



20 April 2012

The Manager Companies  
ASX Limited  
20 Bridge Street  
SYDNEY NSW 2000

(70 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 2011 and the Company's Notice of Annual General Meeting to be held at 3:00 pm on 22 May 2012.

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", written over a large, faint, stylized orange and white circular graphic that resembles a sun or a target.

Peter J. Nightingale  
Director

pjn6660

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



**PlanetGas** Limited



**2011**  
**ANNUAL REPORT**

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## CHAIRMAN'S LETTER

*“The changing energy marketplace has driven the Company to take significant steps in rationalising its businesses.”*



Dear Fellow Shareholder,

I am pleased to be able to report that Planet Gas signed PEL 514 with the Government of South Australia during November 2011 and shortly thereafter entered into a farm-in and Joint Venture agreement with Senex Energy Limited, an established Cooper Basin Operator. As part of the farm-in, Senex Energy will fund the cost of three exploration wells to earn equity in the licence. Planet Gas, with Senex Energy as its joint venture partner, will shortly commence the acquisition of a 3D seismic survey over the northern part of PEL 514. The PEL is prospective not only for conventional oil and gas but also shale gas and coal seam gas, containing significant thicknesses of coal.

The changing energy marketplace has driven the Company to take significant steps in rationalising its businesses. This has involved the relinquishment and natural expiration of the majority of its geothermal asset portfolio. A single geothermal property at Innot in Queensland has been retained.

The rationalisation process allows the Company to clearly focus on its primary hydrocarbon exploration goals and we have positioned the Company to be one of the new players in the renaissance set to occur in the Cooper Basin, recently heralded by the successful test of a nearby shale gas well.

Yours sincerely

A stylized, handwritten signature in white ink, appearing to read 'Norman A. Seckold'.

**Norman A. Seckold**  
Chairman

# REVIEW OF OPERATIONS

## SUMMARY

The year 2011 was one of rationalisation and housekeeping for Planet Gas Limited ('Planet Gas' or 'the Company'). Despite a difficult environment for coal bed methane ('CBM') exploration in New South Wales, the Company persisted with its efforts and successfully acquired seismic data over two of its CBM licences and completed the drilling of an exploration corehole in PEL 468. During the year Planet Gas also executed PEL 514 in the Cooper Basin, and subsequently entered into a joint venture partnership for the exploration and exploitation of the licence. The Company plugged and abandoned its non-performing Wyoming assets and effectively withdrew from the USA. Planet Gas completed its rationalisation of unconventional energy assets during the year.

## During 2011 Planet Gas:

- Acquired 2D seismic data over PELs 468 and PEL 470.
- Drilled the Meads Crossing-1 exploration corehole in PEL 468.
- Completed Native Title processes for the Cooper Basin PELA 514.
- Executed Cooper Basin PEL 514 with PIRSA.
- Agreed PEL 514 farmout and joint venture partnership with Senex Energy Limited.
- Relinquished its geothermal licences in the Clarence-Moreton and Sydney Basins, at Leigh Creek and Eromanga in South Australia.
- Expired its Gloucester geothermal licence.
- Completed plugging and abandonment activities of its USA assets.



# REVIEW OF OPERATIONS

## CORPORATE ACTIVITIES

- The Company sold its investment in Greenpower Energy Limited (ASX: GPP) at \$0.04 per share totalling \$500,000.
- The Company completed a Share Purchase Plan ('SPP'), resulting in the issue of 35,307,692 shares for \$918,000.

## PROJECTS

### Australia

The Company holds rights to the following projects:

- Cooper Basin conventional and unconventional projects, South Australia.
- Sydney and Gunnedah Basin coal bed methane projects, New South Wales.
- Geothermal project at Innot, Queensland.



# REVIEW OF OPERATIONS

## Cooper Basin Conventional and Unconventional Projects, South Australia

### PEL 514

Planet Gas completed native title process on PELA 514, following which the PEL was formally executed with Primary Industries South Australia ('PIRSA'). The PEL has a five year term which commenced on 9 November 2011.

PEL 514 is in the northern part of the Cooper/Eromanga Basins and is strategically located close to existing producing oil and gas fields, and underutilised infrastructure. Nearby discoveries include Reg Sprigg-3, Acrasia, Flax and Yarrow. The Moondie gas field and South James oil discovery lie within the licence.

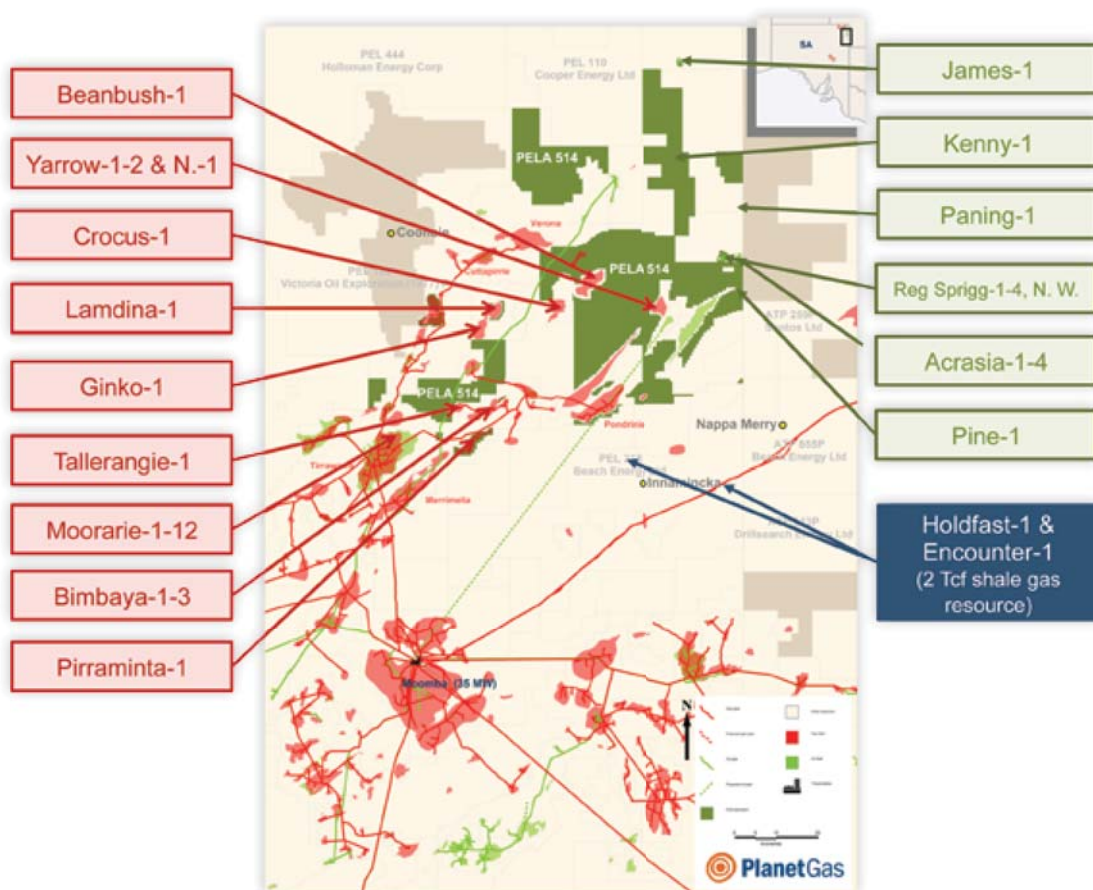
The northern part of the licence is underexplored and surrounds a trend of Jurassic and Triassic oil discoveries. The southern part of the block lies within the Permian Gas province. To the east there have also been several Permian oil and gas discoveries. Hydrocarbons in the northern area are sourced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

There is conventional oil and gas 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. Initial focus will be on the Birkhead channel sands which produce at the nearby Snatcher and Growler fields.

Good quality coals and hydrocarbon rich shales are also present across the area as evidenced by wells drilled within, and proximal to, the licence. There is an abundance of coal mapped across the licence providing coal bed methane potential in the coals of the Cretaceous Winton, Permian Toolachee and Patchawarra horizons. There is also shale gas potential in the Daralingie shale and the Murteree member of the REM shales. The Holdfast-1 successful shale gas test well is located due south of PEL 514.

On 23 December 2011, Planet Gas concluded a Farm-in and Joint Operating Agreement with Senex Energy Limited ('Senex'). As part of the farm-in, PEL 514 has been notionally divided into north and south areas. Senex will operate the licence on behalf of the Joint Venture and will fully fund three exploration wells (commitment value \$10.5 million) to earn a 50% interest in PEL 514 north and a 70% interest in PEL 514 south.

Planning is already underway to acquire 160 square kilometres of 3D seismic data within the PEL 514 north area boundaries during 2012.



# REVIEW OF OPERATIONS

## Sydney and Gunnedah Basins Coal Bed Methane Projects

Planet Gas executed a farm-in agreement with Leichhardt Resources Pty Limited in August 2010, with rights to earn 50% equity in three prospective and well situated petroleum exploration licences ('PELs') in New South Wales. The farm-ins, currently in progress, involve the execution by the Company as operator of two exploration programs over each of the PELs. The agreement covers a total licence portfolio of 5,579 square kilometres 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 licences, the Company will target coal bed methane resources hosted by the geological sequences of the Illawarra Coal Measures (or equivalent) and the Shoalhaven Groups.

The Gunnedah Basin licence is adjacent to the Narrabri coal bed methane 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. The estimated minimum expenditure for the technical works, or in ground costs, by the Company over the life of the farm-ins is \$15.9 million, approximately \$4.2 million during Phase 2. Planet Gas 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.

During 2011, the Company acquired seismic over PELs 468 and 470 and drilled one exploration corehole on PEL 468. The Company was prevented from undertaking exploration activities on PEL 469.

