KAROON GAS AUSTRALIA LTD

A.B.N 107 001 338

AND CONTROLLED ENTITIES

STATEMENT OF FINANCIAL PERFORMANCE
FOR THE 2 MONTHS ENDED 31 JANUARY 2004

	Note	Economic Entity 2004 $	Parent Entity 2004 $
Revenue from ordinary activities		—	—
Other expenses from ordinary activities		7,696	1
Profit/(Loss) from ordinary activities before income tax expense	2	(7,696)	(1)
Income tax expense related to ordinary activities	3	—	—
Loss from ordinary activities after related income tax expense		(7,696)	(1)
Profit/(loss) from extraordinary item after related income tax expense		—	—
Net profit/(loss)		(7,696)	(1)
Total changes in equity other than those resulting from transactions with owners as owners.		**(7,696)**	**(1)**
Basic earnings per share	6	(0.02)	
Diluted earnings per share	6	(0.01)	

The accompanying notes form part of these financial statements

KAROON GAS AUSTRALIA LTD

A.B.N 107 001 338

AND CONTROLLED ENTITIES
STATEMENT OF FINANCIAL POSITION
AS AT 31 JANUARY 2004

	Note	Economic entity 2004 $	Parent entity 2004 $
CURRENT ASSETS			
Cash assets	7	14,961	10,002
Receivables	8	25,494	50,121
TOTAL CURRENT ASSETS		**40,455**	**60,123**
NON-CURRENT ASSETS			
Intangibles	9	170,297	1,212
Other	10	252,117	150,000
TOTAL NON-CURRENT ASSETS		**422,414**	**151,212**
TOTAL ASSETS		**422,414**	**211,335**
CURRENT LIABILITIES			
Payables	12	230,354	1,333
TOTAL CURRENT LIABILITIES		**230,354**	**1,333**
NON-CURRENT LIABILITIES		—	—
TOTAL LIABILITES		**230,354**	**1,333**
NET ASSETS		**232,516**	**210,002**
EQUITY			
Contributed equity	13	210,003	210,003
Reserves		—	—
Retained profits/(losses)	15	22,513	(1)
Parent entity interest		232,516	210,002
Outside equity interest		—	—
TOTAL EQUITY		**232,516**	**210,002**

The accompanying notes form part of these financial statements

KAROON GAS AUSTRALIA LTD

A.B.N 107 001 338

AND CONTROLLED ENTITIES
STATEMENT OF CASH FLOWS
FOR THE PERIOD ENDED 31 JANUARY 2004

	Note	Economic entity 2004 $	Parent entity 2004 $
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from other activities		3	3
Receipts from related entities		70	—
Payments to suppliers and employees		(93)	(1)
Net Cash flows from Operations	7	**(20)**	**2**
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of securities		60,000	10,000
Payments of loan to related entities		(45,000)	—
Net Cash Flows from Financing		15,000	**10,000**
Net increase/(decrease) in cash held	8	14,980	10,002
Cash at 1st December 2003		(19)	—
Cash at 31 January 2004	8	**14,961**	**10,002**

The accompanying notes form part of these financial statements

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

The financial report is a general-purpose financial report that has been prepared in accordance with Accounting Standards, Urgent Issues Consensus Views and other authoritative pronouncement of the Australian Accounting Standards Board. The financial report has been prepared on an accrual basis and is based on historical cost and does not take into account changing money values or, except where stated, current valuations of non-current assets.
Cost is based on the fair values of the consideration given in exchange for assets. The accounting policies have been consistently applied, unless otherwise stated.

The following is a summary of the material accounting policies adopted by the economic entity in the preparation of the financial report.

(a) Principles of Consolidation

The consolidated accounts comprise the accounts of Karoon Gas Ltd and all of its controlled entities. A controlled entity is any entity controlled by Karoon Gas Ltd. Control exists where Karoon Gas Ltd has the capacity to dominate the decision-making in relation to the financial and operating policies of another entity so that the other entity operates with Karoon Gas Ltd to achieve the objectives of the Company. A list of controlled entities is contained in Note 13 to the financial statements

All inter-company balances and transactions between entities in the economic entity, including any unrealised profits or losses, have been eliminated on consolidation.

