



PLANET GAS LIMITED

Planet Gas Limited and its controlled entities
A.B.N. 46 098 952 035



Annual Report **2006**

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CHAIRMAN'S LETTER



Dear fellow shareholder,

The year ended 31 December 2006 has been a year of steady progress in the development of the Company's quality portfolio of coalbed methane ('CBM') projects.

During the year, the West Esponda project acreage was increased by almost 30% through the acquisition of strategic land holdings. These acquisitions help infill the West Esponda tenement position and will enhance the logistics of the West Esponda development program and production. Negotiations to further expand this position are ongoing.

Independent gas in place ('GIP') resource estimates and reserve estimates have been completed for all of the Company's Powder River Basin projects. The Company's Powder River Basin GIP resource stands at an impressive 123.9 Bcf of CBM gas. Subsequent acquisitions will add to this resource total.

The Company's Esponda Projects are moving closer to gas production. The Company's 23 wells at East Esponda continue to be dewatered and there are positive indications of some wells nearing production. During the year, 10 wells in a pilot production program, together with all infrastructure, were completed at West Esponda. These wells have been dewatering since mid year and 3 wells have yielded early gas, although not in commercial quantities yet, from the time they were brought on line.

The Company has been permitted to complete a second phase of 8 wells at West Esponda and a 33 well development of the Oriva Federal Project. This development program is scheduled to commence following the mid year end of the current annual wildlife stipulations.

A conventional oil and gas farm out agreement was reached and a well has been completed by the operator into the Muddy Formation at the Oriva Federal Project. This well is currently being tested and is showing positive signs that it will commence production in the very near future.

At Oriva Throne, dewatering of the major productive target, the Wall seam, has continued throughout the year and increasing well pressures are a positive indication of a near term production breakthrough.

In addition to our development programs, we have continued to work towards a strategic transaction in the North American capital markets. In the interim period, we have secured an equity line of credit which is available at the Company's discretion, thereby providing necessary funding whilst keeping shareholder dilution to a minimum.

Finally, I would like to express the Board's appreciation of the professional and diligent work carried out by the Company's management team and close consultants.

Yours faithfully

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

Norman A. Seckold
Chairman

REVIEW OF OPERATIONS

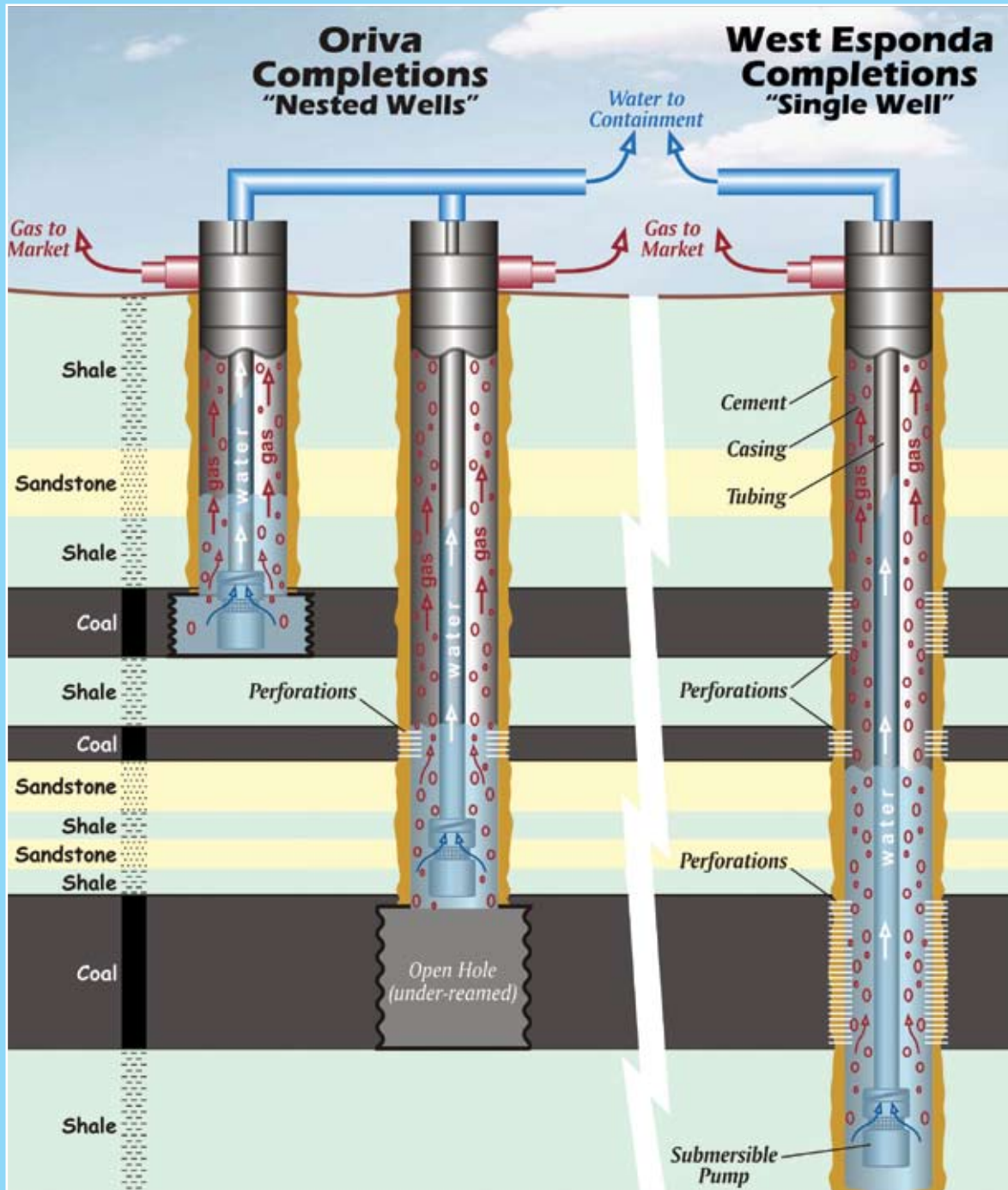
SUMMARY

The year ended 31 December 2006 was a year of steady development and achievement for Planet Gas Limited ('Planet Gas' or 'the Company').

Major achievements since the end of the previous financial year include:

- ⦿ Increasing the West Esponda Project by 30% by the strategic acquisition of a further 1,767 net hectares.
- ⦿ Independent CBM GIP resource estimate of 158.7 Bcf (101.4 Bcf net) at West Esponda.
- ⦿ Completion of the 10 well West Esponda pilot production program, dewatering facilities and infrastructure.
- ⦿ Commencement of dewatering at the West Esponda pilot production program.
- ⦿ Independent CBM GIP resource estimate of 21.9 Bcf (7.3 Bcf net) at East Esponda.
- ⦿ Continuation of dewatering at East Esponda in advance of gas production.
- ⦿ Independent CBM GIP resource estimate of 19.5 Bcf (15.2 Bcf net) at Oriva.
- ⦿ CBM production of 110,225 Mcf (66,961 Mcf NRI) at Oriva Throne.
- ⦿ Conventional oil and gas well completed and being tested at Oriva Federal.
- ⦿ Independent CBM reserve estimate of 44.6 Bcf (36.5 Bcf net) for the Powder River Basin projects.
- ⦿ Various West Esponda and Oriva Federal permit approvals received.
- ⦿ Production well at Skull Creek completed and tested.
- ⦿ Negotiating the availability of an \$8.0 million equity line of credit finance facility.

REVIEW OF OPERATIONS (CONT)



A schematic of CBM well completions.

REVIEW OF OPERATIONS (CONT)

PROJECTS

The Company is engaged in the acquisition, exploration, development, production and operation of oil, gas and CBM properties in the USA and Australia.

The Company has rights to the following projects in the USA and Australia:

USA

- Esponda Project, Powder River Basin, Wyoming
- Oriva Project, Powder River Basin, Wyoming
- Skull Creek Project, Cherokee Basin, Kansas

Australia

- Gippsland and Otway Basins, Victoria
- Willochra and Eromanga Basins, South Australia
- Gunnedah Basin, New South Wales

Project	Location	Area Net Hectares
USA		
East Esponda	Powder River Basin, Wyoming	469
West Esponda	Powder River Basin, Wyoming	7,799
Oriva Throne	Powder River Basin, Wyoming	146
Oriva Federal	Powder River Basin, Wyoming	359
Skull Creek	Cherokee Basin, Kansas	11,573
Australia		
EL 4500	Gippsland Basin, Victoria	241,600
EL 4807	Gippsland Basin, Victoria	2,600
EL 4859	Gippsland Basin, Victoria	5,900
EL 4860	Gippsland Basin, Victoria	40,500
EL 4861	Gippsland Basin, Victoria	4,200
EL 4862	Gippsland Basin, Victoria	2,600
EL 4877	Gippsland Basin, Victoria	165,100
EL 4368	Otway Basin, Victoria	48,379
EL 4369	Otway Basin, Victoria	24,190
EL 4811	Otway Basin, Victoria	77,800
PELA 145	Willochra Basin, South Australia	619,432
PELA 146	Eromanga Basin, South Australia	267,786
PEL 428	Gunnedah Basin, New South Wales	150,842

REVIEW OF OPERATIONS (CONT)

POWDER RIVER BASIN, WYOMING, USA

The Powder River Basin encompasses approximately 67,000 square kilometres in the northern Rocky Mountains of the USA straddling the northeast of Wyoming and the southeast of Montana. The Powder River Basin is estimated to contain more than one trillion short tons (0.9 trillion tonnes) of coal with potential CBM resources of over 25 trillion cubic feet. CBM production in the Powder River Basin has increased at a rapid rate since 1995 with production today of around 900 million cubic feet per day from over 15,000 producing wells.

Powder River Basin Reserves and Future Revenues

Netherland, Sewell & Associates, Inc. ("NSAI"), a worldwide petroleum consultancy group based in Dallas Texas, has prepared an Estimate of Reserves and Future Revenues report for all of the Company's Powder River Basin projects as at 30 June 2006. The summary of the NSAI forecast Estimate of Reserves and Future Revenues is as follows:

Reserve Category	Company Interest Gross Reserves (MMcf)	Company Interest Net Reserves (MMcf)	Company Interest Gross Revenues (US\$000)	Company Interest Net Revenues (US\$000)
Proved	4,384.3	3,716.1	25,926.3	8,045.8
Proved+Probable	8,991.1	7,458.9	52,639.0	19,918.3
Proved+Probable +Possible	44,597.0	36,541.0	252,957.1	65,182.0

NSAI's reported forecast reserves and revenues are based on the following key assumptions:

- gas prices (US\$/MMbtu) ranging between \$7.32 to \$9.17;
- lease and well operating costs escalated at 1.5% per year;
- future capital costs escalated at 1.5% per year to the date of expenditure;
- Company interest net revenue is after deductions for state production taxes and ad valorem taxes, royalties, future capital costs, operating expenses and payments to net profits interests but before USA federal income taxes.

NSAI states: "This report has been prepared in accordance with Canadian National Instrument 51-101 – Standards of Disclosure for Oil and Gas Activities (NI 51-101) and the Canadian Oil and

Gas Evaluation Handbook (COGEH)"; and, further "The reserves included in this report conform to the definitions set forth in Section 5 of Volume I of the COGEH from the Canadian Institute of Mining, Metallurgy and Petroleum (Petroleum Society)."

An analysis of the NSAI Estimate of Reserves and Future Revenues by project is as follows:

Project and Reserve Category	Company Interest Gross Reserves (MMcf)	Company Interest Net Reserves (MMcf)	Company Interest Gross Revenues (US\$000)	Company Interest Net Revenues (US\$000)
Oriva Federal				
Proved	3,673.4	3,140.8	21,530.2	7,027.1
Proved + Probable	4,426.6	3,784.8	26,177.8	9,156.1
Proved+Probable +Possible	4,964.9	4,245.0	29,579.0	10,215.5
Oriva Throne				
Proved	710.9	575.4	4,396.1	1,018.7
Proved+Probable	1,905.9	1,531.4	11,627.6	4,219.0
Proved+Probable +Possible	2,124.9	1,706.6	12,995.6	4,615.5
East Esponda				
Probable	2,658.6	2,142.7	14,833.6	6,543.2
West Esponda				
Possible	34,848.7	28,446.8	195,548.9	43,807.8
Total All Projects				
Proved	4,384.3	3,716.1	25,926.3	8,045.8
Proved+Probable	8,991.1	7,458.9	52,639.0	19,918.3
Proved+Probable +Possible	44,597.0	36,541.0	252,957.1	65,182.0

As the Company's projects are developed, the reserve categories presented above will ultimately be upgraded to a proved category and consequently attain higher valuations. For example, many of the wells at East Esponda were previously in a possible category when they were evaluated earlier for Kennedy Oil by NSAI but with the continued dewatering they have all moved up to the probable category herein. A similar situation exists at West Esponda since at the effective date of the NSAI report these wells did not have a sufficient dewatering time to increase their reserve categorisation. Also, the completion of wells at the permitted Oriva Federal project will upgrade both the Oriva Federal and Oriva Throne project values because the Oriva Federal dewatering will assist the Oriva Throne wells achieve their gas production through the combined dewatering of a larger development

REVIEW OF OPERATIONS (CONT)

area. The Company believes that the conservative approach (ie recovery factors and gas content) utilised in the reserve estimate will allow for an overall increase in reserves.