Planet Gas eagerly anticipates the outcome of the New South Wales legislative inquiry into coal seam gas, expected to be completed in early April 2012. No further intrusive work is planned until the New South Wales legislative inquiry and Federal Government's Senate inquiry have been completed. This will ensure greater certainty for Planet Gas and that future works can be undertaken in consultation and co-operation with the local communities and within considered guidelines from government, rather than in an adversarial atmosphere.

Renewal applications for all three licences have been submitted to the authorities.



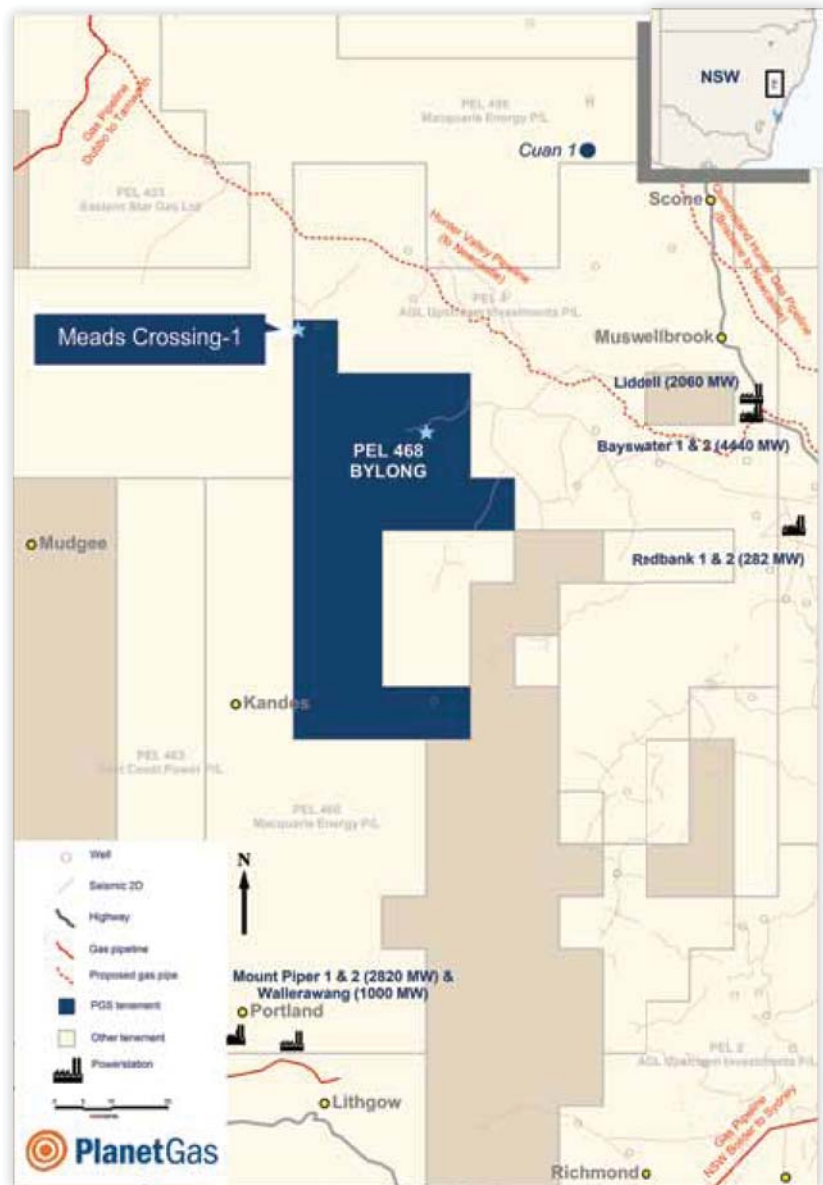
# REVIEW OF OPERATIONS

## PEL 468 - Bylong

Bylong (PEL 468) covers 1,736 square kilometres 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.

The Phase 2 work program involving acquisition of 30 line kilometres of seismic data and the drilling, logging and permeability testing of two exploration coreholes commenced during 2011. The 30 line kilometres of seismic data was successfully acquired and one exploration corehole, Meads Crossing-1, was drilled. The results of the corehole were mixed. Although the well contained 27.3 metres net thickness of coal with desorption indicating gas contents up to 8.34 cubic metres per tonne, the coals penetrated had been subjected to thermal alteration caused by igneous intrusives, resulting in carbon dioxide contamination.

As a consequence of this well result, the well site for the second proposed corehole, Stony Pinch-1, was immediately relocated to the northeastern part of PEL 468, in an area interpreted to be less likely to be affected by igneous intrusives.



Bylong CBM Project Location

# REVIEW OF OPERATIONS

## PEL 469 - Shoalhaven

Shoalhaven (PEL 469) covers 3,173 square kilometres, 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's Camden Gas Project). A major regional pipeline linking Sydney to Canberra and Victoria passes through the PEL.

Existing data comprising 56 existing drill holes and two seismic lines to the northwest of the PEL were reviewed by Planet Gas prior to participation. 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 Coal Measures, which contain 11 named coal seams including four main prospective target seams, these being the Bulli, Balgownie, Wongawilli and Tongarra seams are up to 25 metres thick. Coal vitrinite reflectance data for these seams average 1.2 and historical mine gas data indicates gas contents of 10 to 16 cubic metres per tonne.

The Phase 2 work program involves the acquisition of 20 line kilometres of seismic data and the drilling, logging and permeability testing of a single exploration corehole.



Seismic data could not be acquired across PEL 469 during 2011 as a result of the Wingecaribbee Council denying access to roads. Picketing of a proposed well site surface location resulted in the Company being unable to finalise land access arrangements and the indeterminate deferment of the drilling of the exploration corehole.

Shoalhaven CBM Project Location

# REVIEW OF OPERATIONS

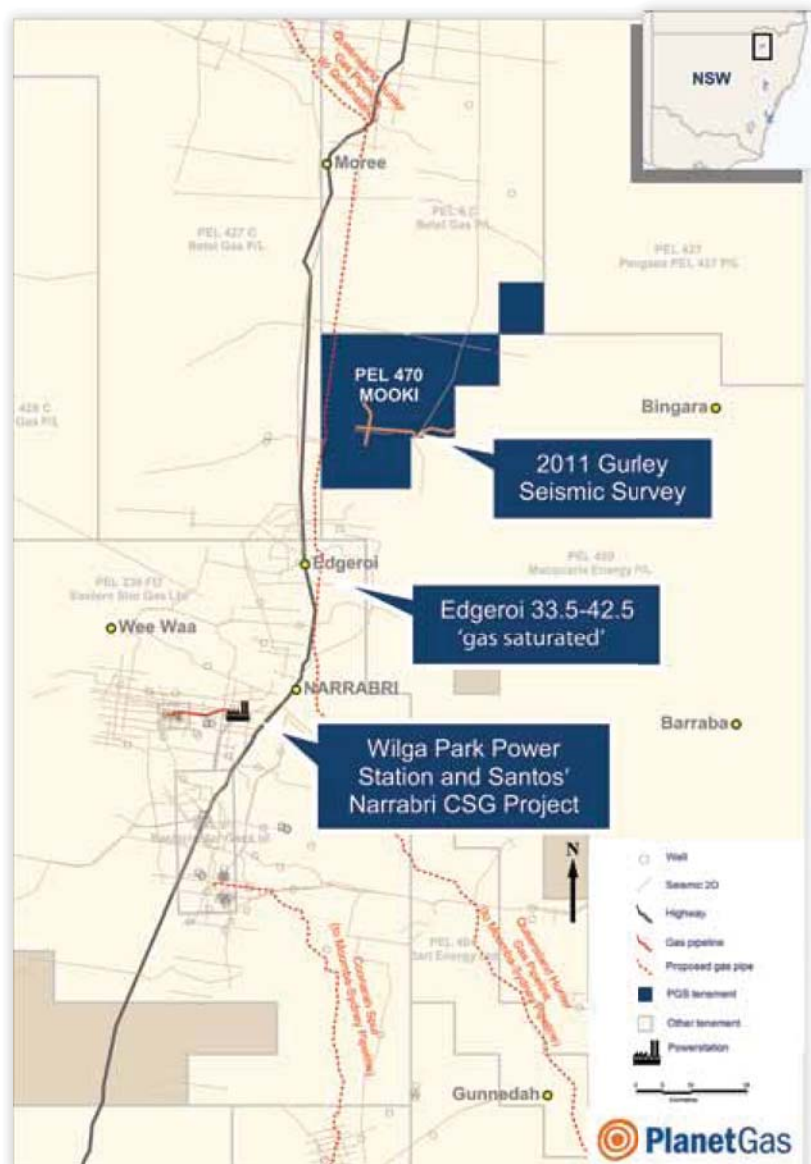
## PEL 470 - Mooki

Mooki (PEL 470) covers 670 square kilometres 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 Hunter Gas Pipeline (Wallumbilla Gas Hub to Newcastle) 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. Previous 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 reported gas contents of up to 10 cubic metres per tonne. One well drilled during 2010 at Edgeroi, about 12 kilometres south of the PEL 470 boundary, contained between 33.5 metres and 42.5 metres of 'gas saturated' coal.

The Phase 2 work program involves the acquisition of 30 line kilometres of seismic data and the drilling, logging and permeability testing of a single exploration corehole.

Seismic data was acquired, as planned, across the permit during 2011. However, attempts to secure a land use agreement for the drilling of the exploration corehole have been frustrated by community action groups, a non-cooperative travelling stock route authority and several wealthy individuals.



