of the Corporations Regulations 2001 (Cth), that the Company's shares quoted on the ASX Limited at 7.00 pm Sydney time on 23 May 2011 are taken, for the purposes of the Annual General Meeting to be held by the persons who held them at that time. Accordingly, those persons are entitled to attend and vote (if not excluded) at the meeting.

7. Voting Exclusions:

The Company will disregard any votes cast on Resolution 3 by:

- Global Ore Discovery Pty Ltd; and
- any associates of Global Ore Discovery Pty Ltd.

The Company will disregard any votes cast on Resolution 4 by:

- Ian G. Halstead, Jocelyn A. Edwards, Richard J. Edwards and Meissa Roumieh; and
- any associates of those persons.

The Company will disregard any votes cast on Resolution 5 by:

- Thomas G. Evans; and
- any associates of Thomas G. Evans.

However, the Company need not disregard a vote if:

- it is cast by a person as proxy for a person who is entitled to vote, in accordance with the directions on the proxy form; or
- it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the proxy form to vote as the proxy decides.

8. This Proxy form (and the original or certified copy of any power of attorney under which this proxy form is signed) must be received at an address given below no later than 48 hours before the time appointed for holding the meeting:
 - in person or by mail at the Company's registered office, Level 2, 66 Hunter Street, Sydney, NSW 2000 Australia; or
 - by facsimile on +61 2 9221 6333.