EasternStar GAS

13 October 2005

The Company Announcements Office
Australian Stock Exchange Limited
20 Bridge Street
SYDNEY NSW 2000

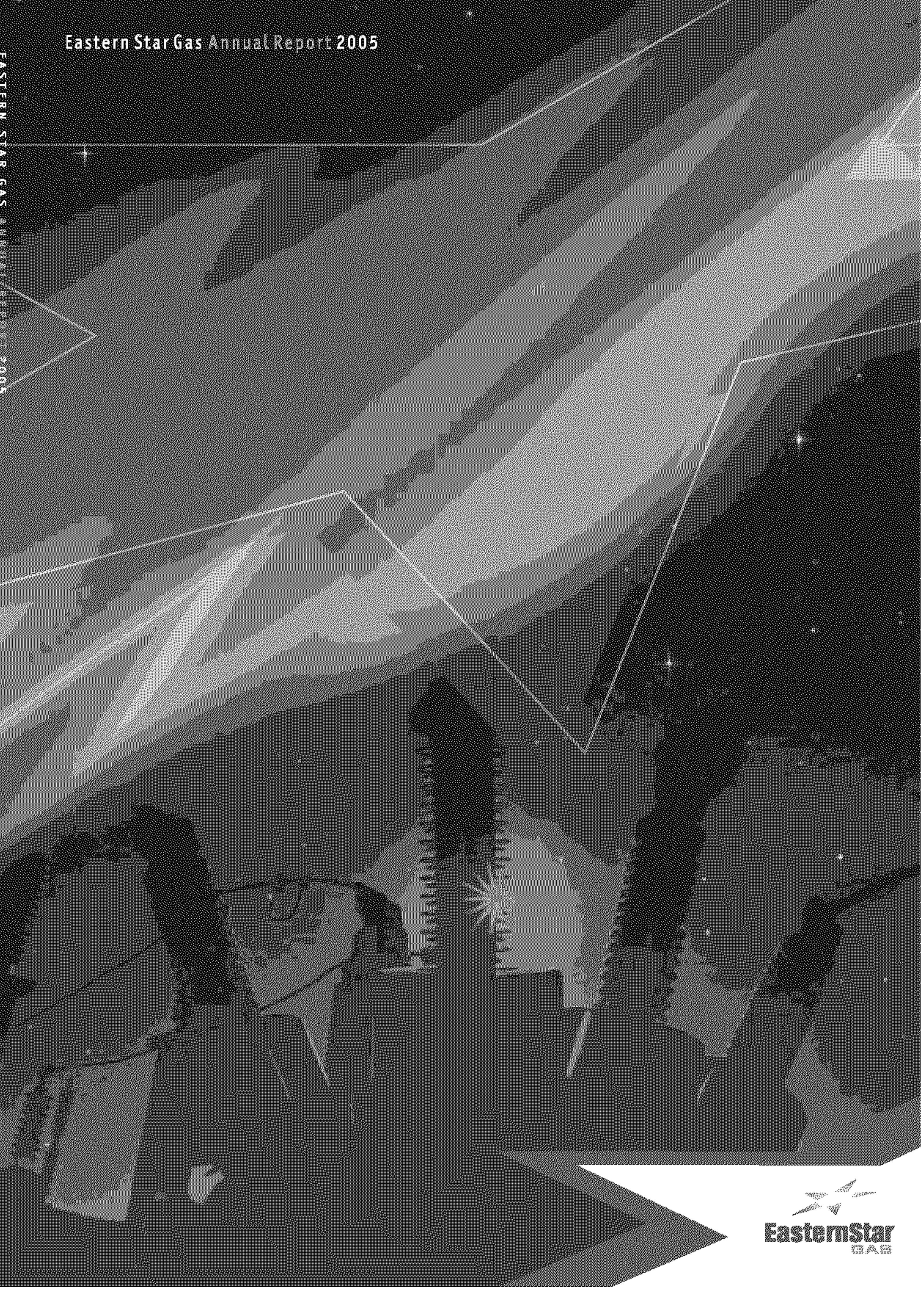
2005 ANNUAL REPORT

We attach a copy of the Company's 2005 Annual Report being mailed to shareholders tomorrow.

Patrick Sam Yue
Company Secretary

Eastern Star Gas Annual Report 2005

EASTERN STAR GAS ANNUAL REPORT 2005



EasternStar GAS

Contents

Eastern Star Gas Limited ABN 29 094 269 780

CORPORATE DIRECTORY

Directors
Wyn Davies (Non-Executive Chairman)
Dennis Morton (Managing Director)
David King (Executive)
Douglas Battersby (Non-Executive)
Chris Ryan (Non-Executive)

Company Secretary
Patrick Sam Yue

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PKF
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SYDNEY NSW 2000

Home Stock Exchange
Australian Stock Exchange Limited
4 Bridge Street
SYDNEY NSW 2000

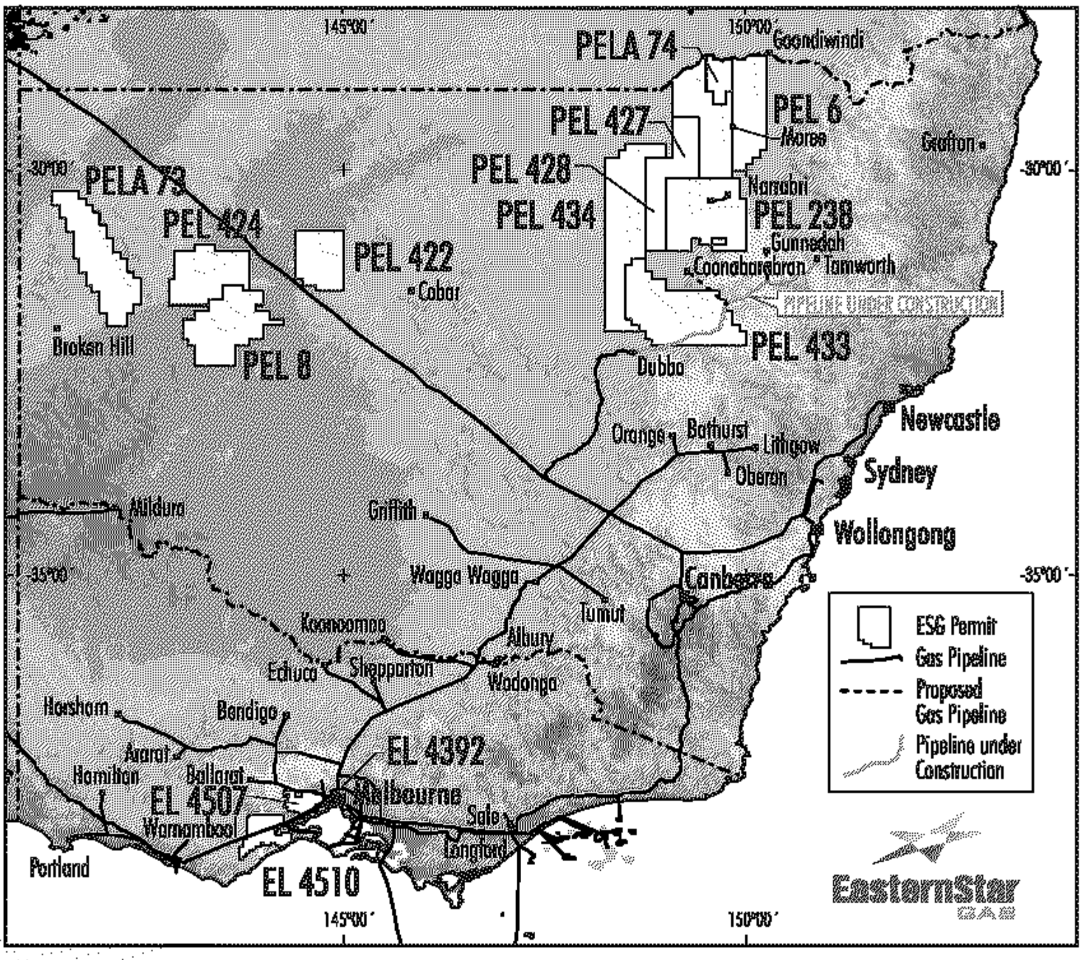
ASX code
Ordinary shares: ESG

Dear Shareholder,

I am pleased to present you with the 2005 Annual Report of Eastern Star Gas Limited.

In the past year the Company has entered into an exciting and important stage of its development. We now have over one year's experience in successfully operating the Wilga Park Power Station (Narrabri Power Project) with gas sourced from the Company's wholly owned Coonarah Gas Field. This experience will serve the Company well in developing and bringing to account new gas reserves that we are seeking to prove up both in the area around Narrabri, and elsewhere in New South Wales.

Right:
Eastern Star Gas Licence Holdings – New South Wales and Victoria.