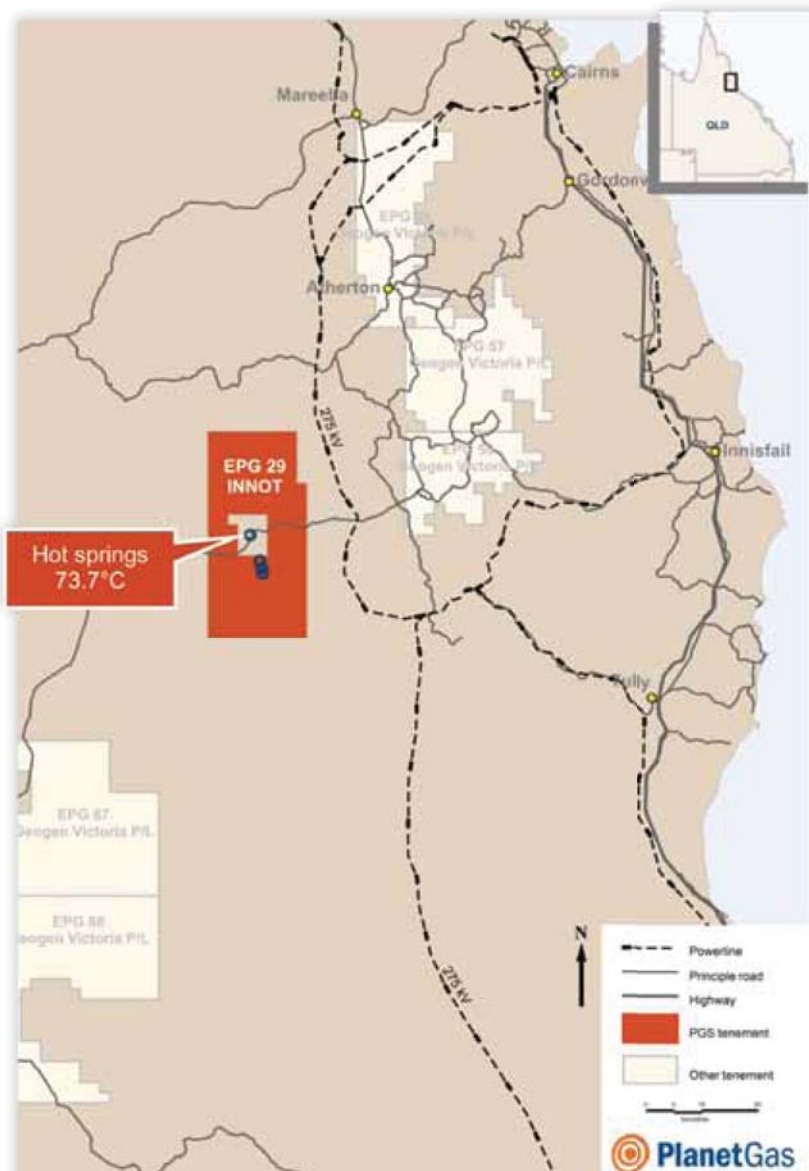
Mooki CBM Project Location

# REVIEW OF OPERATIONS

## Innot Geothermal Project

Gradient Energy Pty Limited, a wholly owned subsidiary of Planet Gas was awarded Geothermal Exploration Permit (EPG 29), located at the Innot Hot Springs geothermal system, in Queensland on 1 May 2010. The Innot geothermal project, covering 596 square kilometres, has excellent year round access located on the Kennedy Highway 100 kilometres from Cairns and 250 kilometres from Townsville, in northern Queensland. Innot is also potentially well placed for future supply of power with the 275 kilovolt power lines of the main east coast grid located 10 kilometres from the project.

The Innot geothermal project is distinct from most other geothermal projects in Australia with a known geothermal spring system expressed at surface in the immediate vicinity of the exploration permit. Surface spring temperatures reach 73.7°C, making it the hottest measured natural spring temperatures in Australia. Standard temperature calculation techniques based on the spring water chemistry predict geothermal fluid temperatures at depth in the range 144°C to 165°C. This is well within the temperature window for commercial power generation from off the shelf geothermal power plant technologies.



## Geothermal Portfolio Rationalisation

As a result of changed market sentiments towards geothermal energy exploration, and based on an assessment of the prospectivity of the licences, during 2011 the Company relinquished the geothermal exploration licences ELs 7510, 7512 and 7513 in the Sydney Basin, EL 7146 in the Clarence-Moreton Basin, GELs 354 to 365 and 377 in the Eromanga Basin and GELs 448 to 461 at Leigh Creek in South Australia.

*Innot Project Location*

# 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. The Chairman reviewed face to face the performance of its senior executives.

The Company has taken the appropriate measure to provide each Director and senior executive with a copy of the Company's policies which spells out the rights, duties and responsibilities that they should follow.

The Company has adopted Recommendation 1.3 by conducting face to face a performance evaluation of the CEO by the Chairman of the Board in accordance with the process described above. No other evaluation was carried out.

The small size of the Company does not warrant the need of a Board Charter and thus no Board Charter is posted on the Company's website.

# STATEMENT OF CORPORATE GOVERNANCE

## 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 three Directors are Independent Non-executive Directors. The Company has adopted Recommendation 2.1.

#### 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 CEO

The office of Chair is held by Norman A. Seckold a Non-independent Director. 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 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.

# STATEMENT OF CORPORATE GOVERNANCE

## PERFORMANCE REVIEW AND EVALUATION

The Company follows Recommendations 2.5 and 2.6 by disclosing the process for evaluating the performance of the Board, and disclosure requirements under Principle 2 in the following paragraphs.

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.

## INDEPENDENT DIRECTORS

The Company considers that as at 31 December 2011 three Directors of the Company are classified as Independent Non-executive Directors.

## 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 2001
- Robert M. Bell since October 2007
- Anthony J. McClure since August 2003
- Anthony J. McDonald since November 2003
- Robert C. Neale since November 2009

## TERMS OF APPOINTMENT AS A DIRECTOR

The current Directors of the Company by virtue of the Company's Constitution are appointed for three years. The Constitution of the Company provides that a 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 the Managing Director) 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.

## 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.

The Code of Conduct outlines:

- the practices necessary to maintain confidence in the Company's integrity;
- the practices necessary to take into account legal obligations and reasonable expectations of stakeholders; and
- the responsibility and accountability of individuals for reporting and investigating reports of unethical practices.

The following paragraphs described acceptable practices for Directors, senior executives and employees.

## 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.

# STATEMENT OF CORPORATE GOVERNANCE

## SHARE DEALINGS AND DISCLOSURES

The Company has adopted 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.

During the reporting period the Company has modified its share trading policy. The trading windows for restricted persons are now 60 days after the release of the following:

- the half year results;
- the full year results;
- the holding of the Annual General Meeting.

Restricted persons are 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.

## 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.

## BOARD DIVERSITY

Given the small size of the Company, Recommendations 3.2, 3.3, 3.4 and 3.5 were not adopted for the year ended 31 December 2011 as the Company has not set a policy concerning diversity. However, the Company's Board does take into account the gender, age, ethnicity and cultural background of potential Board members, executives and employees.

## PUBLICLY AVAILABLE INFORMATION

The Company makes publicly available information on the Company's website, [www.planetgas.com](http://www.planetgas.com), the Code of Conduct under the corporate governance section.

## Principle 4 - Safeguard Integrity in Financial Reporting

### AUDIT COMMITTEE

Due to the size of the Company, an Audit Committee has not been established and, as a result, Recommendations 4.1, 4.2 and 4.3 have not been adopted.

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 ensure that an independent judgement is always exercised.

The functions of the Audit Committee, including the review of the integrity of the Company's financial reporting and overseeing the independence of the external auditors, are performed by the full Board.

Because the functions of an Audit Committee are performed by the full Board, to comply with Recommendation 4.1, the names and qualifications of all Directors are as follows:

- 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.

# STATEMENT OF CORPORATE GOVERNANCE

## 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 co-ordinating 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 the Company and described 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 or made available through the Company's website.

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](http://www.planetgas.com), and on the ASX website, [www.asx.com.au](http://www.asx.com.au), under ASX code 'PGS'.

## Principle 7 - Recognise and Manage Risk

The Board is responsible identifying, 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.

# STATEMENT OF CORPORATE GOVERNANCE

## 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

Due to the size of the Company, the Company does not have an internal audit department, the function of which is carried out by the Board.

## 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 2011, 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
- all Directors have 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, subject to prior consultation with the Chairman.

## Principle 8 - Remunerate Fairly and Responsibly

Due to the size of the Company, a Remuneration Committee has not been established and, as a result, Recommendations 8.1, 8.2 and 8.4 have not been adopted. However, for the year ended 31 December 2011 the functions and responsibilities listed below were carried out by the full 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 8.3, 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;
- equity based remuneration when invited to participate by the Board in the executive share option plan of the Company; and
- a performance incentive bonus once performance evaluation is completed.

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.

# 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 2011. 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 Alfred 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, Mekong Minerals Ltd and Nickel Mines Limited.

### **Peter James Nightingale** **Executive Director, Company Secretary and CFO**

Director since 4 December 2001.

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., Bolnisi Gold N.L. and Chairman of ASX listed Callabonna Uranium Limited. Mr Nightingale is currently a director of Augur Resources Ltd, Cockatoo Coal Limited, Sumatra Copper & Gold plc and unlisted public companies Equus Resources Limited and Nickel Mines Limited.

### **Robert Michael 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 was one of the founders of Queensland Gas Company which was bought by British Gas in 2009. His directorship over the last three years includes Cerro Resources N.L. and Green Invest Limited.

# DIRECTORS' REPORT

## Anthony John 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 25 years technical, management and financial experience in the resource sector worldwide 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 European Gas Limited until October 2009 and he is a current director of unlisted public companies Nickel Mines Limited and Mekong Minerals Limited.