ESPONDA PROJECT

The Esponda Project, which is located approximately 25 kilometres southeast of Buffalo, Wyoming, and totals 8,268 net hectares (20,431 acres) in Townships 47 to 50 North, Ranges 79 and 80 West, Johnson County, Wyoming comprises two project areas, East Esponda and West Esponda. East Esponda has been developed under joint venture arrangements and continues to be dewatered in advance of the commencement of production. West Esponda includes a 10 well pilot production facility in the northern portion of the project which is in the dewatering period. A second phase of drilling and well completions is scheduled for construction this year.

The project lies near the Powder River Basin's asymmetric structural axis, and is situated between the depositional centres of the stratigraphically higher Buffalo-Lake De Smet Coalfield to the west (Eocene Wasatch Formation) and the Gillette Coalfield (Paleocene Fort Union Formation) to the east. Thus, the more shallow Eocene-aged coals are being eroded to the east and south across the region and depositionally splitting with less ash content than its thickest member near Buffalo; and the Big George Coal, a part of the Gillette Coalfield, present at East Esponda is splitting towards the west.

Total coal isopach mapping of this sparsely drilled area of the deep Powder River Basin estimates between 20 to 45 metres of coal is present. This estimate is supported by results from the Company's stratigraphic drilling program which intersected gassy coal with cumulative intersections of up to 50 metres and an average of 35.4 metres, of which the Big George coal seam intervals were between 17 to 22 metres.

East Esponda

The East Esponda Project is subject to two joint ventures covering 469 net hectares (1,160 acres). Effective 21 March 2006, Western Gas Resources Inc. ("Western Gas") purchased select Powder River Basin assets, including the Big Cat Field which includes the Company's East Esponda leasehold, from Kennedy Oil for US\$137 million. The Company's joint venture agreements remain unchanged other than Western Gas becoming the only operator and joint venture partner in the East Esponda Project.

On 23 June 2006 Anadarko Petroleum Corporation announced a bid to acquire Western Gas for US\$5.5 billion, a 49% premium to the pre-bid Western Gas share price. This offer reaffirms the strength of the North American CBM market, and its increasing importance to major companies as a source of expanding natural gas production in a stable political and economic market.

Development

There have been 23 wells completed at the East Esponda Project, being 14 wells in the Big Cat Field which have been sole funded by Western Gas and will be repaid from production and



East Esponda Project.



Construction of the West Esponda water discharge retention facility.

9 wells in the Indian Creek Field which have been funded by the Company in proportion to its working interest.

Although 3 wells are located exterior to the consolidated entity's leasehold, the Company retains an interest in these wells due to the State's mandated 32 hectare (80 acre) spacing orders.

Since the commencement of production, between ~200 to +1,000 barrels of water per day per well (bwpd/well) are being extracted from the Big George coal seam. There are currently no saleable gas quantities to report; however, there is early gas being produced in the field.

Resources

A Gas-In-Place ('GIP') resource estimate has been completed on the Company's East Esponda Project by Dr. Jimmy E. Goolsby of Goolsby, Finley & Associates of Casper Wyoming, considered to be pre-eminent authorities on the CBM geology of the Powder River Basin.

As detailed below, the GIP resource estimate totalled 21.9 billion cubic feet ('Bcf') (gross) and 7.3 Bcf (net) (ie attributable to the Company) within the Big George Seam:

Project Area	Coal Seams	Gross GIP (MMcf)	Net GIP (MMcf)
East Esponda	Big George	21,912.6	7,337.7

The resource estimate was based upon volumetric calculations derived from the well development program and was calculated using 80 acre blocks (legal drill spacing unit), the seam's thickness (closest neighbour interpolation) and a gas content factor of 100 standard cubic feet per ton ('Scf/t').

The gas content factor is an estimation based on a published study by Goolsby, Finley & Associates completed on behalf of the State of Wyoming. Although this is the maximum gas

content value at these depths that Goolsby, Finley & Associates utilises in its GIP volumetric calculations, Goolsby, Finley & Associates have been apprised of proprietary gas desorption tests indicating values greater than 100 Scf/t in this general area of the Powder River Basin.

The Big George Seam is completely merged in the Western Gas area but splits into an upper and lower unit in the western portion of Kennedy Oil's area. Where the Big George Seam is merged, its thickness is greater than 24 metres, and where split its total thickness is approximately 20 metres.

West Esponda

The West Esponda Project totals 7,799 net hectares (19,271 acres) and has the capacity for more than 240 wells on the State mandated 32 hectare (80 acre) spacing.

Acquisitions

During the year, the Company continued its tenure consolidation in the northern area of the West Esponda Project and acquired a further 1,767 net hectares (4,366 acres) in freehold tenements and a State of Wyoming lease. These acquisitions are contiguous with the existing West Esponda tenements and are a further step by the Company to infill the West Esponda tenement positions into a contiguous holding which will improve the logistics of the West Esponda development program and production.

Further strategic acquisitions continue to be negotiated.

Resources

An overall GIP resource calculation, based upon volumetric calculations, for the Company's West Esponda leasehold interest which, at the time, totalled 7,540 net hectares (18,631 acres) was estimated for five regionally correlated coal seams. The resource calculation was completed by Dr. Jimmy E. Goolsby of Goolsby, Finley & Associates.

REVIEW OF OPERATIONS (CONT)

The following tabulates the West Esponda Project's GIP resources:

Project Area	Coal Seams	Gross GIP (MMcf)	Net GIP (MMcf)
West Esponda (Northern Area)	Big George/Wasatch	106,988.4	68,365.6
West Esponda (Southern Area)	Big George/Wasatch	51,662.1	33,012.1
Totals	Big George/Wasatch	158,650.5	101,377.7

The GIP resource was calculated using 32 hectare (80 acre) blocks (legal drill spacing units), the seams thicknesses (contour interpolation) and a gas content factor of up 100 Scf/t depending on each coal seam's depth. The gas content factor is an estimation based on a published study by Goolsby, Finley & Associates completed on behalf of the State of Wyoming.

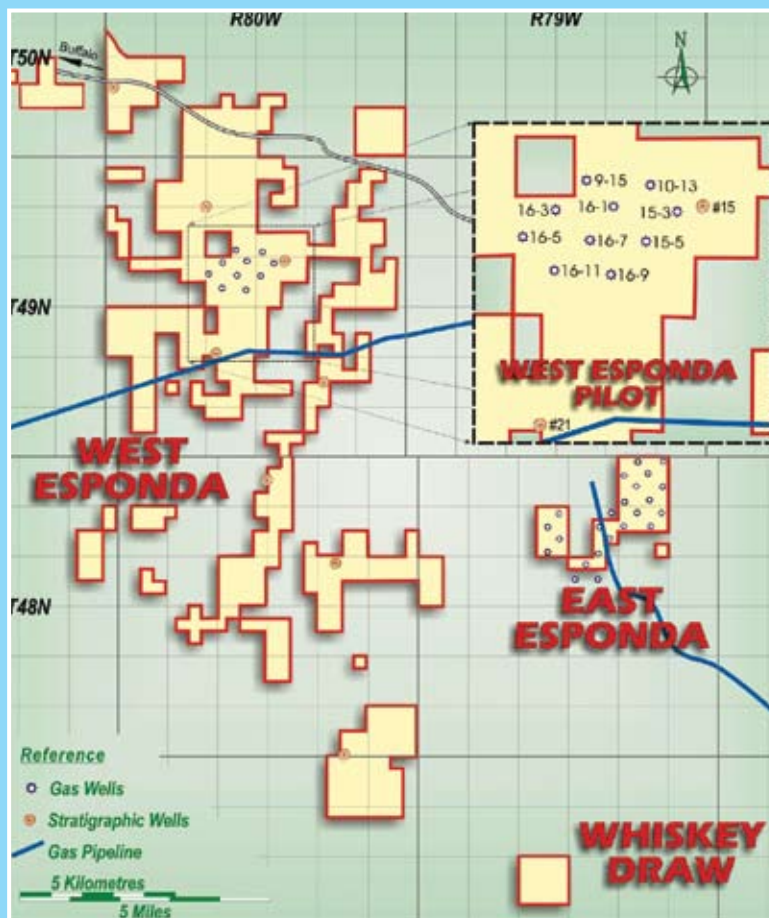
Pilot Production Program

The Company's first stage of commercialisation of the West Esponda Project was initiated early in the year with the completion of 10 wells in a pilot production program. This northern portion of the West Esponda Project has approximately 106 contiguous or near contiguous well locations.

All wells were cased on reaching the well's total depth and all wells have been completed, including downhole cleanup, seam perforations, formation enhancement and pump installation. Further, the in-field gas and water reticulation and well tie-ins for the pilot production program have been completed and a generator to power the submersible pumps is being used on-site.

Following receipt of a construction permit for a water discharge retention facility, the Southwest Pond was constructed with a capacity of approximately 200 megalitres. Having received a water discharge permit, the Southwest Pond has been used since mid year for water discharge from the 10 pilot production wells.

The sole focus of the pilot production program is CBM production from the Big George coal seam. Stratigraphic and pilot production



West Esponda Project.



Drilling a pilot production program well at West Esponda.

program drilling has indicated that the Big George coal seam at the West Esponda Project is 17 to 22 metres thick. In addition, coals of 17 to 24 metres in total thickness overly the Big George coal seam. Whilst these are not intended to be produced from at this time, they will be 'behind pipe' so they can be readily accessed in the future. The stratigraphic program also intersected deeper coal units which will be valid targets for the future.

The pilot production program not only tests the most westerly extensions of the Big George seam in the Powder River Basin, but will provide invaluable site specific technical knowledge of the reservoir by its initial development, dewatering and production and will provide an evaluation of the completion methodologies.

During the year, State drilling permit approvals were received for a further 8 wells to be drilled immediately north of the pilot production program wells.

Following a geological review of the initial wells, 3 of which have shown indications of early gas production, there appears to be a geological structural high developing to the north of the initial pilot production wells. This favourable geological anomaly will be investigated with the Phase 2 drilling program.

ORIVA PROJECT

The Oriva Project comprises two contiguous project areas, Oriva Throne which is in production and Oriva Federal which has been permitted for development, scheduled for mid year. The Oriva Project is located approximately 21 kilometres west of Gillette, Wyoming, and totals 505 net hectares (1,248 acres) in Sections 8, 9 and 10, Township 50 North, Range 74 West, Campbell County.

The Oriva Project contains nearly all productive coals in the Powder River Basin: Felix Smith, and Anderson seams (depths 60 to 300 metres), Canyon/Cook and Wall seams (depths 300 to 500 metres). In addition to these primary coal bed targets, there are two deeper seams, Moyer and Danner at depths of approximately 750 metres.

In addition to the CBM potential of Oriva Federal, a conventional oil and gas prospect in the Lower Cretaceous Muddy Formation has been farmed out and is under development.

The proximity of Oriva Throne to Oriva Federal is of strategic importance, not only for the addition of reserves but to the overall project development with access to existing infrastructure and operations.

Resources

An independent study completed by Dr. Jimmy E. Goolsby of Goolsby, Finley & Associates in 2005 concluded that the Company's Oriva Throne and Oriva Federal tenements contain GIP resources of 19.5 Bcf (gross) and 15.2 Bcf (net).

As described below, a further 6.0 Bcf (gross) potential resource is estimated to be contained in deeper coal seams beyond the scope of this GIP resource estimate.

The following table summarises the Oriva Project GIP resources within 6 coal seams of the Wasatch and Fort Union Formations:

Project Area	Coal Seams	Gross GIP (MMcf)	Net GIP (MMcf)
Oriva Throne	Wasatch/Fort Union	5,974.8	3,629.7
Oriva Federal	Wasatch/Fort Union	13,570.4	11,602.7
Totals	Wasatch/Fort Union	19,545.2	15,232.4

The GIP resource is based on a volumetric analysis of the 6 Wasatch and Fort Union coal seams actual or projected thickness using 32 hectare (80 acre) blocks, and a gas content factor, depending upon the depth of the coal seam, between 10 and 85 Scf/t. The gas content factor is a well defined estimation based on a published study by Goolsby, Finley & Associates completed on behalf of the State of Wyoming.

REVIEW OF OPERATIONS (CONT)

Although beyond the scope of this GIP resource estimate, Dr Goolsby estimates the deeper (+600 metre) multiple Moyer coal seams may contain an additional potential resource of approximately 6.0 Bcf (gross), if the combined Moyer coals remain similar to what has been observed in logs drilled to date. Further, based on limited past production, Dr Goolsby considers that the surrounding area may contain shallow (<800 metre) Fort Union Formation sands containing trapped natural gas derived from the adjacent CBM coals. These sands have the potential to further increase the GIP resource.