(b) Income Tax

The economic entity adopts the liability method of tax-effect accounting whereby the income tax expense is based on the profit from ordinary activities adjusted for any permanent differences

Timing differences which arise due to the different accounting periods in which items of revenue and expense are included in the determination of accounting profit and taxable income are brought to account as either a provision for deferred income tax or as a future income tax benefit at the rate of income tax applicable to the period in which the benefit will be received or the liability will become payable.

Future income tax benefits are not brought to account unless realisation of the asset is assured beyond reasonable doubt. Future income tax benefits in relation to tax losses are not brought to account unless there is virtual certainty of realisation of the benefit.

Karoon Gas Ltd and its wholly-owned Australian subsidiaries have formed an income tax consolidated group under the Tax Consolidated Regime. Karoon Gas Ltd is responsible for recognizing the current and deferred tax assets and liabilities for the tax consolidated group. The tax consolidated group has entered a tax sharing agreement whereby each company in the group contributes to the income tax payable in proportion to their contribution to the net profit before tax of the tax consolidated group.

(c) Property, Plant and Equipment

Property, plant and equipment are carried at cost or at independent or directors' valuation, less, where applicable, any accumulated depreciation or amortisation.

The carrying amount of property, plant and equipment is reviewed annually by directors to ensure it is not in excess of the recoverable amount from these assets. The recoverable amount is assessed on the basis of the expected net cash flows which will be received from the assets

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

employment and subsequent disposal. The expected net cash flows have not been discounted to their present values in determining recoverable amounts.

(d) Intangibles

Intangible assets are amortised over the estimated life of the respective asset, commencing in the year following acquisition.

Goodwill

Goodwill and goodwill on consolidation are initially recorded at the amount by which the purchase price for a business or for an ownership in a controlled entity exceeds the fair value attributed to its net assets at date of acquisition. Both purchased goodwill and goodwill on consolidation are amortised on a straight line basis over a period of 10 years. The balances are reviewed annually and any balances representing future benefits for which the realization is considered to be no longer probable are written off.

(e) Leases

Leases of fixed assets where substantially all the risks and benefits incidental to the ownership of the asset, but not the legal ownership, are transferred to entities in the economic entity are classified as finance leases. Finance leases are capitalised, recording an asset and a liability equal to the present value of the minimum lease payments, including any guaranteed residual values. Leased assets are depreciated on a straight line basis over their estimated useful lives where it is likely that the economic entity will obtain ownership of the asset or over the term of the lease. Lease payments are allocated between the reduction of the lease liability and the lease interest expense for the period.

Lease payments for operating leases, where substantially all the risks and benefits remain with the lessor, are charged as expenses in the periods in which they are incurred.

Lease incentives under operating leases are recognised as a liability. Lease payments received reduce the liability.

(f) Investments

Shares in listed companies held as current assets are valued by directors at those shares market value at each balance date. The gains or losses, whether realised or unrealised, are included in operating profit before income tax.

Non-current investments are carried at cost or at directors' valuation. The carrying amount of investments is reviewed annually by directors to ensure it is not excess of the recoverable amount of these investments. The recoverable amount is assessed from the shares' current market value or the underlying net assets in the particular entities. The expected net cash flows from investments have not been discounted to their present value in determining the recoverable amounts.

Investments in associate companies are recognised in the financial statements by applying the equity method of accounting.

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(g) Exploration and Development Expenditure

Exploration, evaluation and development expenditure incurred is accumulated in respect of each identifiable area of interest. Unless determined otherwise by the directors, these costs are only carried forward if legal tenure to the area of interest is held and to the extent that they are expected to be recouped through the successful development of the area or where activities in the area have not yet reached a stage which permits reasonable assessment of the existence of economically recoverable reserves.

Accumulated costs in relation to an abandoned area are written off in full against profit in the year in which the decision to abandon the area is made.

When production commences, the accumulated costs for the relevant area of interest are amortised over the life of the area according to the rate of depletion of the economically recoverable reserves.

A regular review is undertaken of each area of interest to determine the appropriateness of continuing to carry forward costs in relation to that area of interest.

Costs of site restoration are provided over the life of the facility from when exploration commences and are included in the costs of that stage. Site restoration costs include the dismantling and removal of plant, equipment and building structures, waste removal, and rehabilitation of the site in accordance with clauses of the relevant permits. Such costs have been determined using estimates of future costs, current legal requirements and technology on an undiscounted basis.