## Anthony John 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 over 12 years of active involvement in management in the natural resources sector in Australia and internationally. He has been a director, company secretary and/or legal advisor to a number of listed and unlisted public companies. He is currently Managing Director of Cerro Resources N.L. a dual ASX and TSX.V listed precious metals exploration company currently developing a project in Mexico, a non-executive director of ASX listed Industree Limited, a supplier of mining products and services, and unlisted public company Mekong Minerals Limited. His directorships in the last three years also include Deep Yellow Limited.

## Robert Charles Neale

### 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.

## 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	4	4
Peter J. Nightingale	4	3
Robert M. Bell	4	3
Anthony J. McClure	4	4
Anthony J. McDonald	4	4
Robert C. Neale	4	4

## Directors' Interests

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

Director	Fully Paid	Options
	Ordinary Shares	
Norman A. Seckold	72,247,482	-
Peter J. Nightingale	12,128,487	8,000,000
Robert M. Bell	1,250,000	2,000,000
Anthony J. McClure	5,154,181	2,000,000
Anthony J. McDonald	7,851,923	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 2011	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
77,500,000	\$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 and exploration 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 \$7,324,678 (2010 - \$5,316,871 loss).

## Review of Operations

The review of operations is set out on pages 2 to 9 of this Annual Report.

# DIRECTORS' REPORT

## Dividends

The Directors do not recommend the payment of a dividend in respect of the financial year ended 31 December 2011. 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 2011 were as follows:

- Planet Gas issued 35,307,692 fully paid ordinary shares.
- Planet Gas issued 1,000,000 options.
- Planet Gas sold its investment in Greenpower Energy Limited for \$500,000.

## 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 the 13 January 2012, the Company completed a placement of 8,461,538 fully paid ordinary shares at \$0.026, raising \$220,000.

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.

The Directors are not employed directly by the Group. Their services are provided by way of arrangements with related parties. The CEO is employed directly by the Group. The salary component of the CEO's remuneration is made up of fixed remuneration, performance based remuneration, equity based remuneration in accordance with his employee service agreement and termination payment. 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 \$	Bonus \$	Fair value of Options \$	Total \$	Proportion of remuneration related %	Value of options as a proportion of remuneration %
<b>Executive Directors</b>								
Norman A. Seckold (Chairman)	2011	90,000	-	-	-	90,000	-	-
	2010	90,000	-	-	-	90,000	-	-
Sharif A. Oussa (Managing Director)*	2011	-	-	-	-	-	-	-
	2010	149,999	13,500	-	-	163,499	-	-
Peter J. Nightingale (Director, Secretary and CFO)	2011	75,000	-	-	-	75,000	-	-
	2010	75,000	-	-	-	75,000	-	-
<b>Non-executive Directors</b>								
Robert M. Bell	2011	24,000	-	-	-	24,000	-	-
	2010	24,000	-	-	-	24,000	-	-
Anthony J. McClure	2011	25,000	-	-	-	25,000	-	-
	2010	25,000	-	-	-	25,000	-	-
Anthony J. McDonald	2011	60,000	-	-	-	60,000	-	-
	2010	60,000	-	-	-	60,000	-	-
Robert C. Neale	2011	24,000	-	-	-	24,000	-	-
	2010	24,000	-	-	-	24,000	-	-
Total, all specified Directors	2011	298,000	-	-	-	298,000	-	-
	2010	447,999	13,500	-	-	461,499	-	-
<b>Executives</b>								
Ian G. Halstead CEO <sup>^</sup>	2011	350,000	24,616	58,333	49,554	482,503	12%	10%
	2010	84,090	7,568	-	103,687	195,345	-	53%
Total, all specified executives	2011	350,000	24,616	58,333	49,554	482,503	12%	10%
	2010	84,090	7,568	-	103,687	195,345	-	53%

\* Sharif Oussa ceased on 14 September 2010.

<sup>^</sup> Ian Halstead appointed CEO on 25 October 2010.

# DIRECTORS' REPORT

## Remuneration Report - Audited (Cont.)

Apart from the Chief Executive Officer, there are no executives of the Company or Group that are not Directors and no Directors 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 to Directors. The Chief Executive Officer received performance related compensation of \$58,333 during the year ending 31 December 2011. No shares were granted to key management personnel during the year ended 31 December 2011 or 31 December 2010 as compensation.

## CEO Remuneration - (Audited)

Employee service agreement conditions with Ian Halstead are as follows:

(a) Duration of the Contract

The service agreement is for a period of three years commencing on 1 July 2010.

(b) Remuneration

i. Salary - effective from 1 January 2011 \$350,000 plus superannuation of \$15,199 per annum.

ii. Short term incentive (STI) - Payable each financial year on an equally weighted basis in respect to:

- the employee's performance, being measured by the employee's satisfaction of agreed key performance indicators (KPI's) relating to performance objectives; and
- the Company's performance.

The short term incentive will be up to a maximum of 20% of the annual base salary.

iii. Long term incentive (LTI) - The Company will issue shares subject to all such approvals or consents (if any) as required under the Company's constitution, ASX Listing rules and the Corporations Act 2001 as follows:

- Tranche 1 shares - the lesser of 1,000,000 shares or a number of shares based on a calculation on the number of shares in the Company held by the employee immediately prior to the issue of Tranche 1 shares and the total number of issued shares in the Company as at the Tranche 1 issue date. The vesting conditions will be regarded as having been satisfied as at the second anniversary of the Service Agreement. The vesting conditions will not apply if the Company is subject to a successful takeover and rollover relief pursuant to section 83A-130 of the Income Tax Assessment Act 1997 does not apply to the employee.
- Tranche 2 shares - the lesser of 2,000,000 shares or a number of shares based on a calculation on the number of shares in the Company held by the employee immediately prior to the issue of Tranche 1 shares and the total number of issued shares in the Company as at the Tranche 1 issue date. The vesting conditions will be regarded as having been satisfied as at the third anniversary of the Service Agreement. The vesting conditions will not apply if the Company is subject to a successful takeover and rollover relief pursuant to section 83A-130 of the Income Tax Assessment Act 1997 does not apply to the employee.

(c) Termination of Employment

Mr Halstead's service agreement may be terminated at any time by the Company giving to the employee not less than three months' prior written notice. In the event of termination, the Company must pay Mr Halstead an amount equal to the fee payable for so much of the notice period as the employee is not so retained.

This agreement may be terminated at any time by Mr Halstead giving to the Company not less than three months prior written notice.

The Company may terminate Mr Halstead's service agreement immediately in certain events including serious misconduct and material breach of contract. On termination of this agreement for the reasons of serious misconduct and material breach of contract Mr Halstead is entitled to the fee payable up to, and including, the date of termination.

# DIRECTORS' REPORT

## Remuneration Report - Audited (Cont.)

Details of vesting profiles of the options granted as remuneration to each key management person and executive of the Group are detailed below.

### Analysis of options and rights over equity instruments granted as compensation - Audited

Director/Executive	Options Granted		% Vested in year	% Forfeited in year	Financial year in which grant vests
	Number	Date			
Peter J. Nightingale	8,000,000	20 August 2009	0%	0%	31 December 2009
Robert M. Bell	2,000,000	20 August 2009	0%	0%	31 December 2009
Anthony J. McClure	2,000,000	20 August 2009	0%	0%	31 December 2009
Anthony J. McDonald	8,000,000	20 August 2009	0%	0%	31 December 2009
Ian G. Halstead	4,000,000	17 August 2010	50%	0%	31 December 2011

### Analysis of movements in options - Audited

The movement during the reporting period, by value, of options over ordinary shares in the Company held by each key management person and executive is detailed below.

Director/Executive	Granted in the year	Valuation of options exercised in the year	Lapsed in the year
Peter J. Nightingale	-	-	-
Robert M. Bell	-	-	-
Anthony J. McClure	-	-	-
Anthony J. McDonald	-	-	-
Ian G. Halstead	-	-	-

There were no options exercised, forfeited or lapsed unexercised during the year ended 31 December 2011 and 31 December 2010.

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 Group does not have a policy that prohibits those that are granted share-based payments as part of their remuneration from entering into other arrangements that limit their exposure to losses that would result from share price decreases.

# DIRECTORS' REPORT

## Remuneration Report - Audited (Cont.)

### 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.

	2011	2010	2009	2008	2007
Net loss attributable to equity holders of the parent	7,324,678	5,316,871	10,282,193	17,067,776	1,867,776
Dividends paid	-	-	-	-	-
Change in share price	(\$0.01)	(\$0.07)	(\$0.110)	(\$0.117)	(\$0.130)

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.

	2011	2010
	\$	\$
<b>Statutory Audit</b>		
Auditors of the Company		
- audit and review of financial reports	56,250	84,465
<b>Services other than Statutory Audit</b>		
Other services		
- project review and strategy	4,318	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 25 and forms part of the Directors' report for the year ended 31 December 2011.

Signed at Sydney this 23rd day of March 2012 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 2011, 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 that reads 'KPMG' in a stylized, cursive font.

KPMG

A handwritten signature in black ink, appearing to be 'Adam Twemlow', written in a cursive style.