Oriva Throne

The Company holds a 75.975% Working Interest (60.75% Net Revenue Interest) in the Oriva Throne tenements which total 146 net hectares (361 acres). Oriva Throne is operated by Emerald Operating Company and Rocky Mountain Exploration of Denver, Colorado which holds the remaining 24.025% Working Interest (19.25% Net Revenue Interest). The entire leasehold interest is subject to a 20% land/mineral owner royalty.

Production during the year at Oriva Throne was from the 5 state mandated 32 hectare (80 acre) spacing CBM pad sites each of which have been developed with 3 wells, producing CBM from the Anderson, Felix and Wall Coal seams plus 3 'exception location' Wall seam wells.

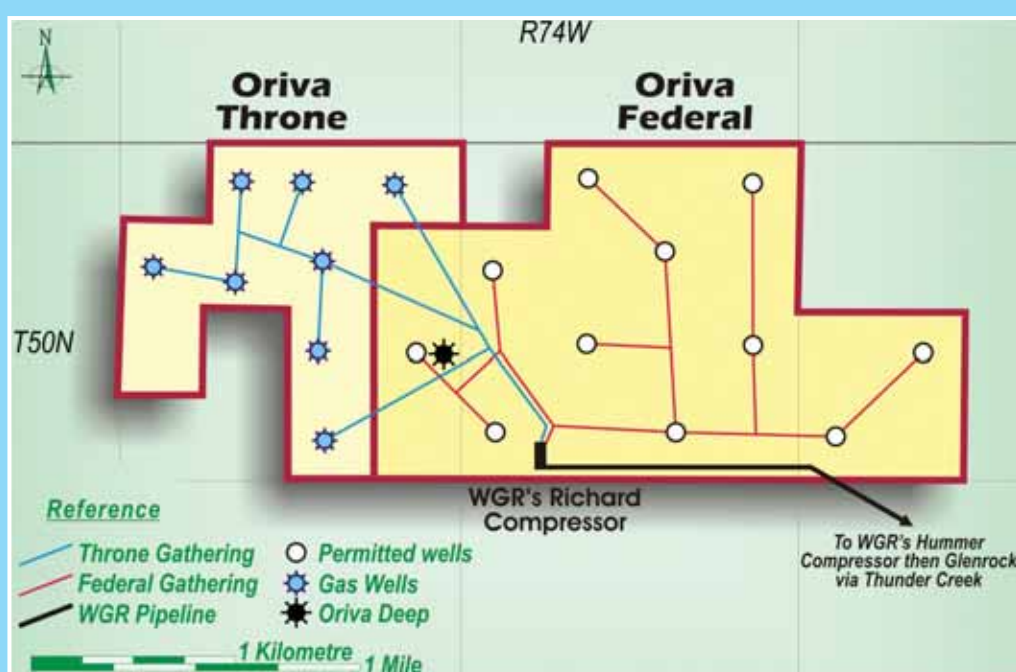
CBM production from the Oriva Throne tenements for the year ended 31 December 2006 was as follows:

Coal Seam	CBM Production (Mcf)	Net Revenue Interest (Mcf)
Anderson	88,329	53,660
Felix	19,997	12,148
Wall	1,899	1,153
Totals	110,225	66,961

CBM production was sold for an average of US\$5.50 per Mcf in 2006 for total net revenues of US\$368,163. CBM production is delivered to Western Gas's Richard Compression Station situated in Section 9, Township 50 North, Range 74 West on the Company's Oriva Federal tenements.

The completion of the 3 'exception location' Wall seam wells is intended to increase water production from the Wall seam and thus to accelerate the dewatering time leading to increased gas production from this newly developing CBM horizon in this portion of the Powder River Basin. Towards the end of the year, increases in gas flows and accompanying increases in downhole pressure in the Wall wells are encouraging indicators of possible near term production breakthrough.

The Company is reviewing opportunities to acquire additional producing acreage in the proximity of the Oriva Project.





Oriva Federal conventional oil and gas drilling.

Oriva Federal

The Oriva Federal leasehold is located approximately 21 kilometres west of Gillette, Wyoming, and totals 359 net hectares (887 acres) in Sections 8, 9 and 10, Township 50 North, Range 74 West, Campbell County. The Company holds a 100% Working Interest (85.5% Net Revenue Interest) in the Oriva Federal tenements. The entire leasehold interest is subject to a 12.5% Federal royalty and a 2% overriding royalty.

Oriva Federal CBM

On the basis of the State mandated 32 hectare (80 acre) well spacing, the Oriva Federal tenements have the capacity for 11 pad sites.

During the year, the Company's Plan of Development was approved by the Federal Bureau of Land Management and the Wyoming Department of Environmental Quality and State Engineers Office approved and issued their respective permits thereby facilitating the development of the Oriva Federal Project.

With the Oriva Federal CBM project fully permitted, the drilling of 33 wells (11 pad sites, each with 3 wells to the same coal seams as on the adjoining Oriva Throne area) is scheduled to commence in mid year after the federally mandated annual wildlife stipulations are lifted. It is anticipated the drilling, completion and development of the wells and infrastructure will take 60 to 90 days to complete.

During the year, contracts for in-field gas compression and gas transportation to markets were signed; electrical power hooked up; compression is on-site; and, the necessary permits for water disposal are in-hand. The Company's water management plan provides for standard CBM style reservoirs either along or in ephemeral channels. The project has been designed to fully contain its water output of nearly 25,000 barrels of water per day in off-channel containment pits.

It is anticipated that the Anderson coal seam will produce gas with minor dewatering and the Wall coal seam development should greatly enhance the neighbouring Oriva Throne area.

Oriva Federal Conventional Oil and Gas

During the year, a Conventional Oil and Gas Farmout Agreement ('Farmout Agreement') was entered into with Carpenter & Sons and North Finn ('C&S-NF') of Casper, Wyoming. The Farmout Agreement covers only the non-CBM rights at the Oriva Federal Project with activities primarily targeting the Cretaceous Muddy Formation at a depth of approximately 2,900 metres and with Cretaceous aged fractured shales situated above the primary target as secondary objectives.

Under the terms of the Farmout Agreement, C&S-NF, as Operator, earned an 81% Net Revenue Interest to conventional oil and gas (not CBM which is retained by the Company) production in one half of the Oriva Federal leasehold by drilling a test well. The completion of a second well will earn-in C&S-NF to the remaining Oriva Federal leasehold interest.

The Company retains a 19% Net Revenue Interest which will cover all royalties (totalling 14.5%) and will retain a 4.5% Net Revenue Interest to conventional oil and gas production from the Oriva Federal leasehold. Further, for future wells, the Company has the option to convert its 4.5% Net Revenue Interest to a participating 20% Working Interest.

During the year, the test well, Oriva Deep Federal No 9-8A conventional oil and gas well, was commenced and subsequently completed to a depth of 2,949 metres (9,676 feet). The well has been cased to 2,944 metres (9,660 feet) in the Cretaceous Muddy Formation, the primary target, as a potential natural gas and condensate producer.

Since year end, well testing has commenced and the production pipeline constructed. This well will be tied into an existing Western Gas pipeline which is less than 1.6 kilometres (1 mile) from the well.

REVIEW OF OPERATIONS (CONT)

CHEROKEE BASIN, KANSAS, USA

The Cherokee Basin contains nearly two dozen Pennsylvanian aged coals with thickness ranging up to 9 metres but more typically up to 4 metres with gas contents ranging from 150 to 375 Scf/t. The cyclic nature of the deposits makes it possible to intersect multiple coal seams in a single well. The major Cherokee Group coal beds make up the largest portion of this resource and include the "Aw", Bevier, Mineral, Riverton, and Weir-Pittsburg coals. The Cherokee Group coals are Pennsylvanian in age and typically of high-volatile A and B bituminous rank.

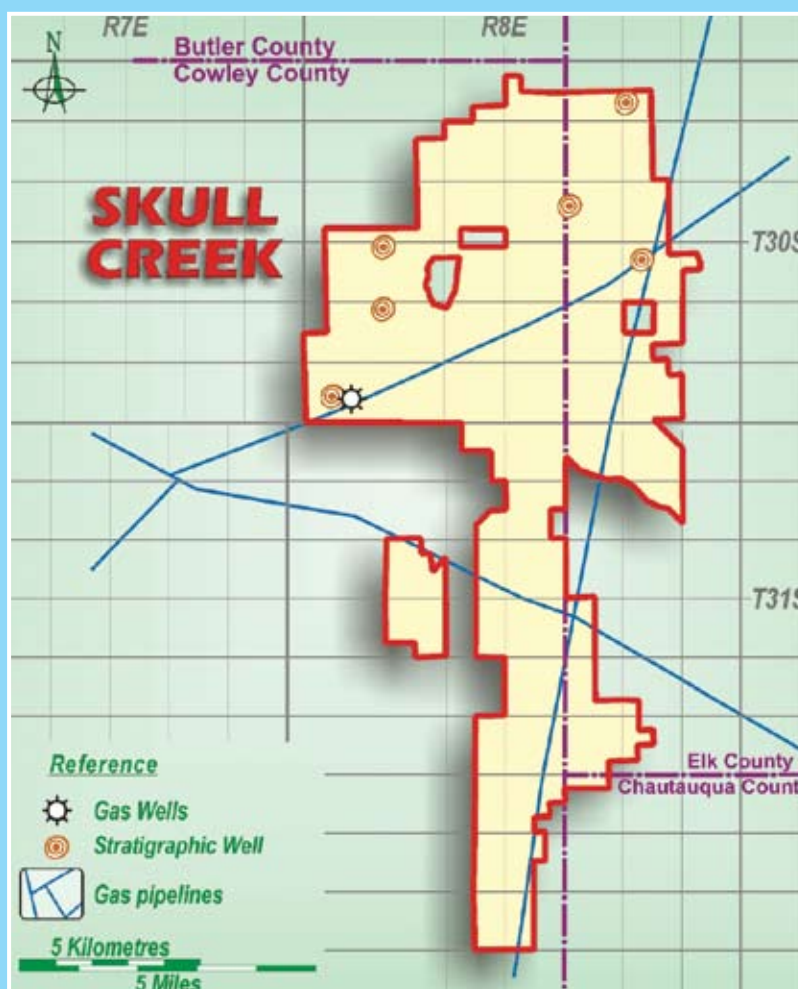
The Weir-Pittsburg Seam has been actively mined by both open pit and underground methods in southeast Kansas since the 1900s. With the exception of the Weir-Pittsburg coal these as well as the "Bw", Drywood and Tebo coals are present within the Skull Creek Project.

Skull Creek Project

The Skull Creek Project is located in the western portion of the Cherokee Basin of southeast Kansas. The tenement occupies 11,573 net hectares (28,598 acres) in Cowley, Elk and Chautauqua Counties near existing infrastructure and within a receptive State regulatory regime.

The Company has a 50% working interest in the Skull Creek Project and can further increase its working interest to 75% by completion of a 5 well pod and is further able to increase to a 100% working interest in the un-drilled leasehold area by making a further final payment of US\$750,000 or by incurring certain additional project drilling and well completion expenditures.

The principal CBM target coal seams occur in the Cabaniss and Krebs Formations of the Cherokee Group at depths of approximately 600 metres. The leases are not restricted to CBM, but convey all oil and gas rights to the Company. Conventional oil and gas targets may also exist in the Skull Creek Project



Skull Creek Project.



Skull Creek test well.

and will be evaluated during all drilling operations. Underlying the region is Mississippian and Ordovician aged carbonates that yield conventional hydrocarbons. Also, the Ordovician sediments serve as a water disposal zone for co-produced coalbed methane water. Additional conventional hydrocarbon occurrences in the overlying strata of the Kansas City-Lancing Group are potential targets.

Exploration

During the year, the first of multiple zones on the FR11-31 (which was drilled in 2005) was completed in the Tebo B at a depth of 844 metres (2,768 feet). Initial testing showed water volumes more than 40 barrels of water per day with some associated gas (not measured). The static fluid level indicated a reservoir pressure gradient of 0.32 psi/ft from the Tebo B zone which is consistent with the range of pressure gradients in the Cherokee from 0.25 to 0.43 psi/ft.

Completion and testing operations are in progress for multiple zones in the Cherokee formation. Individual zone stimulations on the Tebo A, Mineral, V-Shale, and Summit/Excello formations were performed in the year. The well was cleaned out and setup for pump testing of all zones. Pump testing has commenced with associated fluid levels being measured to understand the pressure drawdown of the dewatering effort.

Field activities have been temporarily suspended due to the termination by the Company of the third party operator. The Company expects to resume field activities during the first quarter 2007. Dewatering of the Cherokee coals will recommence with an overall testing period of several months being anticipated before a final decision to drill and complete additional production wells will be made.

AUSTRALIAN OPERATIONS

The Company holds rights to prospective CBM projects in the Gippsland and Otway Basins of Victoria, the Willochra and Eromanga Basins of South Australia and the Gunnedah Basin of New South Wales. The Company's projects in the Otway Basin of Victoria and the Gunnedah Basin of New South Wales are relatively early stage exploration projects. The Company also has licence applications in the Willochra and Eromanga Basins in South Australia.