As foreshadowed in last year's Annual Report, it is this search for and development of additional gas reserves, mainly in our large core acreage holdings around Narrabri (PEL 238) but also elsewhere across our licence portfolio, that is now the primary focus of the Company. We continue to target both conventionally reservoired and coal seam gas across our extensive Gunnedah Basin licence areas, and conventional gas (as well as oil) in the Bowen/Surat Basin and Darling Basin areas.

In our PEL 238 coal seam gas joint venture, we successfully drilled and fracture stimulated three new wells in the Bohena Project Area. We now have several months of encouraging test production which supports our confidence that after the next development stage, which provides for nine new wells to complete a confined production pilot, the Project should reach the commercial development phase. We have also increased our interest in the coal seam gas rights from 15% to 32.5% after completing the work program in July 2005.

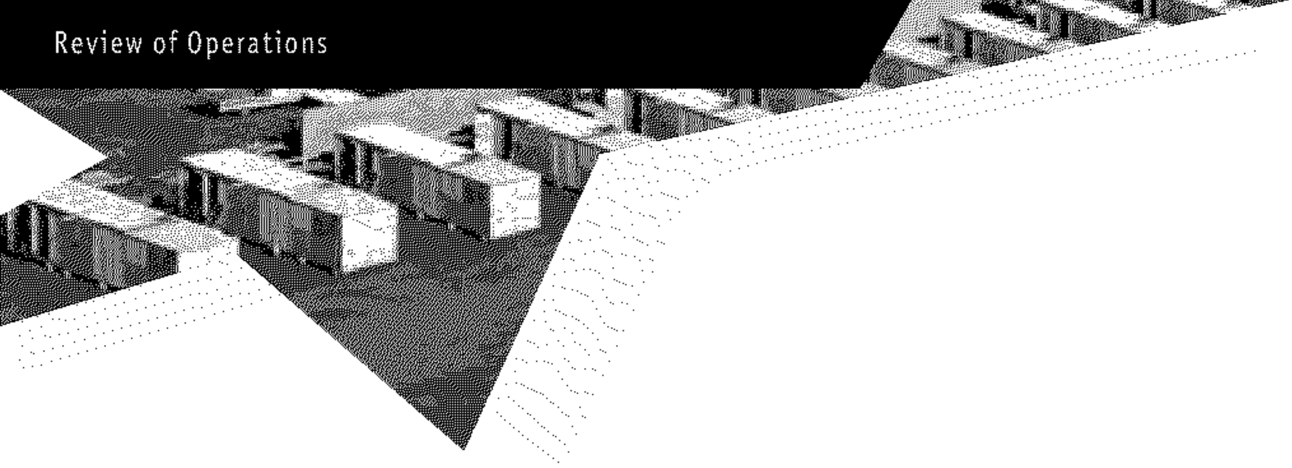
With regard to conventional exploration, we now have attractive gas targets mature for drilling in the Gunnedah Basin (PEL 238), and large to very large oil and/or gas targets in the Bowen/Surat Basin (PEL 6), and the Darling Basin (PELs 8, 422, 424).

Gas discoveries in any of these licence areas would, in the first instance, likely be developed by replication of (or, for PEL 238, by the expansion of) the Narrabri Power Project business model. However, larger reserves would justify a project dedicated infrastructure including a connection to the Central Ranges Gas Pipeline (Dubbo to Tamworth), which is expected to be operational in April 2006, and to the existing Sydney-Moomba Gas Pipeline. Either development will bring forward the prospects for direct gas sales into both regional and metropolitan markets in New South Wales.

The Company has made good progress during the past year, and is intent on building on that success with an active drilling and testing program over the coming months. Hence, to fund the program the Company has announced today that it is raising fresh capital through a combination of private placement of shares with sophisticated and professional investors and a fully underwritten non-renounceable rights issue offer to shareholders to raise a total of approximately $14.3 million.

The Company remains committed to its strategic focus on the eastern Australian energy market. Gas market and infrastructure development plans over the past year have further strengthened the opportunities for new developments based on gas resources located within New South Wales, and our Company is well positioned to reap significant benefits from these opportunities.

Dr Wyn Davies
Chairman
26 September 2005



Top left: Aerial View of Wilga Park Power Station pre Completion.

Bottom: Gas Production and Consumption.

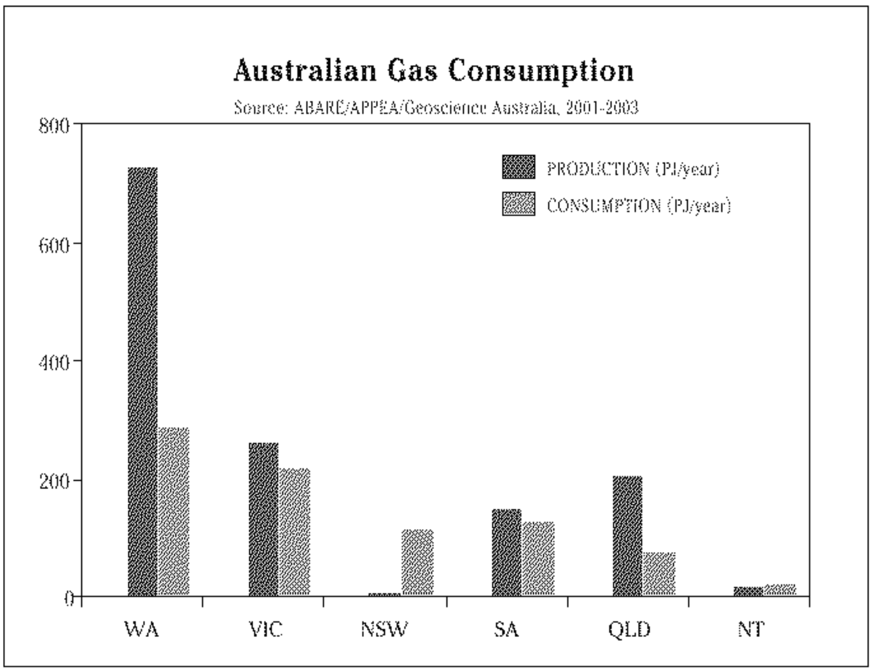
Overview

Eastern Star Gas has since foundation had a clear strategic focus on exploration, development and production of natural gas from both conventional and coal seam reservoirs in eastern Australia. This business plan was founded upon the recognition of opportunities for delivering competitive, indigenous gas into the under-developed gas markets in both regional and metropolitan centres in the eastern States, particularly in New South Wales.

The Company has been able to acquire largely exclusive rights to explore for conventional and coal seam gas over very large tracts in under-explored and prospective eastern Australian sedimentary basins due to the neglect of these areas by the petroleum industry. The task of unlocking the petroleum resources in these under-explored areas is technically challenging but presents potential rewards that could not accrue in reworking sedimentary basins that have a long production history, and where the discoveries at the larger end of the field size distribution have in all likelihood already been made.

The growth of both domestic and industrial gas markets in New South Wales, including the gas-fired electricity generation market, has traditionally been inhibited by limited gas transport infrastructure in the State, and the reliance on imported gas from Victoria and South Australia, all of which is necessarily burdened with high transportation, and taxation costs (for offshore Victoria). The Company is targeting new gas supplies located within New South Wales that will clearly enjoy a significant advantage in developing new gas markets, as well as in penetrating existing markets.

A pre-requisite of our Company capturing a significant portion of new gas market opportunities will be the discovery and development of a large gas reserves inventory capable of supporting long term contracts and underpinning the development of the necessary gas transport infrastructure. The conventional and coal seam gas potential in the Gunnedah Basin (principally PEL 238), and the conventional gas potential in the Darling Basin, are both of a scale to clearly satisfy any such pre-requisites. The Company's primary focus is on the coal seam gas potential in PEL 238, where results to date have largely mitigated the exploration risks; in addition, early production/reserves will be accessible to the Wilga Park Power Station, where there is potential to expand power output by three to four times within the existing site with marginal increase in infrastructure support.



The primary focus on coal seam gas in PEL 238 does not mean that other exploration is neglected. Conventional prospects with gas and/or oil targets have been matured for drilling in PELs 6, 8, 238, 422 and 424. With the benefits of experience in developing and operating the Wilga Park Power Station, the Company would be confident of commercialising gas discoveries in any of these licence areas.

In Victoria, testing was resumed at the Company's five well coal seam gas pilot project at Oak Park (EL 4507). It is planned to continue testing over an extended period to establish whether the target brown coals have any capacity to generate and produce gas at commercial rates, and whether the drilling and completion procedures adopted are conducive to realising any such potential.

New South Wales

Gunnedah Basin
PEL 238 (100% interest, excluding Coal Seam Gas Rights)
(32.5% interest Coal Seam Gas Rights)
PPL 3 (100% interest)

PEL 238, the primary focus of the Company's exploration and appraisal/development efforts, is a 9,100 square kilometre licence area which fully contains the highly prospective Bohena Trough area of the Permo-Triassic Gunnedah Basin, to the west and south of Narrabri, in north-central NSW. The Company's Coonarah Gas Field, 20 kilometres west of Narrabri, was the first conventional gas field to be developed in PEL 238, and the first in NSW. The Bohena Trough area is believed to host significant resources of gas both in conventional sandstone reservoirs, as well as in coal reservoirs within two distinct sets of coal measures, all at depths of less than 1,000 metres.