**Adam Twemlow**  
Partner

**23 March 2012**

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

## FOR THE YEAR ENDED 31 DECEMBER 2011

	Notes	2011 \$	2010 \$
<b>Revenue from the sale of coal bed methane</b>		3,596	3,638
		<u>3,596</u>	<u>3,638</u>
Financial income	4	143,111	613,411
Financial expenses	4	-	(191,995)
<b>Net finance income</b>		<u>143,111</u>	<u>421,416</u>
Other income	4	39,363	-
Production and transport costs		-	(17,593)
Consultants' and administration expenses		(1,272,234)	(1,181,038)
Share based remuneration	24	(116,860)	(237,254)
Depreciation expense	4	(27,114)	(8,146)
Pre-licence costs - exploration expenditure		(1,059,084)	(1,703,741)
Impairment loss - investments	7	(1,170,753)	(1,933,600)
Impairment loss - write-off of evaluation and exploration	9	(3,686,917)	-
Impairment loss - write-off of development expenditure	8	(159,930)	(562,650)
Impairment loss - write-off of production expenditure	8	-	(2,196)
Gain on disposal of assets	4	42,916	-
Other expenses		(60,772)	(95,707)
<b>Loss before income tax expense</b>		<u>(7,324,678)</u>	<u>(5,316,871)</u>
Income tax expense	5	-	-
<b>Loss for the period</b>		<u>(7,324,678)</u>	<u>(5,316,871)</u>
<b>Other comprehensive income</b>			
Foreign currency translation differences for foreign operations	14	(8,466)	(46,918)
Net change in fair value of available-for-sale financial assets	7	(854,754)	(1,933,600)
Net change in fair value of available-for-sale financial assets transferred to profit or loss		1,183,253	1,933,600
<b>Total comprehensive loss for the period</b>	7	<u>(7,004,645)</u>	<u>(5,363,789)</u>
<b>Basic loss per share</b>	15	<u>1.48 cents</u>	<u>1.08 cents</u>
<b>Diluted loss per share</b>	15	<u>1.48 cents</u>	<u>1.08 cents</u>

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

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

## AS AT 31 DECEMBER 2011

	Notes	2011 \$	2010 \$
<b>Current assets</b>			
Cash and cash equivalents	17	1,663,186	5,978,322
Trade and other receivables	6	3,112	78,060
Other	10	44,998	-
<b>Total current assets</b>		<b>1,711,296</b>	<b>6,056,382</b>
<b>Non-current assets</b>			
Investments	7	613,943	1,956,195
Property, plant and equipment	8	53,082	78,399
Exploration and evaluation expenditure	9	4,359,852	4,777,478
Other	10	283,768	594,981
<b>Total non-current assets</b>		<b>5,310,645</b>	<b>7,407,053</b>
<b>Total assets</b>		<b>7,021,941</b>	<b>13,463,435</b>
<b>Current liabilities</b>			
Trade and other payables	11	256,538	433,887
Provisions	12	-	275,059
<b>Total current liabilities</b>		<b>256,538</b>	<b>708,946</b>
<b>Total liabilities</b>		<b>256,538</b>	<b>708,946</b>
<b>Net assets</b>		<b>6,765,403</b>	<b>12,754,489</b>
<b>Equity</b>			
Issued capital	13	49,563,983	48,665,284
Option premium reserve	14	4,638,172	4,521,312
Fair value reserve	14	328,499	-
Foreign currency translation reserve	14	(2,768,398)	(2,759,932)
Accumulated losses		(44,996,853)	(37,672,175)
<b>Total equity</b>		<b>6,765,403</b>	<b>12,754,489</b>

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

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

## FOR THE YEAR ENDED 31 DECEMBER 2011

	Attributable to equity holders of the Company					Total equity \$
	Issued capital \$	Option premium reserve \$	Fair value reserve \$	Accumulated losses \$	Foreign currency translation reserve \$	
Balance at 1 January 2010	48,665,284	3,821,704	-	(32,355,304)	(2,713,014)	17,418,670
<b>Total comprehensive income for the year</b>						
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						
<b>Contribution by and distribution to owners</b>						
Share based payment	-	237,208		-	-	237,208
Issue of options	-	462,400		-	-	462,400
<b>Balance at 31 December 2010</b>	<b>48,665,284</b>	<b>4,521,312</b>		<b>(37,672,175)</b>	<b>(2,759,932)</b>	<b>12,754,489</b>
Balance at 1 January 2011	48,665,284	4,521,312		(37,672,175)	(2,759,932)	12,754,489
<b>Total comprehensive income for the period</b>						
Loss for the year	-	-		(7,324,678)	-	(7,324,678)
<i>Other comprehensive income</i>						
Foreign currency translation	-	-		-	(8,466)	(8,466)
Investment revaluation	-	-	328,499	-	-	328,499
Total comprehensive loss for the year	-	-	328,499	(7,324,678)	(8,466)	(7,004,645)
Transactions with owners recorded directly in equity						
<b>Contribution by and distribution to owners</b>						
Ordinary shares issued	918,000	-	-	-	-	918,000
Transaction costs on issue of shares	(19,301)	-	-	-	-	(19,301)
Share based payment	-	116,860	-	-	-	116,860
<b>Balance at 31 December 2011</b>	<b>49,563,983</b>	<b>4,638,172</b>	<b>328,499</b>	<b>(44,996,853)</b>	<b>(2,768,398)</b>	<b>6,765,403</b>

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

# CONSOLIDATED STATEMENT OF CASH FLOWS

## FOR THE YEAR ENDED 31 DECEMBER 2011

	Notes	2011 \$	2010 \$
<b>Cash flows from operating activities</b>			
Cash receipts from customers		3,596	3,638
Cash payments in the course of operations		(2,486,747)	(2,475,012)
Payments for production		-	(17,593)
Cash used in operations		(2,483,151)	(2,488,967)
Interest received		140,185	383,488
Other income		39,363	-
<b>Net cash used in operating activities</b>	17	(2,303,603)	(2,105,479)
<b>Cash flows from investing activities</b>			
Payments for development		(159,930)	(703,083)
Payments for exploration and evaluation		(3,578,936)	(1,231,494)
Payments for property, plant and equipment		(1,817)	(76,158)
Payments for security deposits		-	(55,407)
Receipt from the sale of investment		500,000	-
Receipts from security deposits		311,213	-
<b>Net cash used in investing activities</b>		(2,929,470)	(2,066,142)
<b>Cash flows from financing activities</b>			
Proceeds from issue of shares		918,000	-
<b>Net cash provided by financing activities</b>		918,000	-
<b>Net decrease in cash held</b>		(4,315,073)	(4,171,621)
<b>Cash and cash equivalents at 1 January</b>		5,978,322	10,149,455
<b>Effect of exchange rate adjustments on cash held</b>		(63)	488
<b>Cash and cash equivalents at the end of the financial year</b>	17	1,663,186	5,978,322

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 2011 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 23 March 2012.

### (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) Going concern

The financial report has been prepared on a going concern basis which contemplates the realisation of assets and settlement of liabilities in the ordinary course of business.

The Group has incurred a loss of \$7,324,678 for the year ended 31 December 2011 and has accumulated losses of \$44,996,853 as at 31 December 2011. The Group has cash of \$1,663,186 at 31 December 2011 and used \$5,882,539 of cash in operations, including payments for exploration and evaluation, for the year ended 31 December 2011. The Group has raised equity of \$220,000 subsequent to year end however additional funding will be required to meet the Group's expenditure commitments.

These conditions give rise to a material uncertainty that may cast significant doubt upon the Group's ability to continue as a going concern. The ongoing operation of the Group is dependent upon:

- the Group raising additional funding from shareholders or other parties; and/or
- the Group reducing expenditure in-line with available funding.

The Directors have prepared cash flow projections that support the ability of the Group to continue as a going concern. These cash flow projections assume the Group obtains sufficient additional funding from shareholders or other parties. If such funding is not achieved, the Group plans to reduce expenditure significantly, which may result in an impairment loss on the book value of exploration and evaluation expenditure recorded at reporting date.

In the event that the Group does not obtain additional funding and/or reduce expenditure in-line with available funding, it may not be able to continue its operations as a going concern and therefore may not be able to realise its assets and extinguish its liabilities in the ordinary course of operations and at the amounts stated in the financial report.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 2. BASIS OF PREPARATION (Cont.)

### (e) 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 2(d) - Going Concern
- Note 5 - Unrecognised deferred tax assets
- Note 8 - Property, plant and equipment
- Note 9 - Exploration and evaluation expenditure
- Note 12 - Provisions
- Note 24 - Share based payments

## 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.

### (a) Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the entities and the revenue can be reliably measured.

#### **Finance income and finance costs**

Finance income comprises interest income on funds invested (including available-for-sale financial assets) and dividend income. 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 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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 3. SIGNIFICANT ACCOUNTING POLICIES (Cont.)

### (b) Exploration and evaluation 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 profit or loss.

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.

### (c) 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 and software is depreciated at rates between 30% and 60% per annum.

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 3. SIGNIFICANT ACCOUNTING POLICIES (Cont.)

### ***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.

### **(d) 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.

### ***Investments***

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.

### **(e) Basis of consolidation**

#### ***Subsidiaries***

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

# 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.

### **(f) 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.

### **(g) 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 and deferred tax assets, are reviewed at each reporting 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.

The recoverable amount of non-financial 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 financial asset 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.

In respect of non-financial 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.

### **(h) 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.

### **(i) Financial statements of foreign operations**

The assets and liabilities of foreign entities are translated to Australian dollars at foreign exchange rates ruling at the reporting 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 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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 3. SIGNIFICANT ACCOUNTING POLICIES (Cont.)

### (j) Income tax

Income tax in 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 reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the statement of financial position liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

The following temporary differences are not provided for: 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 reporting 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.

### (k) Cash and cash equivalents

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

### (l) 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.

### (m) 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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 3. SIGNIFICANT ACCOUNTING POLICIES (Cont.)

### *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).

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.