Gippsland Basin, Victoria

The Gippsland Basin Project is located to the southeast of metropolitan Melbourne between Dandenong, Wonthaggi, Leongatha and Moe. Following the granting and amalgamation of certain of the Company's tenements the Company's Gippsland Basin Project now comprises a total area of approximately 4,625 square kilometres.

The CBM potential in the Gippsland Basin occurs in the black coals of the Early Cretaceous Strzelecki Group. The Gippsland Basin is a complex rift basin system with the northeast trending structural lineaments composed of anticlines, synclines, monoclines, extensional and compressional faults.

During the year, the Company continued its data collation program leading to the development of further exploration programs in Victoria and Work Plans to facilitate drilling were prepared for ELs 4807, 4859, 4860, 4861, 4862 and 4877. In late November 2006, the Victorian Department of Primary Industries registered Work Plans for ELs 4859, 4860, 4861, 4862 and 4877. The registration of the Work Plan for EL 4807 was completed in early February 2007.

The Company plans to drill up to 24 stratigraphic holes totalling up to 22,000 metres on portions of its Gippsland tenements to depths of up to 1,000 metres to evaluate the prospective CBM potential of the Cretaceous Strzelecki Group. With the exception of the Cape Paterson region, the historic black coal mining

REVIEW OF OPERATIONS (CONT)

centres in and around the communities of Korumburra, Outtrim-Jumbunna, Wonthaggi and Kilcunda-Woolami as well as the Koo-Wee-Rup coalfield will receive stratigraphic bore evaluations in the Company's initial evaluation.

The general prospectivity of the Gippsland region for CBM has been proven by the earlier drilling but the Company needs to source drilling equipment that is up to the task of penetrating to approximately 1,000 metres. The prospectivity of the deeper stratigraphic section, as encountered in hole GS13, is highlighted by the fact that the cumulative average coal thickness for the previous five (shallow) holes was 1.95 metres, while GS13 produced a cumulative coal thickness of 7.5 metres. It is important to note that the base of the prospective Strzelecki Group's coals was not reached in GS13.

The Department of Primary Industries has granted a variation of location for one of the undrilled stratigraphic holes within EL 4500 and the Company plans to drill a desorption core hole at this location which will provide data on the coals encountered in GS13. It is intended to drill this hole prior to the continuation of drilling the outstanding stratigraphic bores on EL 4500.

Otway Basin, Victoria

The Otway Basin is the westerly extension of the Gippsland/Bass Basin system situated to the west of the Bass and Gippsland Basins on-shore and off-shore in the southwest of Victoria, extending into the southeast of South Australia. The Basin contains thick seams of lignite in the near surface and thin seams of black coals at depth.

The Otway Basin Project is adjacent to the South Australian border and alongside the route of the South East Australia gas pipeline. In February 2007, 2 Exploration Licence Applications were granted following completion of the Native Title process, thereby providing the Company with an additional prospective exploration area. The Otway Basin Project now comprises 3 ELs totalling 1,503 square kilometres.

A Work Plan for EL 4811 to facilitate the drilling of up to four 1,200 metre stratigraphic test holes was lodged with the Department of Primary Industries and the Company is expecting to have this registered in the near future. Once this has been accepted and registered the test drilling in the Otway Basin will be able to be commenced.

Conventional oil and gas wells on the licence area and in the region have encountered black coal seams that will be targeted in the initial exploration program.

Gunnedah Basin, New South Wales

PEL 428 covers an area of 6,021 square kilometres in northern New South Wales and lies immediately north and west of Eastern Star Gas' PEL 238 permit which contains the Coonarah Gas Field, the Wilga Park Power Station and the Bohena coal seam gas pilot. Eastern Star Gas is funding Comet Ridge Limited's expenditure commitment at present and is the operator. No significant exploration work was completed during the year.



Gippsland and Otway Basin Projects.



Drilling a pilot production program well at West Esponda.

Interests in PEL 428 after Eastern Star Gas has fulfilled its earning obligation will be:

Planet Gas Limited (through its wholly owned subsidiary Davidson Prospecting Pty Limited)	20%
Eastern Star Gas Limited	60%
Comet Ridge Limited	20%

Willochra and Eromanga Basins, South Australia

The Willochra Basin is located approximately 200 kilometres north of Adelaide and to the northeast of Port Augusta. The southeast of the Basin is situated approximately 50 kilometres from the main gas pipeline between Moomba and Adelaide, which may facilitate the sale of any gas discovered directly into Adelaide.

The Eromanga Basin is a large on-shore sedimentary basin that covers southwest Queensland, northeast South Australia and northern New South Wales. The underlying Cooper Basin straddles the border area of southwest Queensland and northeast South Australia. The Cooper Basin has been responsible for large scale conventional gas and oil production on-shore in Australia.

The Company has a 100% interest in two licence applications in South Australia, PELAs 145 and 146, which total approximately 8,872 square kilometres. These are greenfield projects where no CBM exploration has yet been undertaken.

OTHER

Corporate Transactions

In April 2006 the Company completed a placement of 12,500,000 new shares at an issue price of \$0.32 per share to raise \$4.0 million to provide funds for the continued development and exploration of the consolidated entity's CBM projects and for working capital purposes.

In November 2006, the Company secured an Equity Line of Credit Facility with USA based Investment Fund, Cornell Capital Partners, LP ('Cornell') with the following principal terms:

- **Commitment amount:** The Company may, at its discretion, issue shares to Cornell over the next 60 months up to a total of \$8.0 million. The Company may draw down up to \$250,000 in any 10 day trading period.
- **Pricing:** Shares will be priced at the lowest daily volume weighted average price of the Company's shares traded during the 10 trading days after a draw down.
- **Draw downs:** The timing of draw downs is at the discretion of the Company and there is no minimum or mandatory draw down amount.
- **Fees:** Fees totalling \$180,000 were paid in shares to activate and implement the Equity Line of Credit and a 5% commission is payable on the draw downs.

Subsequently, the Company secured a US\$1,500,000 advance against the Convertible Loan Facility with Cornell as part of the Equity Line of Credit Facility.

REVIEW OF OPERATIONS (CONT)

Responsibility Statements

The information in this report that relates to exploration results is based on information compiled by Bruce F. Riederer, Executive Director of Exploration and Development of Planet Gas Limited and supervised by Dr. Richard Haren who is a Member of The Australasian Institute of Mining and Metallurgy and who has sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity undertaken to qualify as a Competent Person as defined in the 2004 Edition of the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves. Dr. Richard Haren is self employed and has consented to the inclusion in this report of the matters based on his information in the form and context in which it appears.

The information in this report that relates to CBM resources is based on information compiled by Dr. Jimmy E Goolsby, Wyoming Registered Professional Geologist No. 56, of Goolsby, Finley & Associates, Casper Wyoming and John W. Sinclair, Wyoming Registered Professional Engineer (Petroleum) No. 9233 of CBM International Engineering LLC, Cody Wyoming and supervised by Bruce F. Riederer and Dr. Richard Haren who is a Member of The Australasian Institute of Mining and Metallurgy and who has sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity undertaken to qualify as a Competent Person as defined in the 2004 Edition of the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves. Dr. Richard Haren is self employed and has consented to the inclusion in this report of the matters based on his information in the form and context in which it appears.

The information in this report that relates to CBM reserves is based on information compiled by John G. Hattner, Texas Registered Professional Geoscientist No. 559, of Netherland, Sewell & Associates, Inc, Dallas Texas and Dan Paul Smith, Texas Registered Professional Engineer No. 49093 of Netherland, Sewell & Associates, Inc, Dallas Texas and supervised by Bruce F. Riederer and Dr. Richard Haren who is a Member of The Australasian Institute of Mining and Metallurgy and who has sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity undertaken to qualify as a Competent Person as defined in the 2004 Edition of the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves. Dr. Richard Haren is self employed and has consented to the inclusion in this report of the matters based on his information in the form and context in which it appears.

Water retention ponds at East Esponda.



STATEMENT OF CORPORATE GOVERNANCE

This statement outlines the main Corporate Governance practices that were in place throughout the financial year, unless otherwise stated.

Board of Directors

The board is responsible for the overall Corporate Governance of the consolidated entity including its strategic direction, establishing goals for management and monitoring the achievement of these goals. Because of the small number of directors, a Nomination Committee, a Remuneration Committee and an Audit Committee have not been established.

The board of directors has three executive and three non-executive directors. The three executive directors of the Company are actively involved in the operations of the consolidated entity. Having regard to the current membership of the board and the size, organisational complexity and scope of operations of the Company, the board does not believe that creating a board having a majority of independent directors or having an independent Chairman is appropriate for the Company at this time.

The composition of the board has been determined on the basis of providing the consolidated entity with the benefit of a broad range of technical, administrative and financial skills, combined with an appropriate level of experience at a senior corporate level. The names, terms of office, skills, experience and expertise of the board are disclosed in the Directors' Report.

The Chairman reviews the composition of the board annually to ensure that it provides the consolidated entity with the appropriate levels of both expertise and experience.

When a vacancy exists, through whatever cause, or where it is considered that the board would benefit from the services of a new director with particular skills, the board identifies a panel of candidates with appropriate expertise and experience. A selection procedure is then completed and the board appoints the most suitable candidate who must stand for election at the next general meeting of shareholders.

Directors are subject to re-election by the shareholders at least every three years.

Each director has the right to seek independent professional advice at the consolidated entity's expense. Prior approval of the Chairman is required, but such approval is not unreasonably withheld.

Remuneration

The remuneration of the directors is determined by the board as a whole, with the director to whom a particular decision relates being absent from the meeting during the time that the remuneration level is discussed and decided upon. As stated above, given the nature of the Company the board has chosen not to establish a Remuneration Committee.

For details on the amount of remuneration for each director, refer to the Directors' Remuneration note to the financial statements and the Remuneration Report in the Directors' Report.

Internal Controls

The board of directors acknowledges that it is responsible for the overall internal control framework, but recognises that no cost effective internal control system will preclude all errors and irregularities. The system of internal control adopted by the consolidated entity seeks to provide an appropriate division of responsibility and careful selection and training of personnel relative to the level of activities and size of the consolidated entity.

The full board takes responsibility for reviewing financial reporting procedures, internal controls and the performance of the financial management and the external auditors. The full board reviews financial statements and other information distributed externally prior to distribution.

The CEO and CFO state in writing to the board that the Company's financial statements present a true and fair view, in all material respects, of the Company's financial condition and operational results and are in accordance with relevant accounting standards.

External Auditors

The board reviews the performance of the external auditors and the Chairman and CFO meet with them at the commencement of the half yearly review and annual audit to discuss any issues that have arisen with respect to accounting policies, any significant operational issues and level of proposed audit fees.

The auditors also meet regularly with the CFO to discuss the scope of the audit work to be performed, and during the course of the audit.

Should a vacancy arise, through whatever reason, the board will invite submissions from a panel of suitable firms to undertake the position of auditor, and having carried out a selection process, nominate the most suitable candidate for election at the next general meeting of shareholders. KPMG, the Company's auditors, were appointed in March 2005.

STATEMENT OF CORPORATE GOVERNANCE (CONT)

Significant Business Risks

Each director reviews the business risks affecting his particular area of expertise annually and reports to the board.

The board then determines the appropriate actions to eliminate or minimise the identified business risks.

Performance

Given the nature of the Company, the board has adopted an informal ad-hoc performance evaluation process of its key executives.

Ethical Standards

All directors, managers and employees are expected to act with the utmost integrity and objectivity, endeavouring at all times to enhance the performance and reputation of the consolidated entity. Each director is expected to act with the utmost integrity and objectivity, striving at all times to enhance the reputation and performance of the Company.

Directors, officers and employees are permitted to trade in the Company's securities only in accordance with the provisions of the Corporations Act and ASX Listing Rules. The directors are under an obligation to report any dealings by them in the Company's securities.

The Role of Shareholders

The board ensures that the shareholders are informed of all major developments affecting the consolidated entity by the following means:

- distribution of the annual report to all shareholders which contains relevant information about the operations of the entity during the year in addition to disclosures required by the Corporations Act 2001;
- lodgement of the half yearly report with the ASX, which contains summarised and audit reviewed financial information. Copies of the half year financial statements prepared in accordance with the Corporations Act 2001, are available to any shareholder on request;
- lodgement of quarterly reports with the ASX which show summarised financial information and a report on operations for the quarter. Copies of these reports are available to shareholders on request;
- announcements to the ASX concerning any significant development in the consolidated entity's operations, financing and administration. All announcements are immediately available to the general public; and
- disclosure of all major announcements to the ASX on the Company's website.

The shareholders are responsible for voting on the appointment of directors.

Drilling an 'exception location' well at Oriva Throne.



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 2006. 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 financial year are:

Norman Alfred Seckold, Executive Chairman and CEO

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 25 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.

Mr Seckold is currently a director of Bolnisi Gold N.L. and its partly owned Canadian listed subsidiary, Palmarejo Silver and Gold Corporation, which are exploring for precious metals in Mexico, Cockatoo Coal Limited, an Australian coal exploration and project development company, Kings Minerals N.L., a company exploring for precious and base metals in Australia and its Canadian listed subsidiary San Anton Resources Inc which is exploring for precious and base metals in Mexico.