PPL 3 is a 26.4 square kilometre 21-year Petroleum Production Lease, excised from PEL 238, which circumscribes the Coonarah Gas Field and an umbilical corridor connecting the gas field to the site of the Wilga Park Power Station.

A significant portion of PEL 238 lies within the Pilliga State Forest, which has been the subject of a comprehensive land-use review by the NSW Government as part of the so-called Brigalow South Bioregion. During the year, the Government announced and legislated the creation of a new land title regime, Community Conservation Zones, covering some areas of the Pilliga State Forest. The creation of these new titles does not affect the Company's ability to explore and develop conventional and coal seam gas resources in all its high prospectivity principal areas of interest. However, it will sterilise some fringe areas of the licence from future exploration by precluding them from licence renewal applications. The Company intends to seek remedies from the government for loss in not being able to exploit these excised areas.

Material Prospects Ready to Drill

Prospect	Potential Gas in Place (TCF)	Potential Oil in Place (million barrels)
Willaroo (PEL 6)	0.24	40
Netallie (PEL 424)	2.0	800
Burnamwood (PEL 422)	0.7	350
Nygynderry (PEL 8)	0.1	100

Above: Exploration Prospects.

Conventional Gas Rights (100% interest)

The Company commenced gas production from an Early Permian sandstone reservoir in four producing wells in the Coonarah Gas Field in July 2004, with all gas delivered to the Wilga Park Power Station for electricity generation.

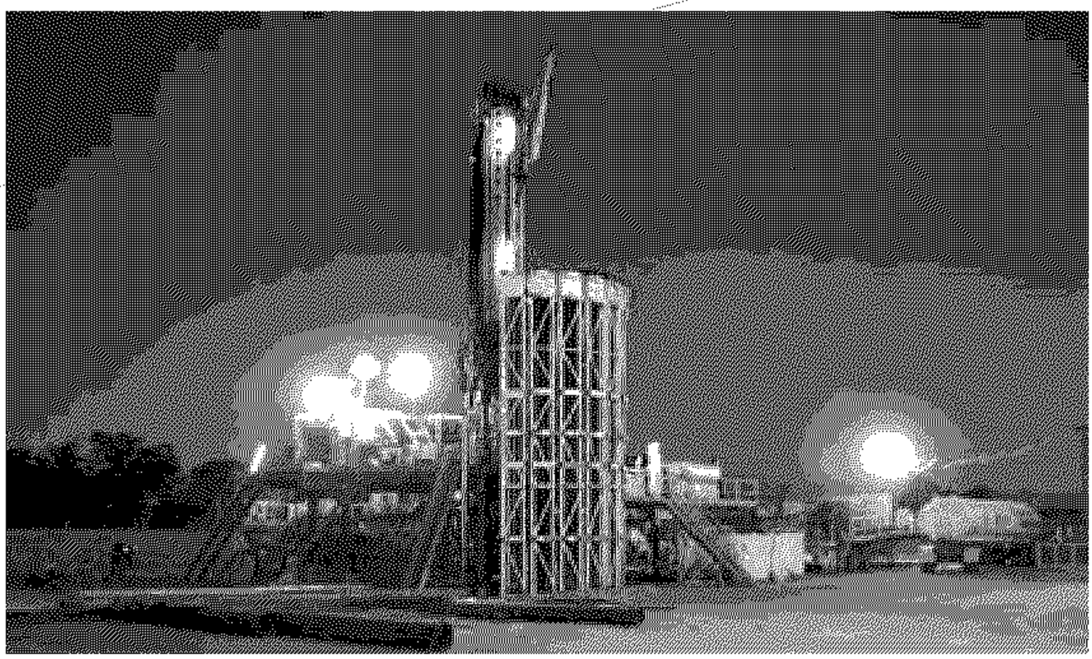
Additional development drilling during the year provided mixed success. The Coonarah-8 well was drilled and completed as a fifth production well, but the Coonarah-7 well intersected a tight section of the target reservoir, slightly low to prognosis, with no gas production capacity. The Company also drilled a horizontal appraisal well on the field, targeting reserves in a shallower Early Triassic Digby Formation reservoir which tested gas in the Coonarah-1 discovery well. The 470 metre horizontal reservoir section is interpreted to have been affected by near well-bore formation damage during drilling, but subsequent testing has produced significant and increasing gas flows which will, if reservoir performance continues to improve, enable the well to be connected to the gas gathering system.

Following 12 months of continuous sustained gas production at Coonarah Gas Field, a review of the reserves status of the field was carried out. The study was based on pressure build-up surveys, the results of new development drilling, seismic re-mapping, and a review of the reservoir petrophysics, and on preliminary interpretation indicates a decrease in the previous independently determined proven volumetric gas reserve (1P) from the original 8.4 Petajoules to a likely 5.8 Petajoules. Aggregate gas production since the Wilga Park Power Station was commissioned in July 2004 has been 0.7 Petajoules. The reserves review is on-going, as further pressure data is required to more accurately estimate the gas reserves by material balance, and additional field pressure surveys will be conducted in the near future.

The primary conventional exploration targets in PEL 238 are sandstone reservoirs of Jurassic, Triassic and Permian age which occur at relatively shallow depths (<1,000 metres) throughout what is a large Permo-Triassic sedimentary basin. The principal play type comprises sandstone reservoirs, sealed by shales, within high to very high relief anticlines, and sourced by organic rich Permian shales and coals.

During the year, the Company drilled wildcat exploration wells at Lynwood-1 and Brigalow Park-1, both wells targeting Lower Permian sandstone reservoirs akin to those in the nearby Coonarah Gas Field. Lynwood-1 was drilled to a total depth of 715 metres and, although significant gas shows were recorded during drilling through Lower Permian sandstones, electric logs and subsequent drillstem testing

Right: Mitchell Rig 51 at Coonarah-6L in 2004.



demonstrated that the reservoirs were tight and the well was plugged and abandoned. In the Brigalow Park-1 well, drilled to a total depth of 910 metres, no gas zones were intersected in the reservoir sands, however the well did intersect a thick (18 metres) section of gassy Lower Permian Maules Creek coals, correlative with the coals being evaluated in the Bohena Project Area (and so extending the Bohena coal seam gas fairway to the north and west). The well was cased and suspended for future evaluation and testing for coal seam gas production.

Notwithstanding the disappointing results at Lynwood and Brigalow Park, the exploration success ratio within PEL 238 remains high. Based on the totality of seismic and other data available in PEL 238, the Company's inventory of conventional leads and prospects has an unrisked resource potential of 1.4 trillion cubic feet (TCF).

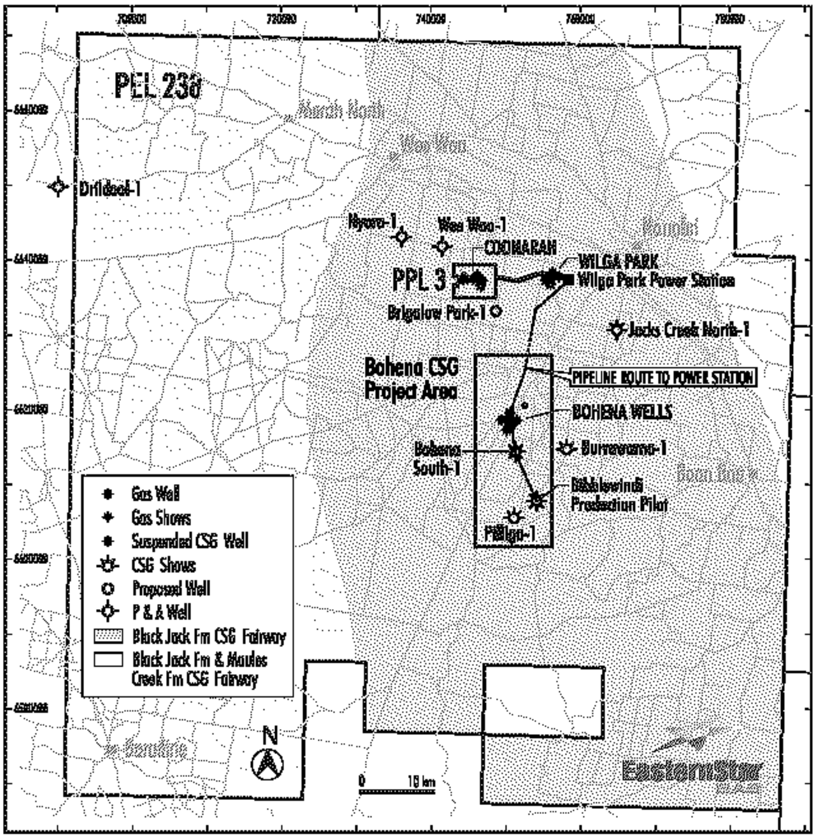
Coal Seam Gas Rights (32.5% interest)