Any changes in the estimates for the costs are accounted on a prospective basis. In determining the costs of site restoration, there is uncertainty regarding the nature and extent of the restoration due to community expectations and future legislation. Accordingly the costs have been determined on the basis that the restoration will be completed within one year of abandoning the site.

(h) Employee Entitlements

Provision is made for the company's liability for employee entitlements arising from services rendered by employees to balance date. Employee entitlements expected to be settled within one year together with entitlements arising from wages and salaries, annual leave and sick leave which will be settled after one year, have been measured at the present value of the estimated future cash outflows to be made for those entitlements

(i) Cash

For the purpose of the statement of cash flows, cash includes:

i) Cash on hand and at call deposits with banks or financial institutions, net of bank overdrafts; and
ii) Investments in money market instruments with less than 14 days to maturity

(j) Goods and Services Tax(GST)

Revenues, expenses and assets are recognized net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Taxation Office. In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense. Receivables and payables in the statement of financial position are shown inclusive of GST.

(k) Revenue

Revenue from the sale of goods is recognised upon the delivery of goods to customers.
Interest revenue is recognised on a proportional basis taking into account the interest rates applicable to the financial assets.

Dividend revenue is recognised when the right to receive a dividend has been established. Dividends received from associates are accounted for in accordance with the equity method of accounting.

Revenue from the rendering of a service is recognised upon the delivery of the service to the customers.

All revenue is stated net of the amount of Goods and Services Tax(GST).

	Economic entity	Parent entity
	2004	2004
	$	$
NOTE 2: PROFIT FROM ORDINARY ACTIVITES		
Profit from ordinary activities before income tax has been determined after:		
(i) Charging as Expenses:		
Amortisation of non-current assets - goodwill	2,866	—
NOTE 3: INCOME TAX EXPENSE		
(a) The prima facie tax (benefit) on profit from ordinary activities before income tax is reconciled to the income tax as follows:		
Prima facie tax payable on profit from ordinary activities before income tax at 30% (2003: 30%)	(2,309)	—
Add:		
Tax effect of:		
Timing differences, being the tax effect of carried forward tax losses not brought to account	2,309	—
Less:		
Tax effect of:		
Other timing differences	—	—
Income Tax Expense	—	—

(b) The potential future income tax benefit of the carried forward tax losses have not been brought to account on the balance sheet, as the company is not virtually certain of receiving the benefit of those tax losses.

	Economic entity 2004 $	Parent entity 2004 $
NOTE 4: REMUNERATION AND RETIREMENT BENEFITS		
(a) Directors' Remuneration		
Income paid or payable to all directors of each entity in the economic entity by the entities of which they are directors and any related parties	–	
The names of parent entity directors who have held office during the period are:		
Mr Robert M Hosking		
Mr Edward Munks		
Mr Mark Smith		
Ms Patricia Hosking		
(b) Retirement and Superannuation Payments		
Amounts of a prescribed benefit given during year by the parent entity or a related party to director or a prescribed superannuation fund in a connection with the retirement from a prescribed office:	–	

	Economic entity 2004 $	Parent entity 2004 $
NOTE 5: AUDITORS' REMUNERATION		
Remuneration of the auditor of the parent entity for:		
— auditing or reviewing the financial report	10,000	
— other services	—	
Remuneration of other auditors of subsidiaries for:		
— auditing or reviewing the financial report of subsidiaries	—	

	Economic entity 2004 $
Note 6: Earnings per share	
(a) Reconciliation of earnings to Net profit or Loss	
Net profit	(7,696)
Net profit attributable to outside equity interest	-
Earnings used in the calculation of basic and diluted EPS	(7,696)
(b) Weighted average number of ordinary shares outstanding during the period used in the calculation of basic EPS	362,055
Weighted average number of options outstanding	181,027
Weighted average number of ordinary shares outstanding during the period used in the calculation of diluted EPS	543,082

c) Classification of securities

The following securities have been classified as potential ordinary shares and are included in the determination of dilutive EPS:

- options outstanding

	Economic entity	Parent entity
	2004	2004
	$	$
NOTE 7: CASH		
Cash on Hand	3	3
Cash at Bank	14,958	9,999
	14,961	10,002
NOTE 8: RECEIVABLES		
GST Paid	25,494	121
Amounts receivable from:		
- wholly-owned entities		
Karoon Gas Pty Ltd	—	50,000
	25,494	50,121
NOTE 9: INTANGIBLE ASSETS		
Formation Costs	1,212	1,212
Goodwill at cost	171,951	—
Accumulated amortisation	2,866	—
	169,085	
	170,297	1,212
NOTE 10: OTHER ASSETS		
Unlisted investments, at cost		
- shares in controlled entities	—	150,000
Exploration expenditure		
Costs carried forward in respect of area of interest(tenement PEP162) in:		
- exploration and evaluation phases	252,117	—
- development phase	—	—

NOTE 11: SUBSIDIARIES

(a) Subsidiaries and contribution to consolidated profit

	Country of Incorporation	Percentage Owned %
Parent Entity:		
Karoon Gas Australia Ltd	Australia	—
Subsidiaries of:		
Karoon Gas Australia Ltd		
Karoon Gas Pty Ltd	Australia	100

	Economic entity 31/01/2004 $	Parent entity 31/01/2004 $
Note 12: PAYABLES:		
CURRENT		
Amounts payable to:		
- director related entities	3,754	1,334
Trade creditors	226,600	—
	230,354	1,334

NOTE 13: EQUITY

	Economic entity 31/01/2004 $	Parent entity 31/01/2004 $
(a) Paid-up Capital 15,600,003 fully paid ordinary shares	210,003	210,003
Shares issued during the period:		
— Initial issue of shares (3 at $1 each)	3	3
— Issue of additional shares (500,000 shares at $0.10 each)	50,000	50,000
— Acquisition of 100% of Karoon Gas Pty Ltd. 15,000,000 shares issued at $0.01 each.	150,000	150,000
— Issue of 50,000 shares at 10 cents each	5,000	5,000
— Issue of 50,000 shares at 10 cents each	5,000	5,000
	210,003	210,003

	Economic Entity 2004 $	Parent entity 2004 $
NOTE 14: CAPITAL AND LEASING COMMITMENTS		
(a) Finance Lease Commitments	—	—
(b) Operating Lease Commitments	—	—
(c) Capital Expenditure Commitments		
Exploration commitments on PEP162		
— Payable not later than 1 year	200,000	
— Payable between 1 and 2 years	1,250,000	
— Payable between 2 and 5 years	200,000	
	1,650,000	

The above represents the directors' estimate of the expenditure required to satisfy the work obligations under the permit.

NOTE 15: CONTINGENT LIABILITES

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

NOTE 16: STATEMENT OF OPERATIONS BY SEGMENTS

	Total Revenue	Operating Profit(Loss) After Income Tax Attributed to Shareholders	Total Assets
	2004	2004	2004
	$	$	$
The company operates in only one industry segment, being oil and gas exploration, and in only one geographical segment, being Australia			
(a) Industrial Segments			
Oil and Gas Exploration	—	(7,696)	462,869
(b) Geographic Segments			
Australia	—	(7,696)	462,869

	Economic entity	Parent entity
	2004	2004
	$	$

NOTE 17: CASH FLOW INFORMATION

Non-cash financing and investing activities

(i) Share issue
15,000,000 shares were issued at $0.01 each($150,000 in total) as part of the consideration for the purchase of the wholly-owned subsidiary (Karoon Gas Pty Ltd)

NOTE 18: RELATED PARTY TRANSACTIONS

Transactions between related parties are on normal commercial terms and conditions no more favourable than those available to other parties unless otherwise stated

Transactions with related parties

(i) Ultimate Parent Company
There is no ultimate parent company as at the Balance date

(ii) Associated Companies
There are no associated entities

(iii)Other Related Parties

Loan to wholly-owned subsidiary (Karoon Gas Pty Ltd) - amount owing $50,000

(iv) Director-related Entities

Ropat Nominees Pty Ltd (a company in which Robert Hosking, a director of Karoon Gas Ltd, is a director and shareholder) invoices Karoon Gas Pty Ltd(only wholly-owned subsidiary of Karoon Gas Ltd) for consultancy fees(relating to exploration expenditure) paid on behalf of Karoon Gas Pty Ltd.

Total amount owing to Ropat Nominees Pty Ltd is: $3,754

NOTE 18: RELATED PARTY TRANSACTIONS

The registered office of the company is:

Suite 7A
34 Lochiel Avenue
Mount Martha
Vic 3934

The principal place of business is:

Suite 7A
34 Lochiel Avenue
Mount Martha
Vic 3934