### **(n) 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 January 2011, and have not been applied in preparing these consolidated financial statements. None of these is expected to have a significant effect on the consolidated financial statements of the Group, except for AASB 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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 4. LOSS FROM OPERATING ACTIVITIES

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

	2011 \$	2010 \$
Gain on disposal of assets	42,916	-
Other Income	39,363	-
Auditor's remuneration		
- audit and review of financial reports	56,250	84,465
Non-statutory audit services		
- project review strategy	4,318	26,500
<b>Financial income and expense</b>		
Interest revenue	143,111	383,488
Unwind of fair value discount - income	-	229,923
Total financial income	<u>143,111</u>	<u>613,411</u>
Unwind of fair value discount - expense	-	(191,995)
Total financial expense	<u>-</u>	<u>(191,995)</u>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 5. INCOME TAX EXPENSE

### Current tax expense

	2011 \$	2010 \$
Current year	(1,632,145)	(1,052,826)
Adjustments for prior year	(208,314)	(2,049,246)
Losses not recognised	1,840,459	3,102,072
	-	-

Numerical reconciliation of income tax expense to prima facie tax payable:

Loss before tax	(7,324,678)	(5,316,871)
Prima facie income tax benefit at the Australian tax rate of 30% (2010 - 30%)	(2,197,403)	(1,595,061)
Increase/(decrease) in income tax expense due to:		
- capital gain on disposals	-	-
- non-deductible expenses	(6,206)	71,176
- tax losses not recognised/(utilised)	1,632,145	1,052,826
- effect of net deferred tax assets not brought to account	571,464	471,059
Income tax expense	-	-

### Unrecognised deferred tax assets

Deferred tax assets have not been recognised in respect of the following items:

Tax losses	11,531,878	8,791,687
Net deductible temporary differences	694,651	1,272,483
Potential tax benefit at 30%	12,226,529	10,064,170

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	3,112	4,403
GST receivable	-	73,657
	3,112	78,060

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 7. INVESTMENTS

Investments - available-for-sale at fair value

	2011 \$	2010 \$
	613,943	1,956,195

### Investments - available-for-sale

The Company holds 8,640,000 shares in Callabonna Uranium Limited. At 31 December 2011 the Directors compared the carrying value of the investment to market value and recorded an impairment loss of \$1,183,253 (2010 - \$1,296,100). This was based on a closing share price of 3.3 cents at 31 December 2011 (2010 - 17 cents).

The Company holds 8,212,500 shares in Earth Heat Resources Ltd. At 31 December 2011 the Directors compared the carrying value of the investment to market value and recorded a gain in equity of \$328,499. This was based on a closing share price of 4 cents at 31 December 2011.

The Company held 12,500,000 shares in Greenpower Energy Limited at the time of disposal on 10 October 2011. The Directors compared the carrying value of the investment with the sale price and recorded a profit on sale of \$12,500 (2010 unrealised impairment loss - \$637,500, based on a closing share price of 3.9 cents at 31 December 2010).

## 8. PROPERTY, PLANT AND EQUIPMENT

Office equipment - at cost	73,870	72,053
Accumulated depreciation	(55,772)	(46,952)
Net book value	18,098	25,101
Software - at cost	53,324	53,324
Accumulated depreciation	(19,598)	(1,912)
Net book value	33,726	51,412
Plant and equipment - at cost	15,263	15,263
Accumulated depreciation	(14,005)	(13,377)
Net book value	1,258	1,886
Developing mine properties - at cost	14,219,218	14,059,288
Impairments	(14,219,218)	(14,059,288)
Net book value	-	-
Producing mine properties - at cost	2,878,277	2,878,277
Impairments	(2,002,322)	(2,002,322)
Accumulated amortisation	(875,955)	(875,955)
Net book value	-	-
Total property, plant and equipment	53,082	78,399

At 31 December 2011 and 2010, impairment testing was conducted on the developing mine properties (the Esponda project). The Directors have determined to dispose of all oil and gas tenements in the USA and due to the impending closure of activities the full carrying value of the project be fully impaired at year end resulting in an impairment loss for the year of \$159,930 (2010 - \$562,650 loss).

At 31 December 2010, 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 resulting in an impairment loss of \$2,196. For the year ending 31 December 2011 there has been no movement in the carrying value of the asset.

# 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

Carrying amount at beginning of year	25,101	5,551
Additions	1,817	24,727
Reallocation of assets	704	-
Depreciation	(9,512)	(5,217)
Net foreign currency differences on translation	(12)	40
Net book value	18,098	25,101

### Software

Carrying amount at beginning of year	51,412	-
Additions	-	53,324
Reallocation of assets	(704)	-
Depreciation	(16,982)	(1,912)
Net book value	33,726	51,412

### Plant and equipment

Carrying amount at beginning of year	1,886	3,127
Depreciation	(620)	(1,017)
Net foreign currency differences on translation	(8)	(224)
Net book value	1,258	1,886

### Developing mine properties

Carrying amount at beginning of year	-	-
Additions	55,265	507,549
Provision for rehabilitation	107,101	3,010
Impairments	(159,930)	(562,650)
Net foreign currency adjustment on translation	(2,436)	(52,091)
Net book value	-	-

### Producing mine properties

Carrying amount at beginning of year	-	-
Additions	-	-
Provision for rehabilitation	-	2,038
Impairments	-	(2,196)
Net foreign currency adjustment on translation	-	158
Amortisation	-	-
Net book value	-	-

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 9. EXPLORATION AND EVALUATION EXPENDITURE

Carrying amount at beginning of year  
 Additions  
 Impairments  
 Net book value

	2011 \$	2010 \$
	4,777,478	3,657,239
	3,269,291	1,120,239
	(3,686,917)	-
	<u>4,359,852</u>	<u>4,777,478</u>

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.

During the year ended 31 December 2011 the Group relinquished its geothermal licences in the Clarence-Moreton and Sydney Basins, at Leigh Creek and Eromanga in South Australia and allowed its Gloucester geothermal licence to expire. The Group has fully impaired the remaining carrying value of these assets by an amount of \$3,686,917. The impairment charge has been allocated to the exploration and evaluation segment result in Note 22.

## 10. OTHER

### Current

Insurance

	44,998	-
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### Non-current

Security deposits

	283,768	594,981
--	---------	---------

## 11. TRADE AND OTHER PAYABLES

### Current

Creditors and accruals

	256,538	433,887
--	---------	---------

## 12. PROVISIONS

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

During the year ended 31 December 2011 the Group fully rehabilitated all sites in the USA after closure of the various projects. The Directors have determined that no future rehabilitation obligation exists at 31 December 2011 in relation to these projects or other projects.

### Rehabilitation provision

Carrying amount at beginning of year  
 Additions  
 Net foreign currency adjustment on translation  
 Rehabilitation expenditure  
 Unwind of fair value discount  
 Net book value

	275,059	109,874
	107,101	5,048
	(298)	(31,858)
	381,862	-
	-	191,995
	<u>-</u>	<u>275,059</u>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 13. ISSUED CAPITAL

529,160,997 (2010 - 493,853,305) fully paid ordinary shares

	2011 \$	2010 \$
	49,563,983	48,665,284

	2011		2010	
	No.	\$	No.	\$
<b>Fully paid ordinary shares</b>				
Balance at beginning of financial year	493,853,305	48,665,284	493,853,305	48,665,284
Fully paid ordinary shares issued 16 December 2011 at \$0.026 per share	35,307,692	918,000	-	-
Less costs of issue	-	(19,301)	-	-
Balance at end of financial year	529,160,997	49,563,983	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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 14. RESERVES

### Option premium reserve

	2011 \$	2010 \$
Opening balance	4,521,312	3,821,704
Share based payments and issue of options	116,860	699,608
Closing balance	<u>4,638,172</u>	<u>4,521,312</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.

Refer Note 24 for further details of share options issued.

### Fair value reserve

Opening balance	-	-
Investment revaluation	328,499	-
Closing balance	<u>328,499</u>	-

The Company holds 8,212,500 shares in Earth Heat Resources Ltd. At 31 December 2011 the Directors compared the carrying value of the investment to market value and recorded a gain in equity of \$328,499. This was based on a closing share price of 4 cents at 31 December 2011.

### Foreign currency translation reserve

Opening balance	(2,759,932)	(2,713,014)
Translation adjustment on controlled foreign entities financial statements during the year	(8,466)	(46,918)
Closing balance	<u>(2,768,398)</u>	<u>(2,759,932)</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	<u>7,324,678</u>	<u>5,316,871</u>
--	------------------	------------------

### Weighted average number of ordinary shares

Issued ordinary shares at beginning of year	493,853,305	493,853,305
Effect of shares issued	1,451,001	-
Weighted average ordinary shares at the end of the year	<u>495,304,306</u>	<u>493,853,305</u>

### Weighted average number of ordinary shares (diluted)

Weighted average ordinary shares at the end of the year	495,304,306	493,853,305
Effect of share options on issue	-	-
Weighted average number of ordinary shares (diluted) at year end	<u>495,304,306</u>	<u>493,853,305</u>

As the Group is loss making, none of the potentially dilutive securities are currently dilutive.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 16. RELATED PARTY DISCLOSURES

During the year ended 31 December 2011, 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, amounted to \$241,227 (2010 - \$205,000). There were no amounts outstanding as at year end (2010 - nil).

During the year ended 31 December 2011, Anthony McClure provided consulting services to the Group. Fees paid to Anthony McClure during the year, which were in the ordinary course of business, amounted to \$95,000 (2010 - \$55,750). There were no amounts outstanding as at year end.