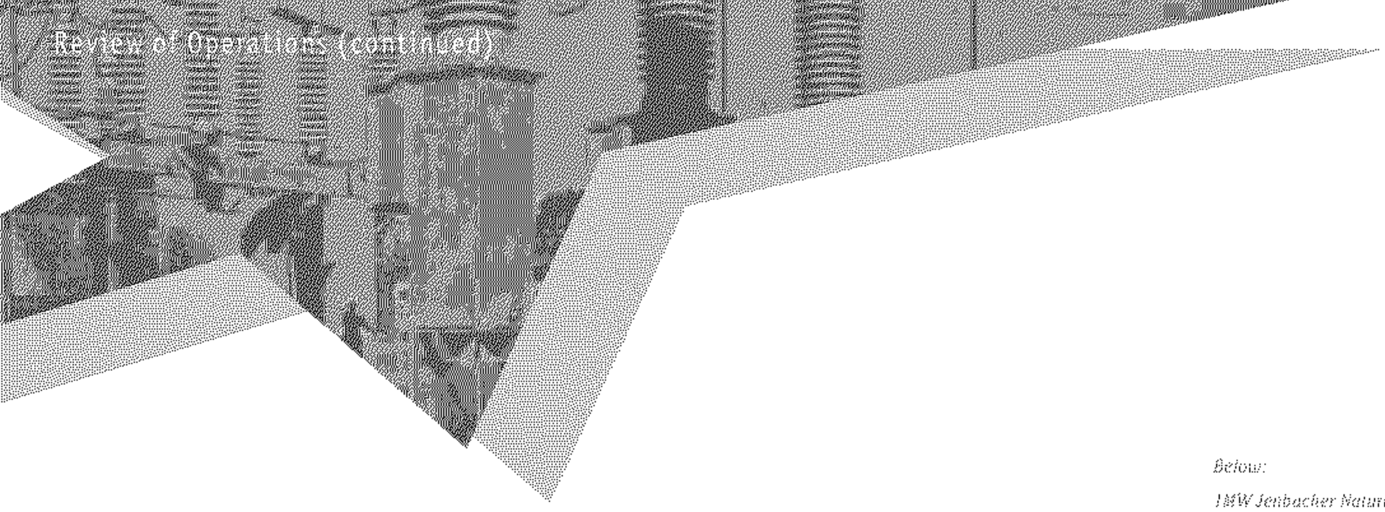
Although Eastern Star Gas is the 100% licence holder of PEL 238, the coal seam gas rights were previously assigned under a strata title arrangement to Toronto listed Gastar Exploration Ltd ("Gastar"). Extensive previous work by Gastar and others, amounting to over $39 million of direct exploration and appraisal expenditure, has established that PEL 238 hosts very large resources of coal seam gas in two distinct and widespread coal measure sequences. A number of wells were drilled and completed in the Bohena area, with promising results, but a planned production pilot was not completed. Gastar has reported (August 30, 2000) an independent reserves assessment of 8.7 TCF of possible coal seam gas reserves and 17 TCF of gas-in-place within PEL 238.

Recognising that the co-development of coal seam gas and conventional gas provides an attractive scenario for large scale gas developments in an area with no traversing gas pipeline, the Company negotiated to acquire an interest in the coal seam gas (CSG) rights from Gastar by a combination of cash payments and work program.

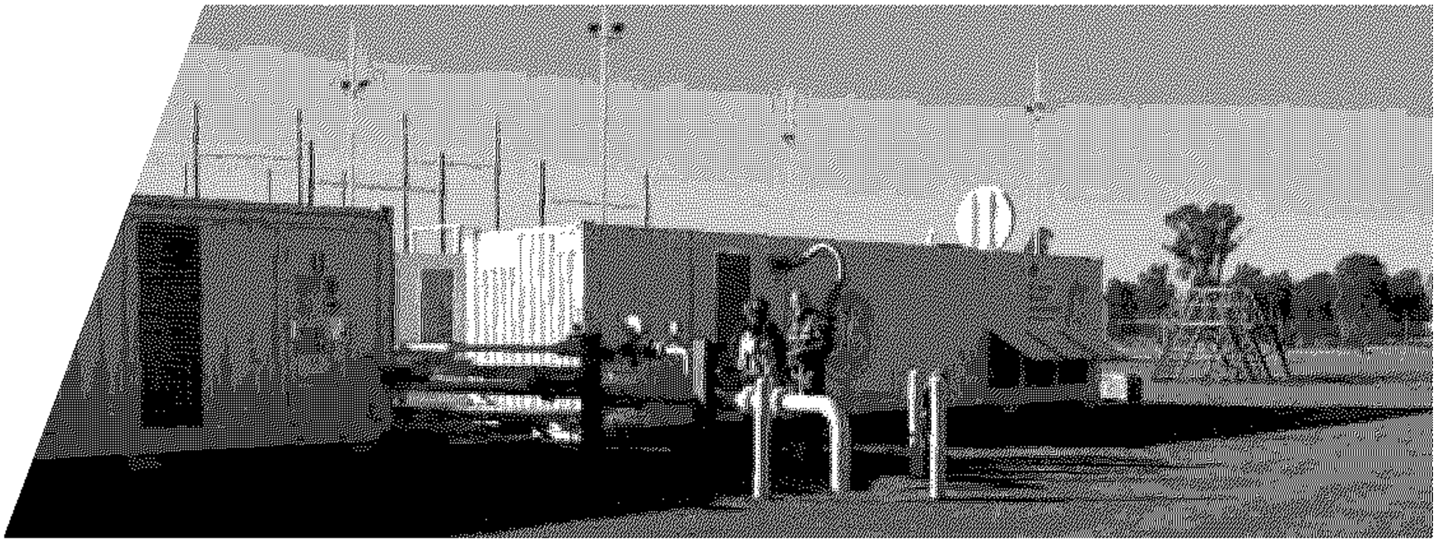
Under an agreement entered into in January 2004, the Company was joined by joint venture partner Hillgrove Resources Limited (Hillgrove) in farming in to the PEL 238 coal seam gas rights. The first stage of the farm in was completed by Hillgrove paying to Gastar US$3 million to earn a 15% interest for each of Hillgrove and the Company. The companies can each increase their interest to 32.5% by together undertaking a A$7 million work program in two stages over a three year period, with the Company contributing A$4.75 million. Additional cash consideration is payable to Gastar if substantial production thresholds are met.

Below:
PEL 238 Bohena Project Area.





Below:
1MW Jenbacher Natural Gas Fired Generator.



In July 2004, the Company commenced the $4 million first stage of the farm in work program – the Gunnedah Coal Seam Gas Project – through which both the Company and Hillgrove increased their respective interests in the CSG rights from 15% to 25% during the year. As at the date of this report, the Company and Hillgrove have completed the full work program and have increased each interest to 32.5% of the CSG rights, subject to Gastar completing their audit of the work program expenditure for the second stage. The aim of the drilling program was to complete a production pilot and offset wells so as to establish sufficient proved and probable reserves to support long term sales contracts. The program targeted reserves certification in the 260 square kilometre Bohena Project Area, which contains up to 3.7 TCF of gas in place within both Late Permian Black Jack Formation and Early Permian Maules Creek Formation coal seams.

CSG operations completed to date include a fully cored hole at Bohena South (Bohena South-1), a horizontal well into the Permian Bohena seam (Bohena-4L), a vertical well at Bohena-9 and a further vertical well at Bohena South-1. Bohena-9, Bohena South-1 and Bibblewindi-1 (drilled by the previous operator) were fracture stimulated in two stages using cross-linked gels to emplace large volumes of sand proppant into the fractured Maules Creek Formation coal reservoirs. Following completion operations, all wells were placed into test production and gas flows monitored as a precursor to a review for independent reserves evaluation and certification.

The CSG drilling completed to date has confirmed the large thickness (up to 15 metres) of individual coal seams within both coal measure sequences intersected, and that the target coals are fully gas saturated, highly permeable, over-pressured, and intensely fractured. It is these favourable coal characteristics, as well as the widespread presence of two sets of coal measures with large aggregate thickness of coal over relatively short intervals, which makes the Gunnedah Coal Seam Gas Project a very promising project.

The Company is acting as Operator for all CSG work undertaken. The acquisition of the additional CSG rights and the role as Operator of both CSG and conventional gas exploration brings important risk mitigation and operational synergies to the Company.

Work completed during 2004 has resulted in unconfined production (single wells located large distances apart).

Below:
Enhanced Water Evaporation System at Bibblewindi.