Peter James Nightingale, Executive Director, 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.

Mr Nightingale has, for the past 20 years, been a director or company secretary of a number of private and publicly listed companies in Australia, the USA and Europe. Mr. Nightingale has been responsible for the financial control, administration, secretarial and in-house legal functions of these companies. He is currently a director or company secretary of Biotron Limited, Bolnisi Gold N.L., Cockatoo Coal Limited, IMD Group Limited and Palmarejo Silver and Gold Corporation.

Bruce Fullerton Riederer, Executive Director of Exploration and Development

Director since 10 September 2003.

Bruce Riederer graduated with a Bachelor of Geoscience (Geology) degree from the University of Arizona in 1974. Mr Riederer is a professional geologist and has over 30 years experience in the mining and resources industry.

For a number of years he has conducted a consulting practice in the management of CBM and conventional oil and gas exploration and development programs in the Powder River, Wind River and Green River Basins in Wyoming, the Cherokee Basin in Kansas, and the Gippsland and Otway Basins in Australia.

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 20 years technical, management and financial experience in the resource sector within Australia, Africa and the Americas in project management and executive development roles. He has worked in the financial services sector and stockbroking, primarily as a resource analyst covering both mineral and energy sectors.

Mr McClure is currently a director of Bolnisi Gold N.L., European Gas Limited, and Verus Investments Limited.

DIRECTORS' REPORT (CONT)

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 been a director, secretary and/or legal advisor to a number of listed and unlisted public companies in the resources sector. He is also a director and corporate secretary of Kings Minerals NL.

Norman Joseph Zillman, Independent and Non-Executive Director

Director from 20 August 2002 to 13 February 2007.

Norman Zillman graduated with a Bachelor of Science Honours degree from the University of Queensland in 1966. Mr Zillman is a professional geologist with over 35 years experience in the petroleum and coal industries in Australia and internationally. He has extensive worldwide experience in oil and natural gas exploration and production having worked in Australia, the USA, Asia, and Europe. His initial training was as a petroleum geologist with international companies Aquitaine Petroleum in Papua New Guinea and Union Oil Company of California (UNOCAL) in Indonesia.

Mr Zillman was the CEO of Crusader Petroleum and was the Manager of the Petroleum Branch of the Queensland Department of Mines and Energy. Mr Zillman's most recent position was Managing Director of Queensland Gas Company Limited, a publicly traded CBM company in Australia. He is currently the non-executive Chairman of Great Artesian Oil and Gas Limited, and a member of the Australasian Institute of Mining and Metallurgy and the Petroleum Exploration Society of Australia.

Directors' Interests

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

Director	Fully Paid Ordinary Shares
Norman A. Seckold	23,250,003
Peter J. Nightingale	3,625,001
Bruce F. Riederer	4,000,000
Anthony J. McClure	3,000,000
Anthony J. McDonald	3,000,000
Norman J. Zillman	4,000,000

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	Board Meetings
	Held	Attended
Norman A. Seckold	4	4
Peter J. Nightingale	4	4
Bruce F. Riederer	4	4
Anthony J. McClure	4	4
Anthony J. McDonald	4	4
Norman J. Zillman	4	3

Directors' and Executives' Remuneration

For details on the amount of remuneration for each director, refer to the Remuneration Report on page 22.

Principal Activities

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

Financial Results

The consolidated loss after income tax attributable to members of the Company for the year was \$1,684,394 (2005 - \$854,672).

DIRECTORS' REPORT (CONT)

Review of Operations

The review of operations is set out on pages 2 to 16 of this Annual Report.

Dividends

The directors do not recommend the payment of a dividend in respect of the financial year ended 31 December 2006. 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 consolidated entity that occurred during the year ended 31 December 2006 were as follows:

- Increasing the West Esponda Project by 30% by the strategic acquisition of a further 1,767 net hectares.
- Independent CBM GIP resource estimate of 158.7 Bcf (101.4 Bcf net) at West Esponda.
- Completion of the 10 well West Esponda pilot production program, dewatering facilities and infrastructure.
- Commencement of dewatering at the West Esponda pilot production program.
- Independent CBM GIP resource estimate of 21.9 Bcf (7.3 Bcf net) at East Esponda.
- Continuation of dewatering at East Esponda in advance of gas production.
- Independent CBM GIP resource estimate of 19.5 Bcf (15.2 Bcf net) at Oriva.
- CBM production of 110,225 Mcf (66,961 Mcf NRI) at Oriva Throne
- Conventional oil and gas well completed and being tested at Oriva Federal.
- Independent CBM reserve estimate of 44.6 Bcf (36.5 Bcf net) for the Powder River Basin projects.
- Various West Esponda and Oriva Federal permit approvals received.
- Production well at Skull Creek completed and tested.
- Negotiating the availability of an \$8.0 million equity line of credit finance facility.

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

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

Likely Developments

Further information as to likely developments in the operations of the consolidated entity 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 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 (CONT)

Remuneration Report

The broad remuneration policy 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 Company. Their services are compensated by way of arrangements with related parties. The remuneration disclosed below represent the cost to the consolidated entity for the services provided under these fee arrangements.

No directors or executives receive performance related remuneration.

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 consolidated entity are:

	Year	Fees \$	Total \$
Specified Directors			
<i>Executive directors</i>			
Norman A. Seckold (Chairman and CEO)	2006	90,000	90,000
	2005	82,500	82,500
Peter J. Nightingale (Director, Secretary and CFO)	2006	60,000	60,000
	2005	60,000	60,000
Bruce F. Riederer (Director of Exploration and Development)	2006	183,488	183,488
	2005	179,225	179,225
<i>Non-executive directors</i>			
Anthony J. McClure	2006	35,000	35,000
	2005	65,000	65,000
Anthony J. McDonald	2006	60,000	60,000
	2005	60,000	60,000
Norman J. Zillman	2006	24,000	24,000
	2005	24,000	24,000
Total, all specified directors	2006	452,488	452,488
	2005	470,725	470,725

There are no executive officers of the Company or consolidated entity that are not directors and no options or bonuses were granted to directors or executive officers as part of their remuneration.

DIRECTORS' REPORT (CONT)

Non-audit services

During the year KPMG, the Company's auditor, has performed certain other services relating to advice on the consolidated entity's corporate structure 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 Company and have been reviewed by the board 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 Professional Statement F1 Professional independence, as they did not involve reviewing or auditing the auditor's own work, acting in a management or decision making capacity for the Company, acting as an advocate for the Company or jointly sharing risks and rewards.

These additional services in addition to their statutory duties totalled \$4,500. Audit fees for the year ended 31 December 2006 totalled \$54,485.

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

The lead auditor's independence declaration is set out across the page and forms part of the directors' report for the year ended 31 December 2006.

Signed at Sydney this 28th day of February 2007 in accordance with a resolution of the Board of Directors:



Norman A. Seckold
Director



Peter J. Nightingale
Director



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 2006, there have been:

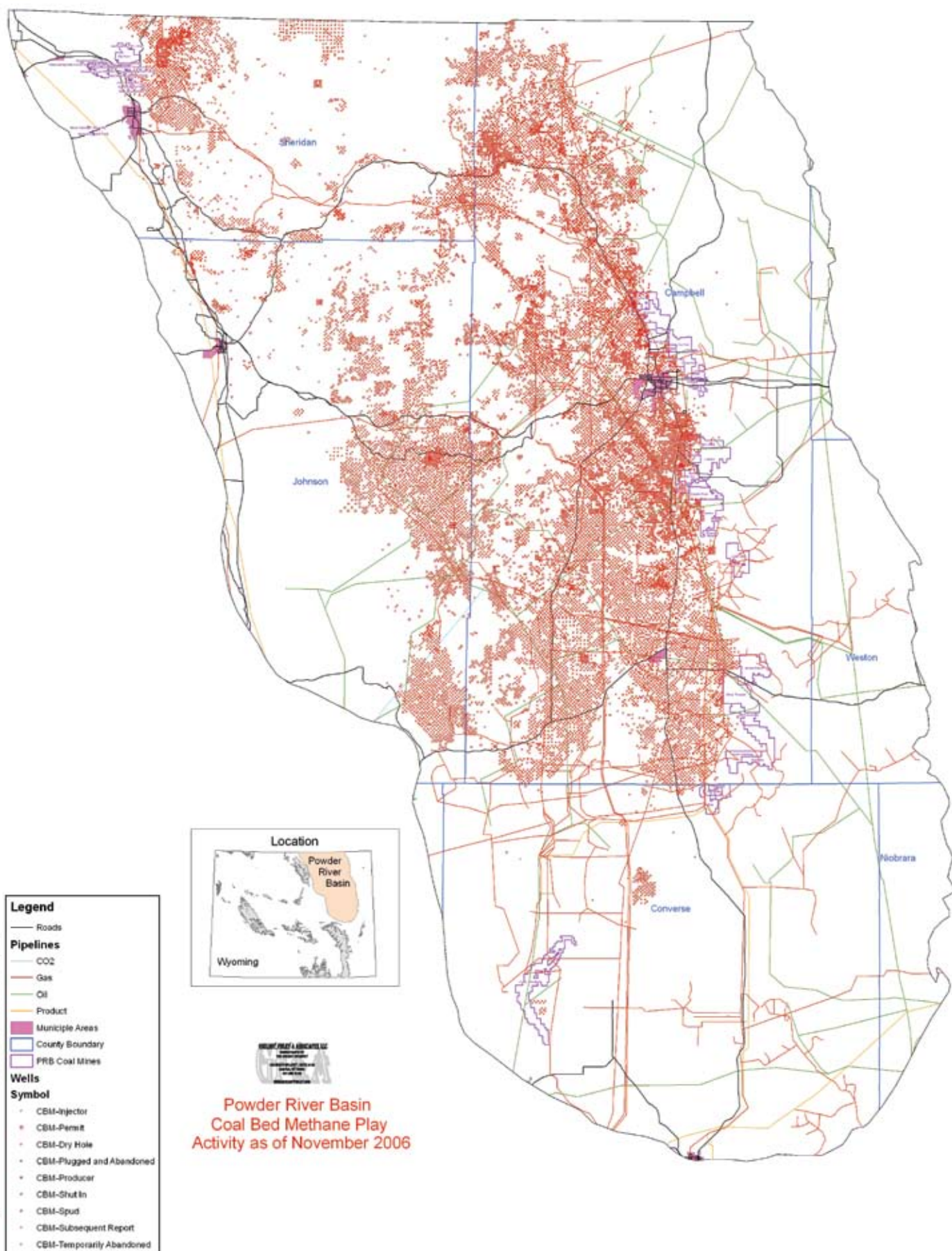
- (i) no contravention of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the audit; and
- (ii) no contraventions of any applicable code of professional conduct in relation to the audit.



KPMG
28 February 2007



S.J. Board
Partner





PLANET GAS LIMITED

Planet Gas Limited and its controlled entities
A.B.N. 46 098 952 035



Financial Report **2006**

INCOME STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006

	Notes	Consolidated		Company	
		2006 \$	2005 \$	2006 \$	2005 \$
Revenue from the sale of coal bed methane		486,456	747,371	-	-
Financial income	2	60,030	243,877	59,496	243,877
Financial expenses		(307,475)	-	(53,248)	-
Net finance costs		(247,445)	243,877	6,248	243,877
Production and transport costs		(795,987)	(853,392)	-	-
Consultants' and administration expenses		(798,867)	(654,027)	(798,389)	(610,416)
Depreciation expense	2	(9,857)	(6,698)	(4,933)	(6,281)
Amortisation expense	2	(170,175)	(235,511)	-	-
Impairment loss		-	-	(2,020,476)	(5,749,312)
Impairment reversal		-	-	11,833,696	-
Other expenses		(148,519)	(96,292)	(54,937)	(96,292)
Profit/(Loss) before income tax expense		(1,684,394)	(854,672)	8,961,209	(6,218,424)
Income tax expense	3	-	-	-	-
Profit/(Loss) for the period		(1,684,394)	(854,672)	8,961,209	(6,218,424)
Basic loss per share	13	0.95 cents	0.51 cents		
Diluted loss per share	13	0.95 cents	0.51 cents		

Notes to the financial statements are included on pages 30 to 47.

STATEMENTS OF RECOGNISED INCOME AND EXPENSE FOR THE YEAR ENDED 31 DECEMBER 2006

	Consolidated		Company	
	2006 \$	2005 \$	2006 \$	2005 \$
Foreign exchange translation differences	(1,253,696)	725,378	-	-
Net income/(expense) recognised directly in equity	(1,253,696)	725,378	-	-
Profit/(Loss) for the period	(1,684,394)	(854,672)	8,961,209	(6,218,424)
Total recognised income and expense for the period	(2,938,090)	(129,294)	8,961,209	(6,218,424)

Other movements in equity arising from transactions with owners as owners are set out in note 11.

Notes to the financial statements are included on pages 30 to 47.