## 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

	2011 \$	2010 \$
Loss from operating activities after tax	(7,324,678)	(5,316,871)
<b>Items classified as investing/financing activities</b>		
<b>Non-cash items</b>		
Unwind of fair value discount - income	-	(229,923)
Unwind of fair value discount - expense	-	191,995
Depreciation of plant and equipment	27,114	8,146
Share based payments	116,860	237,254
Impairment losses	3,846,846	564,846
Impairment on investment	1,170,753	1,933,600
Foreign exchange loss of cash	60	(488)
<b>Changes in assets and liabilities</b>		
Trade and other receivables	74,948	8,619
Other assets	266,215	80,566
Trade and other payables	(206,662)	251,592
Provisions	(275,059)	165,185
<b>Net cash used in operating activities</b>	<b>(2,303,603)</b>	<b>(2,105,479)</b>
<b>Reconciliation of cash</b>		
Cash	1,663,186	5,978,322

### Items classified as investing/financing activities

#### Non-cash items

Unwind of fair value discount - income

(229,923)

Unwind of fair value discount - expense

191,995

Depreciation of plant and equipment

27,114 8,146

Share based payments

116,860 237,254

Impairment losses

3,846,846 564,846

Impairment on investment

1,170,753 1,933,600

Foreign exchange loss of cash

60 (488)

#### Changes in assets and liabilities

Trade and other receivables

74,948 8,619

Other assets

266,215 80,566

Trade and other payables

(206,662) 251,592

Provisions

(275,059) 165,185

### Net cash used in operating activities

(2,303,603) (2,105,479)

### 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

1,663,186 5,978,322

# 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 20 to 23.

The Board reviews remuneration arrangements annually based on services provided.

### Movement in shares

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
Robert M. Bell	1,250,000	-	-	1,250,000
Anthony J. McClure	5,154,181	-	-	5,154,181
Anthony J. McDonald	7,275,000	-	-	7,275,000
Robert C. Neale	-	-	-	-
<b>Executives</b>				
Ian G. Halstead	-	-	-	-

\* Ceased to be a Director during the year.

Key management personnel	Held at 31 December 2010	Purchased shares	Sales	Held at 31 December 2011
Norman A. Seckold	71,514,309	733,173	-	72,247,482
Peter J. Nightingale	11,551,564	576,923	-	12,128,487
Robert M. Bell	1,250,000	-	-	1,250,000
Anthony J. McClure	5,154,181	-	-	5,154,181
Anthony J. McDonald	7,275,000	576,923	-	7,851,923
Robert C. Neale	-	-	-	-
<b>Executives</b>				
Ian G. Halstead	-	721,175	-	721,175

# 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	-	-	-	-
<b>Executives</b>				
Ian G. Halstead	-	4,000,000	-	4,000,000

\* Ceased to be a Director during the year.

Key management personnel	Held at 31 December 2010	Granted as remuneration	Exercised	Held at 31 December 2011
Norman A. Seckold	-	-	-	-
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	-	-	-	-
<b>Executives</b>				
Ian G. Halstead	4,000,000	-	-	4,000,000

### Key management personnel compensation

	2011 \$	2010 \$
Primary fees/salary	648,000	532,089
Bonus	58,333	-
Superannuation	24,616	21,068
Share based remuneration	49,554	103,687
	<u>780,503</u>	<u>656,844</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, 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 and other receivables relate to bank interest due from recognised financial institutions and security deposits due from government organisations.

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 \$1,950,066 (2010 - \$6,651,363).

#### *Impairment losses*

None of the Company's receivables are past due (2010 - 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:

	2011 \$	2010 \$
Less than one year	256,538	433,888

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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 19. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS DISCLOSURE (Cont.)

### 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.

### Currency risk

The Group is exposed to currency risk on sales, security deposits, purchases 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 reporting date was as follows, based on notional amounts:

	2011 \$	2010 \$
Cash and cash equivalents	330,280	93,599
Property, plant and equipment	1,873	2,963
Other non-current assets	98,290	452,139
Gross financial position exposure	<u>430,443</u>	<u>548,701</u>

### Sensitivity analysis

A 10% strengthening of the Australian dollar against the United States dollar at 31 December 2011 would have decreased net assets of the Group by \$43,044 (2010 - \$54,870). A 10% weakening of the Australian dollar against the United States dollar at 31 December 2011 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	
	2011	2010	2011	2010
AUD/USD	1.0329	0.99154	1.0174	1.0163

### 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 and certain security deposits, all the Group's financial assets and liabilities are non-interest bearing. At reporting date, the Group's cash and cash equivalents and certain security deposits exposed to variable interest rate risk that are not designated as cash flow hedges were:

	2011 \$	2010 \$
Cash and cash equivalents	1,663,186	5,978,322
Security deposits	185,478	135,478
	<u>1,848,664</u>	<u>6,113,800</u>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 19. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS DISCLOSURE (Cont.)

### 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 2011, the Group investments in available-for-sale assets consists of investment in Earth Heat Resources Ltd and Callabonna Uranium Limited (refer Note 7). A 10% increase/decrease in these investments would result in a \$61,394 (2010 - \$195,620) 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. Capital consists of the share capital of the Company (refer to Note 13).

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

### 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.

### 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 \$
<b>31 December 2011</b>				
Investments available for sale at fair value	613,943	-	-	613,943
<b>31 December 2010</b>				
Investments available for sale at fair value	1,956,195	-	-	1,956,195

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 20. JOINT VENTURE OPERATIONS

	Area	Output interest	
		2011 %	2010 %
East Esponda - Sections 9, 10, 11 and 15 (Western Gas)	USA	0 <sup>^</sup>	0 <sup>^</sup>
East Esponda - Section 2 (Western Gas)	USA	0 <sup>^</sup>	0 <sup>^</sup>
Oriva Federal	USA	4.5*	4.5*
Oriva Throne	USA	61	61
Bylong	NSW	0	0
Shoalhaven	NSW	0	0
Mooki	NSW	0	0

<sup>^</sup>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 (2010 - nil), following the underlying USA projects being fully impaired. All joint venture operations are in relation to the evaluation, exploration, development and production of coal bed methane or oil and gas properties.

## 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	
		2011 %	2010 %
Gradient Energy Pty Limited	Australia	100	100
Planet Cooper Basin Pty Limited	Australia	100	100
Planet Gas & CBM Pty Limited	Australia	100	100
Planet Unconventional Energy Pty Limited	Australia	100	100
Planet Gas USA, Inc.	USA	100	100
Planet Gas Properties LLC	USA	100	100
Planet Gas Resources LLC	USA	100	100

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 22.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 production and development 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:

- Production and development - oil and gas production and sale.
- Exploration and evaluation activities.

	Production and Development		Exploration and Evaluation		Unallocated		Consolidated total	
	2011 \$	2010 \$	2011 \$	2010 \$	2011 \$	2010 \$	2011 \$	2010 \$
External revenue	3,596	3,638	-	-	-	-	3,596	3,638
Interest income	-	-	2,714	14,044	140,398	369,444	143,111	383,488
Interest expense	-	-	-	-	-	-	-	(191)
Depreciation and amortisation	(1,071)	(1,216)	-	-	(26,044)	(6,930)	(27,114)	(8,146)
Segment loss before income tax	(635,582)	(1,221,102)	(4,253,276)	(486,377)	(2,435,861)	(3,609,392)	(7,324,678)	(5,316,871)
Other material non-cash items								
Impairment of investments	-	-	-	-	(1,170,753)	(1,933,600)	(1,170,753)	(1,933,600)
Impairment of production and development expenditure	(159,930)	(564,846)	(3,686,917)	-	-	-	(3,846,846)	(564,846)
Segment assets	430,489	3,639,705	4,661,557	1,972,482	1,929,941	7,851,248	7,021,941	13,463,435
Segment liabilities	-	(279,542)	-	(157,319)	(256,538)	(272,085)	(256,538)	(708,946)

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 22. SEGMENT REPORTING (Cont.)

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

	2011 \$	2010 \$
<b>Revenues</b>		
Total revenue for reportable segments	3,596	3,638
Consolidated revenue	3,596	3,638
<b>Loss before tax</b>		
Loss before tax for reportable segments	(4,888,817)	(1,707,479)
Other loss before tax	(2,435,861)	(3,609,392)
Consolidated loss before tax	(7,324,678)	(5,316,871)
<b>Assets</b>		
Total assets for reportable segments	5,092,046	5,612,187
Intercompany eliminations	(32,457,631)	(28,184,062)
Other assets	34,387,572	36,035,310
Consolidated assets	7,021,987	13,463,435
<b>Liabilities</b>		
Total liabilities for reportable segments	-	436,861
Intercompany eliminations	(32,457,631)	(28,184,062)
Other liabilities	32,714,169	28,456,147
Consolidated liabilities	256,538	708,946

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 23.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 2011 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	8,000,000
17 August 2010	20 August 2014	0.132	-	8,500,000	-	-	8,500,000	8,250,000
28 January 2011	20 August 2014	0.132	1,000,000	-	-	-	1,000,000	1,000,000
			1,000,000	76,500,000	-	-	77,500,000	77,500,000

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.

Half of the options granted during January 2011 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 2011 was approximately 2 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.

The fair value of options granted in January 2011 was \$34,000. The Black-Scholes formula model inputs were the Company's share price of \$0.06 at the grant date, a volatility factor of 104% based on historic share price performance and a risk free interest rate of 5.11% 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 2011 as part of share based remuneration expense was \$116,860 (2010 - \$237,254).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 24. PARENT ENTITY DISCLOSURES

As at 31 December 2011 the parent entity of the Group was Planet Gas Limited.

	Company	
	2011 \$	2010 \$
<b>Result of the parent entity</b>		
Net loss	(7,088,014)	(6,478,930)
Other comprehensive Income	328,499	-
<b>Total comprehensive loss</b>	<b>(6,759,515)</b>	<b>(6,478,930)</b>
<b>Financial position of the parent entity at year end</b>		
Current assets	1,264,787	5,819,663
Non-current assets	665,258	1,874,417
<b>Total assets</b>	<b>1,930,045</b>	<b>7,694,080</b>
Current liabilities	256,538	276,571
Non-current liabilities	-	-
<b>Total liabilities</b>	<b>256,538</b>	<b>276,571</b>
<b>Net assets</b>	<b>1,673,507</b>	<b>7,417,509</b>
<b>Equity</b>		
Share capital	49,563,983	48,665,284
Reserves	4,966,671	4,521,358
Accumulated losses	(52,857,147)	(45,769,133)
<b>Total equity</b>	<b>1,673,507</b>	<b>7,417,509</b>

The Directors are of the opinion that no contingencies existed at, or subsequent to year end.