At this stage the one key variable that needs to be achieved for the project to be declared commercial is higher gas flow rates per well of approximately 250,000 cubic feet per day. History matching and modeling of the production profiles of the current producing wells indicates that these unconfined wells will eventually achieve commercial flow rates but it could take several years. In order to accelerate gas flow rates, the Company is planning with its joint venture partners on drilling extra wells on a tighter spacing to create a confined production pilot. The aim is for the project to achieve commercial status in 2006.

Successful development of the extensive CSG gas resources within PEL 238, together with the existing and targeted conventional gas reserves in the area, would provide much needed gas production security and diversity to the State of New South Wales; as well as bring significant benefits to the Company. Additional gas reserves will be developed progressively to expand local electricity production, build direct gas sales in the area, and (with sufficient reserves) to export gas to other regional centres (Gunnedah, Tamworth) and eventually Newcastle and Sydney.

Wilga Park Power Station (Narrabri Power Project) (100% interest)

The Wilga Park Power Station was commissioned in July 2004, accepting the first gas from the Coonarah Gas Field on July 3rd and commencing the delivery of electricity into the grid on July 11th. The power station has operated efficiently and reliably on a continuous 24 hour basis since that time, with total electricity sales for the financial year amounting to $3.6 million.

The power station and associated gas field/infrastructure (Narrabri Power Project) is the sole undertaking of the Company's wholly owned subsidiary Narrabri Power Limited ("NPL"), and comprises:

- Petroleum Production Lease 3, including the Coonarah Gas Field;
- A gas gathering and processing system which delivers gas from the Coonarah Gas Field, approximately 20 kilometres west of Narrabri, to the power station site at Wilga Park, 12 kilometres west of Narrabri, on land owned by the Company;
- 10 (plus one standby) 1MW Jenbacher gas reciprocating engines and generating sets with 4 associated 415V to 11kV transformers;

- A high voltage switchyard, including an 11kV to 66kV step-up transformer to deliver power station output into an existing 66kV transmission line adjacent to the power station site; and
- A 10 year Power Purchase Agreement with Country Energy for the sale of all power station output.

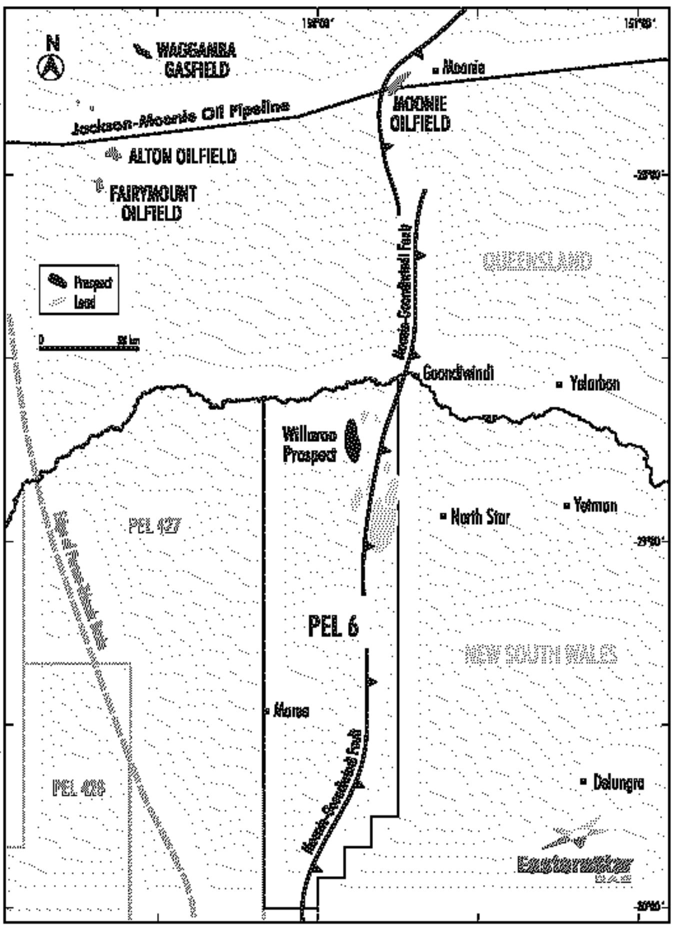
The power station produces electricity at significantly lower greenhouse intensity than the coal-fired generators which produce most of the power in NSW, and so contributes to the NSW Government's greenhouse gas reduction strategy. Following a detailed independent technical, administrative and environmental audit of the Company's operations, it was accredited by the NSW Independent Pricing and Regulatory Tribunal as a provider of NSW Greenhouse Gas Abatement Certificates (NGACs). The NGACs generated are sold to Country Energy under the terms of the Power Purchase Agreement, and form part of the electricity sales revenues.

The power station and gas gathering system has been designed and constructed in a manner which will enable an efficient expansion up to 30-40 MW capacity when additional gas supplies become available. The Company anticipates that such additional gas will be sourced from coal seam gas development in the Bohena Project Area, and/or from new discoveries of conventional gas in the area.

Gunnedah Basin – Tooraweenah and Pilliga Troughs
PEL 433 and PEL 434 (100% interest)
PEL 427 (earning 75%)
PEL 428 (earning 60%)

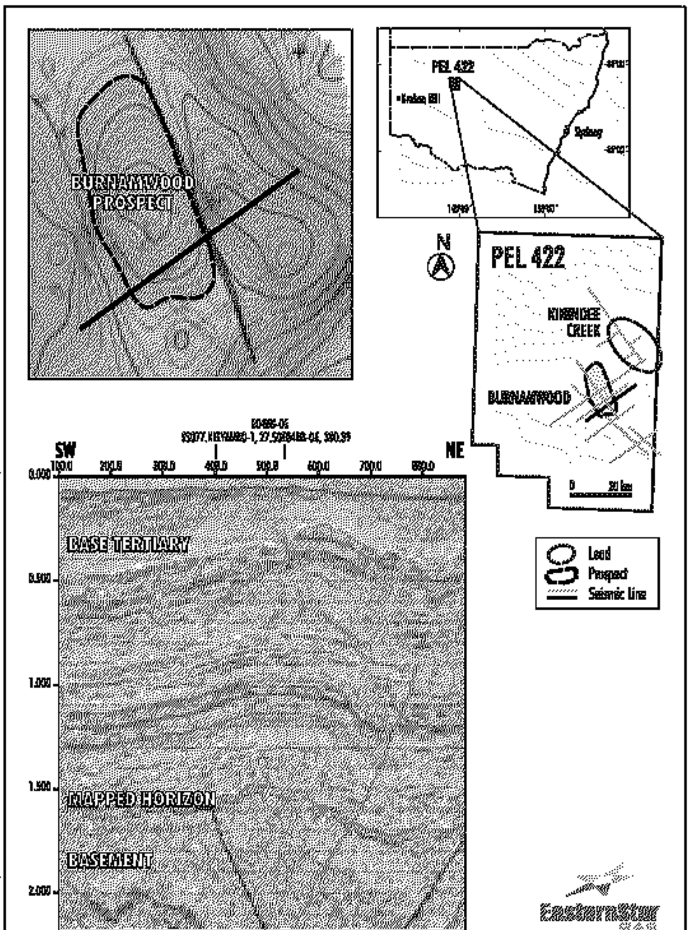
The Company's primary Gunnedah Basin focus was further strengthened during the year by its entering into agreements to acquire majority interests in PELs 427 and 428, securing participation in all the prospective ground between the core area of PEL 238 and wholly owned Tooraweenah Trough (PEL 433) and Pilliga Trough (PEL 434) licence areas, to the south and west, respectively, of PEL 238.

Right:
Location Map
Willaroo Prospect.



Each of these Gunnedah Basin licence areas is prospective for both coal seam gas in Early and Late Permian coal measures, and for conventionally reservoired gas in Jurassic, Triassic and Permian sandstone reservoirs – in both instances the same reservoirs which are productive in PEL 238.

During the year, the Company initiated an integrated study of all existing geological and geophysical data across the Gunnedah Basin licence areas with a view to delineating both conventional and coal seam gas priority target areas.



Left: Summary – Burnamwood Prospect in PEL 422.

Bowen-Surat Basin

PEL 6 (97.5% interest)

PEL 6 covers an area of 5,872 square kilometres south of the Queensland-New South Wales border near Goondiwindi, comprising the southern extension of the Bowen and overlying Surat Basins into New South Wales.

The primary targets in PEL 6 are Jurassic, Triassic and Lower Permian sandstone reservoirs all of which are productive of oil or gas in the Queensland portion of the basin. These targets are known to be present from previous drilling in the north-eastern sector of the licence area, but are untested in a structural setting capable of trapping commercial hydrocarbons.

Interpretation of seismic data recorded by the Company has delineated the Willaroo prospect, with mapped structural closure at each of the Jurassic through Lower Permian target horizons. The Company is seeking partners to share the risk of drilling a 2,000 metre well to test each of the oil and gas targets, at an estimated cost of $1 million.