BALANCE SHEETS AS AT 31 DECEMBER 2006

	Notes	Consolidated		Company	
		2006 \$	2005 \$	2006 \$	2005 \$
CURRENT ASSETS					
Cash and cash equivalents		1,065,779	1,530,861	1,065,115	1,530,753
Trade and other receivables	4	153,540	334,095	32,415	31,652
Prepayment		141,485	-	141,485	-
TOTAL CURRENT ASSETS		1,360,804	1,864,956	1,239,015	1,562,405
NON-CURRENT ASSETS					
Investments	5	-	-	15,849,840	-
Property, plant and equipment	6	15,868,596	7,139,730	9,340	12,723
Exploration and evaluation expenditure	7	5,067,856	9,791,857	84,782	76,609
Other	8	189,515	132,726	20,000	20,000
TOTAL NON-CURRENT ASSETS		21,125,967	17,064,313	15,963,962	109,332
TOTAL ASSETS		22,486,771	18,929,269	17,202,977	1,671,737
CURRENT LIABILITIES					
Trade and other payables	9	852,583	553,181	775,803	376,123
Borrowings	10	1,900,418	-	1,900,418	-
TOTAL CURRENT LIABILITIES		2,753,001	553,181	2,676,221	376,123
NON-CURRENT LIABILITIES					
Other payables	9	1,502,689	1,476,850	-	-
TOTAL NON-CURRENT LIABILITIES		1,502,689	1,476,850	-	-
TOTAL LIABILITIES		4,255,690	2,030,031	2,676,221	376,123
NET ASSETS		18,231,081	16,899,238	14,526,756	1,295,614
EQUITY					
Issued capital	11	22,988,889	18,765,014	22,988,889	18,765,014
Reserves	12	46,058	-	46,058	-
Accumulated losses	14	(3,183,618)	(1,499,224)	(8,508,191)	(17,469,400)
Foreign currency translation reserve	12	(1,620,248)	(366,552)	-	-
TOTAL EQUITY		18,231,081	16,899,238	14,526,756	1,295,614

Notes to the financial statements are included on pages 30 to 47.

STATEMENTS OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2006

	Notes	Consolidated		Company	
		2006 \$	2005 \$	2006 \$	2005 \$
Cash flows from operating activities					
Cash receipts from customers		629,027	584,856	-	-
Cash paid to suppliers		(1,001,920)	(870,492)	(960,361)	(759,304)
Payments for production		(928,171)	(573,850)	-	-
Cash generated from operations		(1,301,064)	(859,486)	(960,361)	(759,304)
Interest received		67,335	264,603	66,801	264,603
Net cash used in operating activities	15	(1,233,729)	(594,883)	(893,560)	(494,701)
Cash flows from investing activities					
Investments in controlled entities		-	-	(5,686,811)	(6,085,199)
Payments/refunds for security deposits		(311,016)	(28,809)	-	10,000
Payments for development		(4,083,718)	(1,762,887)	-	-
Payments for capitalised production costs		(93,878)	(489,261)	-	-
Payments for exploration and evaluation		(459,881)	(2,936,641)	(8,172)	(32,844)
Payments for acquisitions of exploration areas		(406,687)	(774,578)	-	-
Payments for plant and equipment		(628)	(20,496)	(1,550)	(4,815)
Net cash used in investing activities		(5,355,808)	(6,012,672)	(5,696,533)	(6,112,858)
Cash flows from financing activities					
Proceeds from issue of shares		4,250,000	-	4,250,000	-
Costs of issue		(26,125)	-	(26,125)	-
Interest paid		(7,190)	-	(7,190)	-
Proceeds from borrowings		1,900,418	-	1,900,418	-
Net cash provided by financing activities		6,117,103	-	6,117,103	-
Net decrease in cash held		(472,434)	(6,607,555)	(472,990)	(6,607,559)
Cash and cash equivalents at 1 January		1,530,861	8,128,692	1,530,753	8,128,588
Effect of exchange rate adjustments on cash held		7,352	9,724	7,352	9,724
Cash and cash equivalents at the end of the financial year	15	1,065,779	1,530,861	1,065,115	1,530,753

Notes to the financial statements are included on pages 30 to 47.

NOTES TO THE 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 8, 261 George Street, Sydney, NSW, 2000. The consolidated financial report of the Company for the year ended 31 December 2006 comprises the Company and its subsidiaries (together referred to as the 'consolidated entity'). The consolidated entity is engaged in the acquisition, exploration, development, production and operation of oil, gas and CBM properties in the USA and Australia.

Basis of preparation

Statement of compliance

The financial report is a general purpose financial report which has been prepared in accordance with Australian Accounting Standards ('AASBs') adopted by the Australian Accounting Standards Board ('AASB') and the Corporations Act 2001.

The financial report was authorised for issue by the directors on 28 February 2007.

Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis.

Functional and presentation currency

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

Use of estimates and judgements

The preparation of 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.

Significant accounting policies

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 consolidated entity.

Issued standards not early adopted

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

AASB 7 'Financial Instruments: Disclosure' (August 2005) replacing the presentation requirements of financial instruments in AASB 132. AASB 7 is applicable for annual reporting periods beginning on or after 1 January 2007.

AASB 2005-10 'Amendments to Australian Accounting Standards' (September 2005) makes consequential amendments to AASB 132 'Financial Instruments: Disclosures and Presentation', AASB 101 'Presentation of Financial Statements', AASB 114 'Segment Reporting', AASB 117 'Leases', AASB 133 'Earnings per Share', AASB 139 'Financial Instruments: Recognition and Measurement', AASB 1 'First-time Adoption of Australian Equivalents to International Financial Reporting Standards', AASB 4 'Insurance Contracts', AASB 1023 'General Insurance Contracts' and AASB 1038 'Life Insurance Contracts', arising from the release of AASB 7. AASB 2005-10 is applicable for annual reporting periods beginning on or after 1 January 2007.

AASB 101 'Presentation of Financial Statements' (October 2006) has deleted the Australian specific Illustrative Financial Report Structure and reinstated the current IASB 1 guidance on Illustrative Financial Statement Structure. The revised AASB 101 is applicable for annual reporting periods beginning on or after 1 January 2007.

There is no financial impact expected from the non adoption of these standards.

Revenue recognition

Interest revenue

Interest revenue is recognised on an accrual basis, using the effective interest rate.

NOTES TO THE FINANCIAL STATEMENTS (CONT)

1. REPORTING ENTITY (CONT)

Sale of coal bed methane

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

Goods and services tax

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

Receivables and payables are stated inclusive of GST. The net amount of GST recoverable from or payable to the ATO is included as a current asset or liability in the balance sheet.

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

Exploration expenditure

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

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

- 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 from intangible assets to mining property and development assets.

Property, plant and equipment

Producing and developing mine properties

Mine properties represent the accumulation of all exploration evaluation and development expenditure incurred by or on behalf of the entity in relation to its area of interest.

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.

Depreciation and amortisation

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

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

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

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

Acquisition of assets

Assets acquired are recorded at the cost of acquisition, being the purchase consideration determined as at the date of acquisition plus costs incidental to the acquisition.

NOTES TO THE FINANCIAL STATEMENTS (CONT)

1. REPORTING ENTITY (CONT)

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 balance sheet classification of the related debt or equity instruments. Costs associated with the issue of equity are offset against equity.

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.

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

Joint ventures

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

Jointly controlled operations

The interest of the consolidated entity in unincorporated joint ventures and jointly controlled assets are brought to account by recognising in its financial statements the assets it controls and the liabilities that it incurs, and the expenses it incurs and its share of income that it earns from the sale of goods or services by the joint venture.

Transactions eliminated on consolidation

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

Unrealised gains arising from transactions with associates and jointly controlled entities are eliminated to the extent of the consolidated entity'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.

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

Impairment

The carrying amounts of the consolidated entity's 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.

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 the 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 the income statement.

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

Calculation of recoverable amount

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONT)

1. REPORTING ENTITY (CONT)

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

Reversals of impairment

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

An impairment loss in respect of goodwill is not reversed.

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

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

Foreign currency transactions

Transactions in foreign currencies are translated at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to Australian dollars at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to Australian dollars at foreign exchange rates ruling at the dates the fair value was determined.

Financial statements of foreign operations

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

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

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.

Income tax

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONT)

1. REPORTING ENTITY (CONT)

Intercompany loans

Loans made to controlled entities which are interest free, unsecured, of no fixed term, and repayable only out of potential future profits are classified as investments.

Investments in controlled entities

The recoverability of investments in controlled entities is assessed using a discounted cash flow model of the underlying properties held by the relevant entity.

Due to inherent uncertainty over the ultimate recovery of exploration assets, the Company has impaired intercompany investments in exploration and evaluation expenditure, until such time that there is conclusive evidence that the impairment loss may no longer exist, at which time the loss is partially or fully reversed.

Cash and cash equivalents

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

Rehabilitation costs

Estimates are made regarding the costs associated with rehabilitating areas disturbed by operations. Whilst significant uncertainty exists as to the amount of rehabilitation obligations which will ultimately be incurred the consolidated entity considers, based on its calculations of the expected liability, that these amounts will not be material.

Compound financial instruments

Compound financial instruments issued by the consolidated entity comprise a convertible loan facility that can be converted to share capital at the option of either the consolidated entity or the holder.

The liability has been recognised at the face value of a convertible note that does not have an equity conversion option as the option available to the noteholder is not considered material. Up front costs associated with the liability have been capitalised and amortised over the period of the liability.

Borrowings

Borrowing costs are expensed as incurred.

Interest costs associated with the Company's convertible loan facility were deducted up front from the actual amount received by the Company. The borrowings are stated at the amortised cost with the interest being recognised in the income statement over the period of the borrowings on an effective interest basis.

NOTES TO THE FINANCIAL STATEMENTS (CONT)

2. LOSS FROM OPERATING ACTIVITIES

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

Financial income and expense

	2006 \$	2005 \$	2006 \$	2005 \$
Interest revenue	60,030	243,877	59,496	243,877
Interest expense	(53,248)	-	(53,248)	-
Interest expense - fair value adjustment of other assets	(254,227)	-	-	-

Expenses

Amortisation of producing mine properties	170,175	235,511	-	-
Auditors' remuneration				
- Audit and review of financial reports	54,854	25,000	54,854	25,000
- Other services	4,500	-	4,500	-
Depreciation of plant and equipment				
- Office equipment	3,827	6,698	3,827	6,281
- Plant and equipment	6,030	-	1,106	-

3. INCOME TAX EXPENSE

Current tax expense

Current year	(503,965)	(255,765)	(298,804)	(140,098)
Adjustments for prior year	(400,746)	-	(495,529)	-
De-recognition of losses	904,711	255,765	794,333	140,098
	-	-	-	-

Deferred tax expense

Current year	-	-	-	-
Adjustments for prior year	-	-	-	-
De-recognition of temporary differences	-	-	-	-
Total income tax expense in income statement	-	-	-	-

Numerical reconciliation of income tax expense to prima facie tax payable

Profit/(loss) before tax	(1,684,394)	(854,672)	8,961,209	(6,218,424)
Prima facie income tax expense/(benefit) at the Australian tax rate of 30% (2005 - 30%)	(505,318)	(256,401)	2,688,363	(1,865,527)
Increase/(decrease) in income tax expense due to:				
- non-deductible expenses	4,740	636	4,740	636
- net loss of tax consolidated entity	-	-	41,672	-
- effect of net deferred tax assets not brought to account	500,578	255,765	(2,734,775)	1,864,891
Income tax expense	-	-	-	-

NOTES TO THE FINANCIAL STATEMENTS (CONT)

3. INCOME TAX EXPENSE (CONT)

Unrecognised deferred tax assets

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

	Consolidated		Company	
	2006	2005	2006	2005
	\$	\$	\$	\$
Tax losses	3,611,957	432,089	2,388,020	337,306
Net deductible temporary differences	(2,940,943)	-	(710,329)	-
Potential tax benefit at 30%	671,014	432,089	1,677,691	337,306

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.

4. RECEIVABLES

Other debtors	137,507	315,317	16,382	12,874
GST receivable	16,033	18,778	16,033	18,778
	153,540	334,095	32,415	31,652

5. INVESTMENTS

Investment in controlled entities	-	-	22,342,159	16,305,539
Less cumulative impairment losses	-	-	(6,492,319)	(16,305,539)
Investment in controlled entities, at recoverable amount	-	-	15,849,840	-

Due to inherent uncertainty over the ultimate recovery of exploration and evaluation assets, the Company has impaired all intercompany investments in respect of exploration and evaluation expenditure, until such time as there is conclusive evidence the impairment has reversed. The Company has reversed the provision for impairment in respect of all intercompany investments where the underlying assets are classified as development or production assets, an amount of \$11,833,696. This decision is based on the greater degree of confidence of the recoverability of investments in these areas following the preparation of a resource estimate and an estimate of reserves and future revenues by independent experts. Key assumptions when conducting the impairment testing were recoverable reserves which are based on third party estimates, a discount rate of 15% and a gas price of US\$5.85/Mcf, an estimate of the open market price.