## 25. SUBSEQUENT EVENTS

On the 13 January 2012, the Company completed a placement of 8,461,538 fully paid ordinary shares at \$0.026, raising \$220,000.

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 consolidated financial statements and notes thereto, set out on pages 26 to 55, and the Remuneration Report as set out on pages 20 to 23 of the Directors' Report are in accordance with the Corporations Act 2001, including:
  - (i) giving a true and fair view of the financial position of the Group as at 31 December 2011 and of its performance, for the year ended on that date;
  - (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.
- (c) In the Directors' opinion there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.
- (d) The Directors have been given the declarations required under section 295A of the Corporations Act 2001 for the financial year ended 31 December 2011.

Signed at Sydney this 23<sup>rd</sup> day of March 2012 in accordance with a resolution of the Board of Directors:



**Norman A. Seckold**  
Director



**Peter J. Nightingale**  
Director

# INDEPENDENT AUDITOR'S 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 2011, 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 25 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 AUDITOR'S 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 the Group 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 2011 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.

## **Material uncertainty regarding continuation as a going concern**

Without qualifying our opinion, we draw attention to Note 2(d), "Going Concern" in the financial report. The conditions disclosed in Note 2(d), including the need to raise additional funding from shareholders or other parties and/or reducing expenditure in-line with available funding, indicate the existence of a material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern and, therefore, whether it will realise its assets and extinguish its liabilities in the normal course of business and at the amounts stated in the financial report.

## **Report on the remuneration report**

We have audited the Remuneration Report included in pages 20 to 23 of the Directors' Report for the year ended 31 December 2011. 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 2011 complies with Section 300A of the *Corporations Act 2001*.

**KPMG**  
**23 March 2012**

**Adam Twemlow**  
**Partner**

# ADDITIONAL STOCK EXCHANGE INFORMATION

Additional information as at 29 February 2012 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 29 February 2012, 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	54	4,791	0.00%
1,001 - 5,000	125	412,911	0.08%
5,001 - 10,000	167	1,398,026	0.26%
10,001 - 100,000	738	31,211,191	5.81%
100,001 and over	448	504,595,616	93.86%
Total	1,532	537,622,535	100.00%

As at 29 February 2012 431 shareholders held less than marketable parcels of 2,853,261 shares.

## On Market Buy Back

There is no on market buy-back.

# ADDITIONAL STOCK EXCHANGE INFORMATION

## Twenty Largest Shareholders

As at 29 February 2012 the twenty largest quoted shareholders held 53.58% of the fully paid ordinary shares as follows:

	Name	Number	%
1	Hueridge Pty Ltd	107,315,500	19.96
2	Permgold Pty Ltd <The Seckold Family S/F A/C>	56,557,187	10.52
3	Frere & Associates Pty Limited <Derick Frere Super Fund A/C>	19,529,613	3.63
4	Permgold Pty Limited	15,690,293	2.92
5	Mr Francesco Paul Violi & Mrs Lorraine Violi <Violi Super Fund A/C>	9,000,000	1.67
6	Rosignol Pty Ltd <Nightingale Family A/C>	7,995,673	1.49
7	Trio Investments Pty Limited	7,851,923	1.46
8	Lyric-Pasan Pty Ltd <Holt Superannuation fund A/C>	6,332,937	1.18
9	Rigi Investments Pty Ltd	6,294,220	1.17
10	Benjamin Shaw	6,246,923	1.16
11	Mr Anthony Valeri	5,456,418	1.01
12	Berpaid Pty Ltd	5,375,000	1.00
13	Removale Pty Ltd	5,250,000	0.98
14	San Ancona Pty Ltd <Clinton Kratzmann Family A/C>	5,000,000	0.93
15	Court Wise Pty Ltd	4,697,499	0.87
16	Graywood Towers Pty Ltd	4,179,950	0.78
17	Bruce Riederer	4,000,000	0.74
18	Rosignol Consultants Pty Ltd	3,781,250	0.70
19	Mr Anthony J McClure	3,750,000	0.70
20	Umbiram Pty Ltd <Michael Hoy Superfund A/C>	3,750,000	0.70

## 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 May 2010	6 September 2011	\$0.132	20 August 2014	
4	8,500,000	17 August 2010	6 September 2011	\$0.132	20 August 2014	
1	1,000,000	28 January 2011	6 September 2011	\$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



[www.planetgas.com](http://www.planetgas.com)



## 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 22 May 2012 at 3.00 pm.

### 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 2011.

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

**Resolution 1 Adoption of the Remuneration Report**

'That the Remuneration Report for the year ended 31 December 2011 be and is hereby adopted.'

**Resolution 2 Re-election of a Director**

'That Peter J. Nightingale be and is hereby re-elected as a Director.'

**Resolution 3 Re-election of a Director**

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

**Resolution 4 Ratification of the Issue of Shares**

To consider, and if thought fit, to pass the following as an ordinary resolution:

'That the issue of 8,461,538 fully paid ordinary shares in the Company on 13 January 2012 for \$0.026 per share be and is hereby ratified for the purposes of ASX Listing Rule 7.4 and 7.5.'

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**

20 April 2012

# EXPLANATORY MEMORANDUM

## to the Notice of Annual General Meeting to be held on 22 May 2012

This Explanatory Memorandum has been prepared to assist members to understand the business to be put to members at the Annual General Meeting to be held at Level 3, 66 Hunter Street, Sydney, NSW, on Tuesday, 22 May 2012 at 3.00 pm.

### Resolution 1

The Remuneration Report, which can be found on pages 20 to 23 of the Company's 2011 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. However, if at least 25% of the votes cast are against the adoption of the Remuneration Report, the Company's next Remuneration Report must explain the Board's proposed action in response or explain why no action has been taken.

In the following year, if at least 25% of the votes cast on the resolution that the Remuneration Report be adopted are against adoption, shareholders will then vote to determine whether the Directors, excluding the Managing Director, will need to stand for re-election. If more than 50% of the votes cast on the resolution are in favour, a separate re-election meeting must be held within 90 days.

A vote on the resolution must not be cast (in any capacity) by or on behalf of any of the following persons:

- a member of the key management personnel details of whose remuneration are included in the remuneration report;
- a close related party of such a member.

However such a person may cast a vote on the resolution if:

- the person does so as a proxy appointed by writing that specifies how the proxy is to vote on the proposed resolution; and
- the vote is not cast on behalf of such a person.

### Resolutions 2 and 3

In accordance with Article 57 of the Company's Constitution and the Corporations Act, Messrs Peter J. Nightingale and Anthony J. McDonald retire as Directors by rotation and, being eligible, offer themselves for re-election.

## Resolution 4

Resolution 4 seeks the ratification by shareholders of the issue of 8,461,538 fully paid ordinary shares in the Company on 13 January 2012 for the purposes of ASX Listing Rules 7.4 and 7.5. 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 7.5 are as follows:

Number of securities allotted:	8,461,538
Issue price:	\$0.026 per share.
Terms:	Fully paid ordinary shares ranking pari passu with existing fully paid ordinary shares.
Name of the allottee:	Hueridge Pty Ltd.
Intended use of funds:	To fund the further exploration and development of the Company's projects, for possible future acquisitions and working capital purposes.

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

- Hueridge Pty Ltd; and
- any associates of Hueridge 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.



## 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 and to vote in accordance with the following directions (or if no directions have been given, as the proxy sees fit) at the Annual General Meeting of Members of the Company to be held at 3.00 pm on 22 May 2012 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 Peter J. Nightingale as a Director	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3. Re-election of Anthony J. McDonald as a Director	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
4. Ratification of the Issue of Shares	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

### Important information if the Chairman of the Meeting is your proxy.

By marking this box, you acknowledge that the Chairman of the Meeting may exercise your proxy even if he has an interest in the outcome of the resolutions and that votes cast by the Chairman for those resolutions other than as a proxy holder will be disregarded because of that interest. By marking this box, you are directing the Chairman of the Meeting to vote in accordance with the Chairman's voting intentions on all resolutions, including resolution 1. If you do not mark this box, and you have not directed your proxy how to vote, the Chairman will not cast your votes on the resolution and your votes will not be counted in calculating the required majority if a poll is called on the resolution. If you appoint the Chairman of the Meeting as your proxy you can direct the Chairman how to vote by either marking the voting box above (for example if you wish to vote against or abstain from voting) or by marking this box (in which case the Chairman of the Meeting will vote in favour of each resolution, including resolution 1.)

The Chairman of the Meeting intends to vote all undirected proxies in favour of each resolution.

I/We direct the Chairman of the Meeting to vote in accordance with the Chairman's voting intentions on the resolutions (except where I/we have indicated a different voting intention) and acknowledge that the Chairman of the Meeting may exercise my proxy even though the Chairman may have an interest in the outcome of the resolutions, including resolution 1 which is connected directly or indirectly with the remuneration of members of key management personnel.

### Signatures of Securityholder(s) *This section must be completed*

Dated this \_\_\_\_\_ day of \_\_\_\_\_ 2012.

Signatures of Securityholder(s)

Individual Securityholder(s)

Sole Director and Company Secretary or  
Director and Director/Company Secretary

**Planet Gas Limited** ABN 46 098 952 035

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**E** info@planetgas.com **W** www.planetgas.com



## 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. Where the company has a Sole Director and Company Secretary, that person must sign. Otherwise this form must be signed by a Director jointly with either another Director or a Company Secretary.
  6. All executors of deceased estates must sign.
  7. 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 20 May 2012 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.
  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.
- 