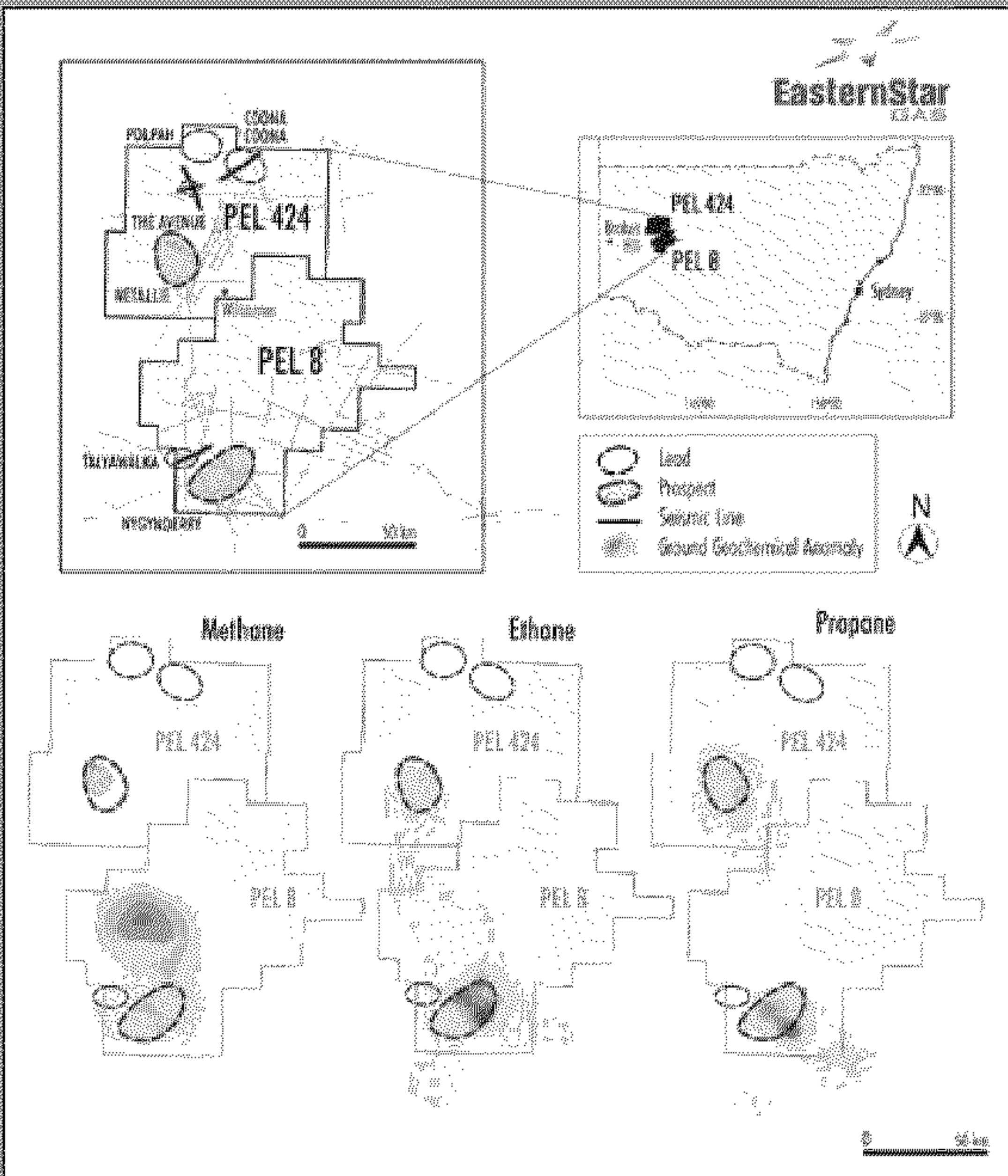
Darling Basin

PEL 8 (100% interest)

PEL 422 and 424 (100% interest)

The Company's three Darling Basin licences are strategically located abreast of the Moomba-Sydney gas pipeline in western NSW, and are frontier petroleum areas with the potential for high rewards for successful exploration. The licence areas have a combined total area of over 17,000 square kilometres, and are approximately 700 kilometres west-northwest of Sydney.

Right
Darling Basin
Surface
Geochemical
Anomalies



Each of the licence areas contains a very thick section of marine and non-marine sediments ranging in age from Cambrian to Permian, and the postulated Devonian and Cambrian petroleum systems present in each of the three major depo-centres are essentially untested. There is, however, gas production in age-equivalent Cambrian sediments underlying the Cooper Basin in south-west Queensland.

Interpretation during the year of new seismic data recorded by the Company late in 2004, following the resolution of Native Title uncertainties in the area, has delineated large to very large structural closures in each of the three licence areas, with some associated (coincident) surface gas-seep anomalism. Wildcat wells to test target horizons at depths of 2,000-4,000 metres in each of the drillable prospects are estimated to cost $1.5-2.0 million each. The Company is seeking partners to share the risk of drilling the three wells.

Clarence Moreton Basin
PEL 13
PEL 426

During the year the Company entered agreements whereby it could acquire an 85% working interest in each of PELs 13 and 426 by completing work programs comprising seismic reprocessing and new seismic acquisition. PELs 13 and 426 together cover an area of over 6,300 square kilometers in the NSW portion of the Clarence Moreton Basin, surrounding Grafton.

Operations in PELs 13 and 426 would involve at least new seismic acquisition in State Forest areas akin to those in the Gunnedah Basin, where the NSW State Government has legislated land title changes detrimental to exploration. In order to avoid any such uncertainties, the Company elected not to complete its farm in work programs, and so not to earn any interest in these licences.

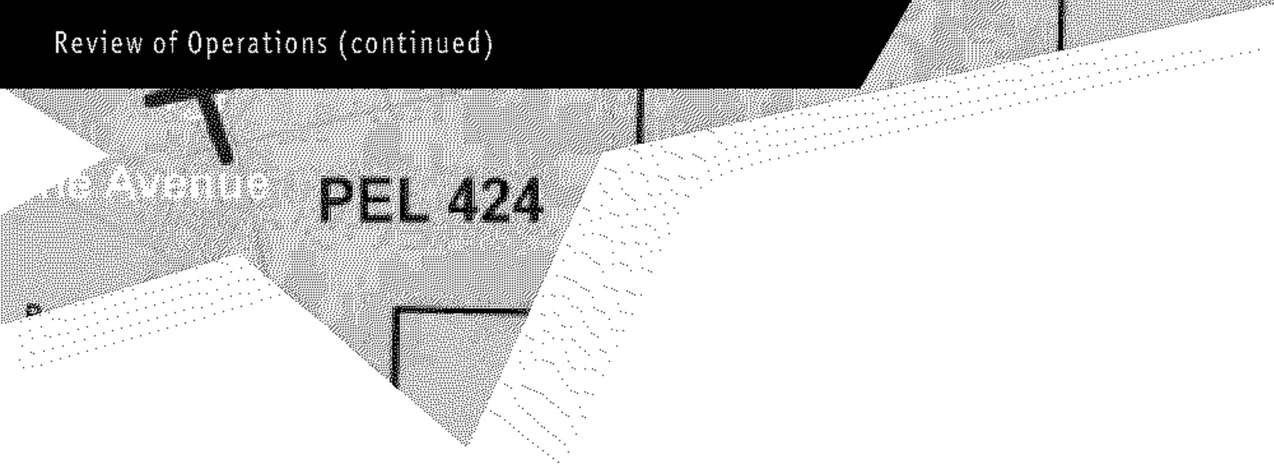
Victoria

Eastern Otway Basin
EL 4392 (100% interest in Coal Seam Gas Rights)
ELs 4507 and 4510 (100% interest)
Coal Seam Gas in Brown Coals

The Company continues to investigate the possible production of late stage biogenic coal seam gas from known deposits of shallow tertiary brown coals on the eastern outskirts of Melbourne. Coals of similar rank, thickness and hydrologic setting are productive of commercial gas over a wide area of the Powder River Basin, in Wyoming and Montana, USA.

Biogenic coal seam gas is formed through natural bacterial activity associated with meteoric water recharge of thermally immature (low rank) coals. No structural or stratigraphic trapping is required for coal seam methane, as the gas is adsorbed onto the coal grain surfaces and trapped by water pressure. In the Powder River Basin, gas productivity has been established over large areas by simultaneous pumping of water from closely spaced wells, which lowers the reservoir pressure and enables gas to desorb and access the well-bores.

The Company is attempting to emulate the Powder River Basin experience with a five well pilot production trial at Oak Park, in EL 4507, approximately 19 kilometres south of Baccus Marsh and 35 kilometres west of the Melbourne CBD. At the Oak Park site, the target Maddingly coal seam is approximately 17 metres thick and buried at depths of 105 to 111 metres. The pilot configuration comprises five wells into the Maddingly coal seam, with four wells 300 metres apart surrounding a central well. Each of the wells is cased down to the top of coal and under-reamed to 12 inch diameter through the coal section.