NOTES TO THE FINANCIAL STATEMENTS (CONT)

6. PROPERTY, PLANT AND EQUIPMENT

	Consolidated		Company	
	2006 \$	2005 \$	2006 \$	2005 \$
Office equipment – at cost	43,551	42,001	43,551	42,001
Accumulated depreciation	(36,427)	(32,600)	(36,427)	(32,600)
Net book value	7,124	9,401	7,124	9,401
Plant and equipment – at cost	18,507	19,685	3,985	3,985
Accumulated depreciation	(6,875)	(1,099)	(1,769)	(663)
Net book value	11,632	18,586	2,216	3,322
Developing mine properties – at cost	12,726,604	3,594,317	-	-
Producing mine properties – at cost	3,528,922	3,752,937	-	-
Accumulated amortisation	(405,686)	(235,511)	-	-
Net book value	3,123,236	3,517,426	-	-
Total property, plant and equipment	15,868,596	7,139,730	9,340	12,723

Expenditure in respect of exploration and evaluation expenditure that was transferred to developing mine properties during the year was subject to impairment testing to ensure the carrying value is not in excess of the present value of estimated future cash flows. Key assumptions when conducting the impairment testing were recoverable reserves which are based on third party estimates, a discount rate of 15% and a gas price of US\$5.85/Mcf, an estimate of the open market price.

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

Office equipment

Carrying amount at beginning of year	9,401	14,189	9,401	14,189
Additions	1,550	830	1,550	830
Depreciation	(3,827)	(5,618)	(3,827)	(5,618)
Net book value	7,124	9,401	7,124	9,401

Plant and equipment

Carrying amount at beginning of year	18,586	-	3,322	-
Additions	-	19,685	-	3,985
Depreciation	(6,030)	(1,080)	(1,106)	(663)
Net foreign currency differences on translation	(924)	(19)	-	-
Net book value	11,632	18,586	2,216	3,322

Developing mine properties

Carrying amount at beginning of year	3,594,317	1,079,982	-	-
Additions	4,907,785	2,080,812	-	-
Reclassification from capitalised exploration and evaluation expenditure	4,721,953	-	-	-
Net foreign currency adjustment on translation	(497,451)	433,523	-	-
Net book value	12,726,604	3,594,317	-	-

NOTES TO THE FINANCIAL STATEMENTS (CONT)

6. PROPERTY, PLANT AND EQUIPMENT (CONT)

Producing mine properties

	Consolidated		Company	
	2006 \$	2005 \$	2006 \$	2005 \$
Carrying amount at beginning of year	3,517,426	2,827,130	-	-
Additions	41,861	375,638	-	-
Net foreign currency adjustment on translation	(265,876)	550,169	-	-
Amortisation	(170,175)	(235,511)	-	-
Net book value	3,123,236	3,517,426	-	-

7. EXPLORATION AND EVALUATION EXPENDITURE

Areas of Interest – Exploration/Evaluation Phase

West Esponda – Powder River Basin, Wy, USA	-	3,535,087	-	-
Oriva Federal – Powder River Basin, Wy, USA	-	1,186,866	-	-
Skull Creek – Cherokee Basin, Ks, USA	2,713,429	2,861,900	-	-
Gippsland Basin – Victoria (ELs 4500,4807, 4858 to 4862, 4877 and 4902)	1,960,410	1,829,383	-	-
Otway Basin – Victoria (ELs 4368 and 4369 and EL 4811)	101,160	87,830	66,663	60,344
Willochra Basin – SA (PELA 145)	8,953	8,249	8,953	8,249
Eromanga Basin – SA (PELA 146)	9,166	8,016	9,166	8,016
Gunnedah Basin – NSW (PEL 428)	274,738	274,526	-	-
	5,067,856	9,791,857	84,872	76,609

Reconciliations of exploration and evaluation areas of interest

Exploration and evaluation

Carrying amount at beginning of year	9,791,857	8,494,082	76,609	43,764
Additions	212,605	1,297,775	8,263	32,845
Reclassification to developing and producing mine properties	(4,721,953)	-	-	-
Net foreign currency adjustment on translation	(214,653)	-	-	-
Net book value	5,067,856	9,791,857	84,872	76,609

Ultimate recoupment of these costs is dependent on successful development and commercial exploitation, or alternatively sale of the respective areas of interest.

NOTES TO THE FINANCIAL STATEMENTS (CONT)

8. OTHER NON-CURRENT ASSETS

Security deposits

Consolidated		Company	
2006	2005	2006	2005
\$	\$	\$	\$
189,515	132,726	20,000	20,000

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

9. TRADE AND OTHER PAYABLES

Current

Creditors and accruals

852,583	553,181	775,803	376,123
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Non-current

Share of East Esponda development expenditure

1,502,689	1,476,850	-	-
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This non-current payable represents the Company's share (40%) of development expenditure which was incurred by Kennedy Oil at the East Esponda project. There are no other assets, liabilities or expenses of the joint venture operation.

In June 2003, the consolidated entity entered into a farmout agreement with Kennedy Oil of Wyoming, USA whereby Kennedy Oil committed to sole fund twelve wells within part of the consolidated entity's East Esponda Project in the Powder River Basin in return for a 50% - 60% working interest depending on the location. The consolidated entity is obligated to reimburse 125% of the costs incurred on its behalf from production. Prior to capital payback, the consolidated entity will receive a 1.5% gross royalty. Kennedy Oil has completed its drilling program with 12 wells as future production wells. The consolidated entity holds a 40% free carried interest in these wells.

In March 2006 Western Gas acquired Kennedy Oil's interest in East Esponda. The consolidated entity's obligation in regards to East Esponda development expenditure is unchanged but is now owing to Western Gas.

10. BORROWINGS

Convertible note

1,900,418	-	1,900,418	-
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As part of an Equity Line of Credit Facility the Company secured a Convertible Loan Facility with USA based Investment Fund, Cornell Capital Partners, LP. The principal amount of the facility is US\$1,500,000. The first repayment is US\$93,750 on 12 January 2007, then 7 equal monthly repayments of US\$187,500 with a final repayment of US\$93,750 on 24 September 2007. The Company can elect to make repayments in cash or in shares valued at 125% of average daily volume weighted average price of the Company's shares during the 5 trading days prior to closing. Interest is charged at a rate of 8% p.a.

NOTES TO THE FINANCIAL STATEMENTS (CONT)

11. ISSUED CAPITAL

182,720,086 (2005 – 168,800,005) fully paid ordinary shares

Fully paid ordinary shares

Balance at beginning of financial year

Issue of shares

Less costs of issue

Balance at end of financial year

2006		2005	
No.	\$	No.	\$
22,988,889	18,765,014	22,988,889	18,765,014
168,800,005	18,765,014	168,800,005	18,765,014
13,920,081	4,430,000	-	-
-	(206,125)	-	-
182,720,086	22,988,889	168,800,005	18,765,014

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

During the year:

The Company issued 12,500,000 ordinary shares for cash totalling \$4,000,000. There were no amounts unpaid on shares issued. Transaction costs of \$12,800 were recognised as a reduction of the proceeds of issue of these shares.

The Company issued 882,768 ordinary shares for cash totalling \$250,000. There were no amounts unpaid on shares issued. Transaction costs of \$13,325 were recognised as a reduction of the proceeds of issue of these shares.

The Company secured an Equity Line of Credit Facility with USA based Investment Fund, Cornell Capital Partners, LP ('Cornell') with the following principal terms:

- Commitment amount: The Company may, at its discretion, issue shares to Cornell over the next 60 months up to a total of \$8.0 million. The Company may draw down up to \$250,000 in any 10 day trading period.
- Pricing: Shares will be priced at the lowest daily volume weighted average price of the Company's shares traded during the 10 trading days after a draw down.
- Draw downs: The timing of draw downs is at the discretion of the Company and there is no minimum or mandatory draw down amount.
- Fees: Fees totalling \$180,000 were paid in shares to activate and implement the Equity Line of Credit and a 5% commission is payable on the draw downs.

US\$1.5 million of the total equity line of credit facility was drawn down up front in the form of a convertible loan facility. Details of that facility are set out in note 10.

The Company issued 537,313 ordinary shares for the activation of the equity line of credit facility at a fair value of \$180,000. This amount has been recognised as a reduction in issued capital.

The Company issued 1,000,000 options to Cornell Capital Partners, LP, each exercisable at \$0.45 at any time up to 6 December 2008 to convert to one fully paid ordinary share, and the fair value of \$46,058 was treated as a borrowing cost as the option issue related to the convertible note facility.

There were no amounts unpaid on shares issued.

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 FINANCIAL STATEMENTS (CONT)

12. RESERVES

Option premium reserve

Opening balance

Issue of options at a premium

Closing balance

Consolidated		Company	
2006	2005	2006	2005
\$	\$	\$	\$
-	-	-	-
46,058	-	46,058	-
46,058	-	46,058	-

The issue of Company options results in a credit to the option premium reserve to the fair value of consideration received by the Company for issued options. During the year ended 31 December 2006, 1,000,000 (2005 – nil) options were granted for no cash consideration with a fair value of \$46,058 resulting in a credit \$46,058 (2005 – \$nil) to the option premium reserve.

Foreign currency translation reserve

Opening balance

Translation adjustment on a controlled foreign entity's financial statements during the year

Closing balance

(366,552)	(1,091,930)	-	-
(1,253,696)	725,378	-	-
(1,620,248)	(366,552)	-	-

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.

13. LOSS PER SHARE

The calculation of basic loss per share at 31 December 2006 was based on the loss attributable to ordinary shareholders of \$1,684,394 (2005 – \$854,672) and a weighted average number of ordinary shares outstanding during the financial year ended 31 December 2006 of 178,195,685 (2005 – 168,800,005), calculated as follows:

	Consolidated		Company	
	2006	2005	2006	2005
	\$	\$	\$	\$
Net loss for the year	1,684,394	854,672		
	Number	Number		
Issued ordinary shares at beginning of year	168,800,005	168,800,005		
Effect of shares issued in April 2006	9,246,575	-		
Effect of shares issued in November 2006	76,549	-		
Effect of shares issued in December 2006	72,556	-		
Weighted average number of ordinary shares at year end	178,195,685	168,800,005		

All potential shares on issue are anti-dilutive.

NOTES TO THE FINANCIAL STATEMENTS (CONT)

14. ACCUMULATED LOSSES

Accumulated losses at the beginning of the year

Net (profit)/loss attributable to members of the parent entity

Accumulated losses at the end of the year

Consolidated		Company	
2006	2005	2006	2005
\$	\$	\$	\$
1,499,224	644,552	17,469,400	11,250,976
1,684,394	854,672	(8,961,209)	6,218,424
3,183,618	1,499,224	8,508,191	17,469,400

15. STATEMENTS OF CASH FLOWS

Reconciliation of net loss from operating activities after tax to net cash used in operating activities

Profit/(loss) from operating activities after tax

(1,684,394)	(854,672)	8,961,209	(6,218,424)
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Items classified as investing/financing activities

Borrowing costs

7,190	-	7,190	-
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Non-cash items

Depreciation of plant and equipment

9,857	6,698	4,933	6,281
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Amortisation of areas in production

170,175	235,511	-	-
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Foreign exchange gain on cash

(7,352)	(9,724)	(7,352)	(9,724)
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Impairment loss/(reversal)

-	-	(9,813,220)	5,749,312
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Borrowing costs – non-cash

300,285	-	46,058	-
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Changes in assets and liabilities

(Increase)/decrease in receivables

177,836	(191,050)	(764)	39,104
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Increase in other assets

(138,766)	-	(141,485)	-
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Increase/(decrease) in accounts payable

(68,560)	218,354	49,871	(61,250)
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Net cash used in operating activities

(1,233,729)	(594,883)	(893,560)	(494,701)
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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 Balance Sheet as follows:

Cash

1,065,779	1,530,861	1,065,115	1,530,753
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NOTES TO THE FINANCIAL STATEMENTS (CONT)

16. KEY MANAGEMENT PERSONNEL DISCLOSURES

The broad remuneration policy 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 Company. Their services are compensated by way of informal fee arrangements with related parties. No options or bonuses were granted to directors or executives as part of their remuneration, and no performance related remuneration was paid.

The following table provides the details of all key management personnel of the Company and consolidated entity for the entire reporting period.

There are no key management personnel of the Company or consolidated entity that are not directors.

	Year	Primary Fees \$	Total \$
Executive directors			
Norman A. Seckold (Chairman and CEO)	2006	90,000	90,000
	2005	82,500	82,500
Peter J. Nightingale (Director, Secretary and CFO)	2006	60,000	60,000
	2005	60,000	60,000
Bruce F. Riederer (Director of Exploration and Development)	2006	183,488	183,488
	2005	179,225	179,225
Non-executive directors			
Anthony J. McClure	2006	35,000	35,000
	2005	65,000	65,000
Anthony J. McDonald	2006	60,000	60,000
	2005	60,000	60,000
Non-executive directors (cont)			
Norman J. Zillman	2006	24,000	24,000
	2005	24,000	24,000
Total, all specified directors	2006	452,488	452,488
	2005	470,725	470,725

During the year ended 31 December 2006, 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 consolidated entity. Fees paid to Mining Services Trust during the year, which were in the ordinary course of business and on normal terms and conditions, amounted to \$124,428 (2005 – \$115,419).

The board reviews remuneration arrangements annually based on services provided.