Following the implementation during the year of a remediation program to improve the reliability and flexibility of the submersible pumps installed in the Oak Park wells, all five pilot wells have been in continuous test production since January 2005. Aggregate daily water production continues at 50-90 barrels per day, which is lower than prognosed and a program to increase the water rate is under investigation. It is planned to continue the testing over an extended time frame to establish whether the target coal has the capacity to produce gas at commercial rates and for further assessment of the drilling and completion technologies in brown coal, which have not previously been tested in Australia.

As this is the first project of its type in Australia, it is uncertain how long the wells need to be produced before the commercial significance of any gas production can be determined. Based on analogies with producing wells in the Powder River Basin – the only gas productive analogue – the period of time that it takes brown coal seam gas wells to dewater sufficiently to produce significant gas is typically 1-6 months (although it also varies significantly outside this range).

Below: High Voltage Switchyard Equipment at Wilga Park Power Station.

Basin/troughs	State	Licence	Interest	Subject to Royalty Interest
Eastern Otway Basin	Victoria	EL 4392	100% CSG Rights	3%
		EL 4507	100% CSG	
		EL 4510	100% CSG	
Gunnedah Basin	New South Wales	PPL 3	100%	6%
		PEL 238	100 %	6%
			excluding CSG	4%
		PEL 238	32.5% CSG Rights	1.95%
		PEL 427	Earning 75% Conventional and CSG	
		PEL 428	Earning 60% Conventional and CSG	
Tooraweenah and Pilliga Troughs	New South Wales	PEL 433	100% Conventional and CSG	
		PEL 434	100% Conventional and CSG	
Bowen-Surat Basin	New South Wales	PEL 6	97.5%	3.5% (net 3.4%)
Darling Basin	New South Wales	PEL 8	100% Conventional	3%
		PEL 422	100% Conventional	8%
		PEL 424	100% Conventional	8%

The Directors present their report on the Economic Entity consisting of Eastern Star Gas Limited (Parent Entity) and the entities it controlled at the end of, or during, the year ended 30 June 2005.

Directors

The following persons have been Directors of Eastern Star Gas Limited during the year up to the date of this report.

Dr W Davies - Non-Executive Chairman
First appointed on 11th December 2000. Wyn Davies holds the degrees of Bachelor of Science (Honours), DIC and Doctor of Philosophy, and is an Associate of the Royal College of Science (Imperial College, University of London). He has over 35 years experience in the international oil and gas, minerals and metals industries in both exploration and production. Dr Davies has held senior management positions and executive and non-executive directorships in Australian and International companies - most recently as managing director then chairman of QNI Ltd. He is currently Chairman of TICOR Limited (from 1991) and a non-executive director of Gravity Capital Ltd (from 2001).

D J Morton - Managing Director
First appointed on 25th August 2000. Dennis Morton graduated in 1975 with a First Class Honours in Geology from Macquarie University, Sydney, and in the same year commenced work with Esso Australia Limited. Whilst employed by Esso, Mr Morton worked both within Australia and internationally. For ten years from 1981, he worked with Hartogen Energy Limited and became exploration manager - Hartogen Group. He subsequently spent three years as resident Australian manager for Bow Valley Resources Inc., immediately prior to the parent being successfully taken over. After a period as executive director of Capital Energy NL and Stirling Resources NL, Mr Morton worked as a consultant and established the petroleum assets which now form the basis of Eastern Star's business.

Dr D W King - Executive Director
First appointed on 25th August 2000. David King graduated with a First Class Honours degree in Physics/Mathematics from the University of East Anglia in 1969, a Masters degree in Geophysics from Imperial College, University of London in 1970, and a PhD in Seismology from the Australian National University in 1974. After an early academic research career, he held executive positions at Offshore Oil NL and Hartogen Energy Limited before an appointment as managing director of gold producer North Flinders Mines Ltd. In 1991, Dr King joined Beach Petroleum/Claremont Petroleum as chief executive officer, a position he held until 1995. He subsequently became a director of a number of public companies until October 2002 when he resigned from Southern Equity Holdings Ltd (1998-2002). He is a director of Baron Partners Limited and Gas 2 Grid Limited (from December 2004).

D G Battersby - Non-Executive Director
First appointed on 25th August 2000. Doug Battersby graduated with a Bachelor of Science (Geology) in 1965 and a Master of Science in Petroleum Geochemistry in 1969 from the University of Melbourne. He has over 30 years' technical and managerial experience in the oil and gas industry working in Australia and internationally for companies including Delhi, Exxon, Hartogen and PetSec.

C R Ryan - Non-Executive Director
Appointed on 11th February 2005. Chris Ryan has a Bachelor of Agricultural Science degree from the University of Melbourne, and has 18 years experience in the financial and investment markets. Formerly, a director and head of proprietary trading in treasury for ABN AMRO Bank, he started and ran a specialist private equity investment company between 2000 and 2003. During that time, Mr Ryan acquired considerable commercial experience in a number of small capitalisation companies. He currently works as a corporate consultant and is an investor in small capitalisation companies such as Eastern Star Gas Limited.

P J D Elliott was a Non-Executive Director from the beginning of the financial year until his resignation on 16 November 2004.

Company Secretary

The following person is the company secretary of the Parent Entity as at the end of the financial year and at the date of this report.

P W V M Sam Yue
Patrick Sam Yue is a Chartered Accountant, a Fellow of the Chartered Institute of Secretaries, an Associate of the Securities Institute of Australia and a member of the Institute of Company Directors. He has over 20 years experience in financial and corporate management in Australia. He held senior financial executive and company secretary positions within listed entities Sydney Gas Ltd, Minerals Corporation Limited, Beach Petroleum Limited and Claremont Petroleum NL.

Principal Activities

The principal activities of the Economic Entity during the financial year consisted of exploration for oil and gas and development and production of natural gas and production of electricity from a gas fired power station. The Parent Entity and the controlled entities were incorporated in Australia as limited liability companies and are domiciled in Australia. The Parent Entity is a publicly listed company. The controlled entities, Narrabri Power Limited and Narrabri Energy Limited are public companies and the other controlled entities, Eastern Energy Australia Pty Ltd, Tooncomet Pty Limited and Sulu Resources Pty Limited are proprietary companies.

Operating Results

The Economic Entity earned its first electricity sales revenue in the financial year amounting to $3,605,000. The net loss of the Economic Entity after income tax for the financial year was $6,994,000 (2004 - $2,995,000). The results were arrived at after writing off deferred exploration and development expenditure of $2,347,000 (2004 - $2,107,000) and provision for write down of development expenditure of $1,805,000 (2004 – Nil).

Financial Position

The net assets of the Economic Entity increased by $5,369,000 to $18,515,000 at 30 June 2005 as reflected by an increase of $2,187,000 in total assets and a reduction in total liabilities of $3,182,000. The increase in assets has been funded during the year by the issue of ordinary shares and a converting note for total proceeds of $12,738,000. The funds raised have been primarily invested in exploration, evaluation and development of conventional and coal seam gas licences and applied to the reduction of accounts payable and loans. For the subsequent financial year the Economic Entity will require new capital to continue its gas exploration, evaluation and development and other activities. The amount required will be dictated by the work program that the Economic Entity may engage in. Refer to the section under the heading "Matters Subsequent to the End of the Financial Year" on the capital raising which is in process at the date of this report.

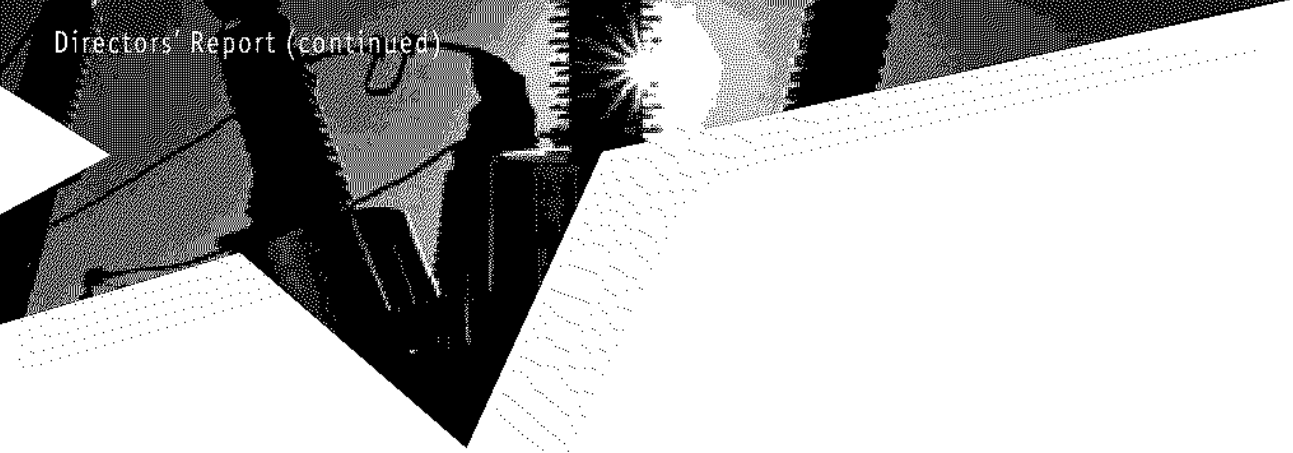
Dividends

No dividends have been paid or declared since the end of the previous financial period.