NOTES TO THE FINANCIAL STATEMENTS (CONT)

17. RELATED PARTY DISCLOSURES

Directors

The names of each person holding the position of director of the Company during the year are Norman A. Seckold, Peter J. Nightingale, Bruce F. Riederer, Anthony J. McClure, Anthony J. McDonald and Norman J. Zillman. Details of directors' remuneration are set out in note 16.

Details of relevant interests of directors of the Company and their director-related entities in shares of Planet Gas Limited are as follows:

Director	Held at 31 December 2005	Purchased Shares	Sales	Held at 31 December 2006
Norman A. Seckold	23,250,003	-	-	23,250,003
Peter J. Nightingale	3,625,001	-	-	3,625,001
Bruce F. Riederer	4,000,000	-	-	4,000,000
Anthony J. McClure	3,000,000	-	-	3,000,000
Anthony J. McDonald	3,000,000	-	-	3,000,000
Norman J. Zillman	4,000,000	-	-	4,000,000

Apart from the details disclosed in this note, 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. Informal fee arrangements were entered into between the directors and the Company as set out in note 16.

Controlled entities

At 31 December 2006 the Company had amounts receivable from Davidson Prospecting Pty Limited totalling \$274,738 (2005 – \$274,526), Greenpower Pty Ltd totalling \$1,361,314 (2005 – \$1,282,942), Pauper's Dream Company totalling \$17,206,698 (2005 – \$11,378,507), Planet Gas Resources LLC totalling \$2,830,122 (2005 – \$2,760,543), Planet Gas Properties totalling \$953 (2005 – \$953) and Sawells Pty Ltd totalling \$117,225 (2005 – \$57,958). These amounts are classified as investments as they are interest free, unsecured, there is no fixed term of repayment, and they are repayable out of profits.

18. FINANCIAL INSTRUMENTS DISCLOSURE

Interest rate risk

With the exception of cash, all the Company's financial assets and liabilities are non-interest bearing. The cash balance earns interest at an average of 3.0% (2005 – 5.4%) and are at call.

Credit risk exposure

The credit risk exposure on financial assets of the consolidated entity which have been recognised on the statement of financial position is the carrying amount, net of any provision for doubtful debts. The consolidated entity does not require collateral in respect of financial assets. There are no significant concentrations of credit risk.

Net fair values of financial assets and liabilities

The carrying amounts of financial assets and liabilities approximate their net fair values. At 31 December 2006 the consolidated entity had a financial liability recorded at fair value of \$1,502,689 (2005 – \$1,476,850). The financial liability is expected to be settled in 2008 and has been fair valued at an effective interest rate of 10%.

Foreign exchange risk

The consolidated entity does not enter into foreign exchange contracts to hedge purchases and sales denominated in foreign currencies.

NOTES TO THE FINANCIAL STATEMENTS (CONT)

19. JOINT VENTURE OPERATIONS

	Area	2006	Output Interest
		%	2005
			%
East Esponda – Section's 9, 10, 11 & 15 (Western Gas)	USA	40	40
East Esponda – Section 2 (Western Gas)	USA	20	20
Oriva Throne	USA	61	61
Davidson Prospecting (PEL 428)	Australia	20	20

The consolidated entity's interest in assets employed in the above joint venture operations includes capitalised exploration, evaluation and development expenditure totalling \$6,260,324 (2005 – \$5,920,134), and current accounts receivable totalling \$121,124 (2005 – \$299,724). The contingent liabilities and capital commitments arising from the consolidated entity's interest in joint venture operations, where applicable, are disclosed in note 21 to the financial statements. All joint venture operations are engaged in the evaluation, exploration, and development of oil and gas properties.

20. SEGMENT REPORTING

Segment information is presented in respect of the consolidated entity's geographical segments. This is based on the consolidated entity'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 consolidated entity operates wholly within the mining industry in Australia and the USA.

In presenting information on the basis of geographical segments, segment revenue is based on the geographical location of customers. Segment assets are based on the geographical location of the assets.

Division of the consolidated entity's results and assets into geographical segments has been ascertained by direct identification of assets and revenue cost centres. There are no intersegment revenue transactions and the major product is coal bed methane.

	Australia	United States	Consolidated Total
	\$	\$	\$
Geographical Segments			
31 December 2006			
Revenue			
External segment revenue	-	486,456	486,456
Unallocated revenue			60,030
Total revenue			<u>546,486</u>
Result			
Segment result	-	(832,440)	(832,440)
Unallocated corporate revenues and expenses			(851,954)
Net loss			<u>(1,684,394)</u>

NOTES TO THE FINANCIAL STATEMENTS (CONT)

20. SEGMENT REPORTING (CONT)

31 December 2006 (cont)

Assets

	Australia \$	United States \$	Consolidated Total \$
Segment assets	3,624,108	18,853,323	22,477,431
Unallocated corporate assets			9,340
			<u>22,486,771</u>

Including non-current assets acquired during the year:

Exploration and evaluation	146,424	66,182	212,605
Mining projects	-	41,861	41,861
Mine development	-	4,907,785	4,907,785
	<u>146,424</u>	<u>5,015,828</u>	<u>5,162,251</u>

Segment liabilities

	<u>2,024,033</u>	<u>2,231,657</u>	<u>4,255,690</u>
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31 December 2005

Revenue

External segment revenue	-	747,371	747,371
Unallocated revenue			243,877
Total revenue			<u>991,248</u>

Result

Segment result	-	198,960	198,960
Unallocated corporate revenues and expenses			(1,053,632)

Net loss

(854,672)

Assets

Segment assets	3,785,149	15,116,133	18,901,282
Unallocated corporate assets			27,987
			<u>18,929,269</u>

Including non-current assets acquired during the year:

Exploration and evaluation	1,111,685	2,360,338	3,472,023
Mining projects	-	774,578	774,578
Mine development	-	2,179,716	2,179,716
	<u>1,111,685</u>	<u>5,314,632</u>	<u>6,426,317</u>

Segment liabilities

	<u>304,481</u>	<u>1,725,550</u>	<u>2,030,031</u>
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NOTES TO THE FINANCIAL STATEMENTS (CONT)

21. COMMITMENTS AND CONTINGENCIES

Lynch Mining Pty Limited

In December 2003 the consolidated entity entered into a Heads of Agreement with Lynch Mining Pty Ltd ('Lynch Mining'). The consolidated entity assumed all of the administrative obligations and expenses under the applications for Exploration Licences 4368 and 4369 in the Otway Basin. This included the negotiation with the Native Title claimants. This negotiation is continuing.

The Exploration Licences were granted on 14 February 2007 and transfer to the consolidated entities name in a further twelve months at which time the consolidated entity will reimburse Lynch Mining \$100,000 in exchange for a transfer of the Exploration Licences.

Western Gas Resources Inc.

Western Gas is manager of nine wells in Section 2 at the consolidated entity's East Esponda Project in the Powder River Basin. The consolidated entity reimburses Western Gas for its 25% working interest in this Section. The nine wells have commenced their dewatering phase of production. The remaining fourteen wells, formerly operated by Kennedy Oil, continue their dewatering.

22. 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	
		2006 %	2005 %
Davidson Prospecting Pty Limited	Australia	100	100
Greenpower Energy Pty Limited	Australia	100	100
Pauper's Dream Company	USA	100	100
Planet Gas Properties LLC	USA	100	100
Planet Gas Resources LLC	USA	100	100
Sawells Pty Limited	Australia	100	100

The functional currency for Pauper's Dream Company, Planet Gas Properties LLC and Planet Gas Resources LLC is United States Dollars.

DIRECTORS' DECLARATION

In the opinion of the directors of Planet Gas Limited:

(a) the financial statements and notes thereto, set out on pages 26 to 47, are in accordance with the Corporations Act 2001, including:

(i) giving a true and fair view of the financial position of the Company and consolidated entity as at 31 December 2006 and of their performance, as represented by the results of their operations and their cash flows, for the year ended on that date; and

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

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

(c) the directors have been given the declarations by the chief executive officer and chief financial officer for the financial year ended 31 December 2006 pursuant to Section 295A of the Corporations Act 2001.

Signed at Sydney this 28th day of February 2007 in accordance with a resolution of the Board of Directors:



Norman A. Seckold
Director



Peter J. Nightingale
Director

INDEPENDENT AUDIT REPORT TO THE MEMBERS OF PLANET GAS LIMITED



Scope

We have audited the financial report of Planet Gas Limited ("the Company") for the financial year ended 31 December 2006, consisting of the income statements, statements of recognised income and expense, balance sheets, statements of cash flows, accompanying notes 1 to 22, and the directors' declaration. The financial report includes the consolidated financial statements of the group, comprising the Company and the subsidiaries it controlled at the end of the year or from time to time during the financial year. The Company's directors are responsible for the financial report. We have conducted an independent audit of this financial report in order to express an opinion on it to the members of the Company.

Our audit has been conducted in accordance with Australian Auditing Standards to provide reasonable assurance whether the financial report is free of material misstatement. Our procedures included examination, on a test basis, of evidence supporting the amounts and other disclosures in the financial report, and the evaluation of accounting policies and significant accounting estimates. These procedures have been undertaken to form an opinion whether, in all material respects, the financial report is presented fairly in accordance with Australian Accounting Standards and other mandatory professional reporting requirements in Australia and statutory requirements so as to present a view which is consistent with our understanding of the Company's and the group's financial position, and performance as represented by the results of their operations and their cash flows.

The audit opinion expressed in this report has been formed on the above basis.

Audit opinion

In our opinion, the financial report of Planet Gas Limited is in accordance with:

- a) the Corporations Act 2001, including:
 - i. giving a true and fair view of the Company's and the consolidated entity's financial position as at 31 December 2006 and of their performance for the financial year ended on that date; and
 - ii. complying with Australian Accounting Standards and the Corporations Regulations 2001; and
- b) other mandatory professional reporting requirements in Australia.

A stylized, handwritten signature of the KPMG firm, rendered in blue ink.

KPMG
28 February 2007

A stylized, handwritten signature of S.J. Board, rendered in blue ink.

S.J. Board
Partner

ADDITIONAL STOCK EXCHANGE INFORMATION

Additional information as at 31 January 2007 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.

Substantial Shareholdings

At 31 January 2007 the Register of Substantial Shareholders showed the following:

Altinova Nominees Pty Ltd	23,250,001 fully paid ordinary shares
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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.

ADDITIONAL STOCK EXCHANGE INFORMATION (CONT)

As at 31 January 2007 the twenty largest quoted shareholders held 52.11% of the fully paid ordinary shares as follows:

Name	Number	%
1 Altinova Nominees Pty Ltd	23,250,001	12.69
2 ANZ Nominees Ltd Cash Income A/C	22,179,147	12.11
3 Berpaid Pty Ltd	4,779,000	2.61
4 Rigi Investments Pty Ltd	4,591,067	2.51
5 Nitroshire Pty Ltd	4,000,000	2.18
6 Mr Bruce Riederer	4,000,000	2.18
7 Rosignol Pty Ltd	3,375,000	2.00
8 Removale Pty Ltd	3,100,000	1.69
9 HSBC Custody Nominees (Australia) Limited	3,000,000	1.64
10 Mr Anthony J McClure	3,000,000	1.64
11 Trio Investments Pty Ltd	3,000,000	1.64
12 Citicorp Nominees Pty Limited	2,327,000	1.27
13 All States Secretarial Pty Ltd	2,000,000	1.09
14 Mango Bay Enterprises Incorporated	2,000,000	1.09
15 Umbiram Pty Ltd	2,000,000	1.09
16 Paradyn Holdings Pty Ltd	1,875,000	1.02
17 Fortis Clearing Nominees	1,744,371	0.95
18 Travelly Pty Limited	1,707,000	0.93
19 Mdm Thie Tjie Hoa	1,690,000	0.92
20 Mr P J & Mrs J A Bartter	1,607,522	0.88

ADDITIONAL STOCK EXCHANGE INFORMATION (CONT)

Distribution of Shareholders

As at 31 January 2007, 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	10	1,429	0.00%
1,001 - 5,000	131	457,041	0.25%
5,001 - 10,000	184	1,597,912	0.87%
10,001 - 100,000	570	24,299,671	13.26%
100,001 and over	190	156,857,909	85.61%
Total	1,085	183,213,962	100.00%

As at 31 January 2007, 19 shareholders held less than marketable parcels of 1,754 shares.

The Company had 48,250,005 fully paid ordinary shares released from escrow on 11 March 2006.

As at 31 January 2007 Cornell Capital Partners, LP was the holder of 1,000,000 11 December 2008 \$0.45 options.

On Market Buy Back

There is no on market buy-back.

CORPORATE DIRECTORY

Directors

Mr Norman A. Seckold (Chairman)

Mr Bruce F. Riederer

Mr Peter J. Nightingale

Mr Anthony J. McClure

Mr Anthony J. McDonald

Company Secretary

Mr Peter J. Nightingale

Principal Place of Business and Registered Office

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KPMG

Level 16, Riparian Plaza

71 Eagle Street

BRISBANE QLD 4000

Solicitors

Minter Ellison

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Share Registrars

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PLANET GAS LIMITED

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