State of Affairs

The state of affairs of the Economic Entity was not affected by any significant changes during the financial year other than that the Parent Entity issued fully paid ordinary shares as follows:

(a) in July 2004 by private placement, 26,450,000 fully paid ordinary shares at 12 cents each raising $3,174,000;
(b) in July 2004 under a shareholders' Share Purchase Plan, 14,700,000 fully paid ordinary shares at 12 cents each raising $1,764,000;
(c) in September 2004 by private placement, 15,000,000 fully paid ordinary shares at 12 cents each raising $1,800,000; and
(d) in January 2005 by private placement, 18,750,000 fully paid ordinary shares at 24 cents each raising $4,500,000.



In July 2004 by private placement, the Parent Entity issued 12,500,000 converting notes at 12 cents each at zero coupon raising $1,500,000; each note mandatorily converts to one fully paid ordinary share at the maturity date on 10 June 2007 or earlier at the holders' election.

Share Options

Unissued ordinary shares of the Parent Entity under option at the date of this report are as follows:

Number	Expiry Date	Exercise Price
Unquoted		
20,091,667	1 December 2005	30 cents
1,050,000	23 May 2009	16 cents

No option holder has any right under the options to participate in any other share issue of the Parent Entity or of any other body corporate.

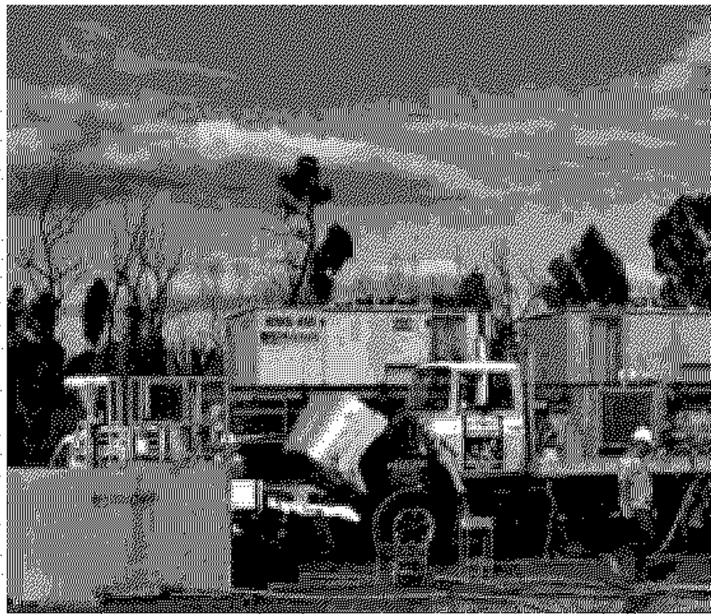
Matters Subsequent to the End of the Financial Year

There has not arisen in the interval since 30 June 2005 and up to the date of this report, any matter that, in the opinion of the Directors, has significantly affected or may significantly affect the operations of the Economic Entity, the results of those operations or the state of affairs of the Economic Entity in future financial years other than the following:

(a) In September 2005, the agreements entered into in July 2004 to farm in PELs 13 and 426, to earn 85% by completing a work program, were terminated as the Parent Entity elected not to continue with the work program due to the uncertainty arising on changes made by the NSW Government on land titles.

(b) on 26 September 2005, the Parent Entity agreed to privately place 19,239,000 fully paid ordinary shares at 13 cents each to raise $2,501,070 from sophisticated and/or professional investors; and

(c) on 26 September 2005, the Parent Entity issued a prospectus for a fully underwritten non-renounceable rights issue offer to its shareholders on the basis of

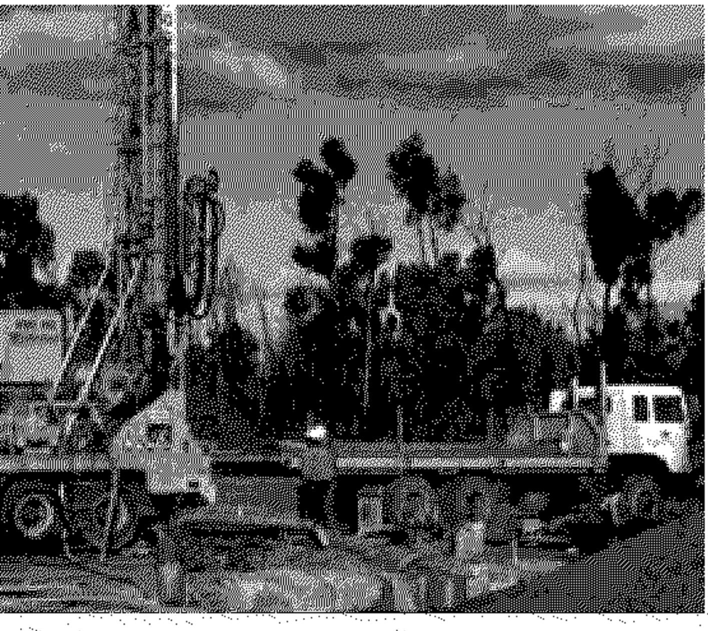


1 fully paid ordinary share for every 3 shares held on 11 October 2005 at 13 cents each to raise approximately $11,828,023 with the issue of approximately 90,984,793 fully paid ordinary shares, subject to adjustments for rounding of entitlements.

Review of Operations and Likely Developments

A detailed review of the operations for the financial year, together with future developments, are set out on pages 4 to 14. In July 2004, the Economic Entity commissioned the natural gas fired Wilga Park Power Station and associated pipeline infrastructure with gas sourced from the Coonarah Gas Field and commenced sale of electricity to Country Energy under the 10 year Power Purchase Agreement. The Economic Entity continued exploration for gas in both conventional reservoirs and coal seams. During the subsequent financial year the likely developments of the Economic Entity will involve continuation of exploration for gas in coal seams and conventional reservoirs and the development and marketing of the gas in PEL 238. Except as described elsewhere in this Annual Report the likely results

Below:
Drilling Rig Operations
in PEL 238.



of the exploration activities and development are unknown at the date of this report.

Environmental Regulations

The Economic Entity's operations are subject to significant environmental and other regulations. The Economic Entity has a policy of engaging appropriately experienced contractors and consultants to advise on and ensure compliance with environmental regulations in respect of its exploration, development and production activities. During the year, the Parent Entity employed a full time Environmental Officer to oversee practices in environmental management of the Economic Entity's activities. There have been no reports of breaches of environmental regulations in the financial year and at the date of this report.

Indemnification of Officers and Auditors

The Parent Entity has entered into a Deed of Access, Indemnity and Insurance with each of the Directors and the Secretary/Chief Financial Officer of the Company. Subject to the Corporations Act 2001, the Deed provides an indemnity in respect of liability each Director or the Secretary/Chief Financial Officer may incur in relation to the conduct of the business or affairs of the Parent Entity, acts or omission of each of the Directors or the Secretary/Chief Financial Officer in relation to the business or affairs of the Parent Entity or the performance, manner of performance or failure to perform the Directors or Secretary/Chief Financial Officer responsibilities in relation to the business or affairs of the Parent Entity, in each case in the period during which each Director (respectively) or Secretary/Chief Financial Officer holds office. The Parent Entity has not otherwise, during or since the end of the financial year, indemnified or agreed to indemnify an auditor of the Company or of any related body corporate against a liability incurred by such an auditor.

Non-audit Services

During the year, PKF, the auditor of the Economic Entity audited the Parent Entity's securities register for the purpose of Listing Rule 8.16 of Australian Stock Exchange Limited and the amount paid and payable for that service is $1,000. The Directors are satisfied that the provision of that service is compatible with the general standard of independence for auditors and did not compromise the auditor's independence being a service of a nature that is consistent with the role of auditor.

Meetings of Directors

The following table sets out the number of meetings held by the Directors of the Parent Entity during the year ended 30 June 2005 and the number of meetings attended by each Director:

	No. of Meetings Attended	No. of Meetings Held While in Office
W Davies	7	7
D Morton	7	7
D King	7	7
D Battersby	7	7
C Ryan	4	4
P Elliott	2	2

The Audit Committee met 2 times during the year ended 30 June 2005 and the two members, Messrs Battersby and King, attended both meetings.

Remuneration Report

(a) Directors and Executive

The names and positions held of Parent Entity Directors and specified Executive in office during the financial year and the previous financial year are as follows:

Parent Entity Directors

Dr W Davies (Chairman – Non-Executive), Mr D J Morton (Managing Director – Executive), Dr D W King (Executive), Mr D G Battersby (Non-Executive) Mr P J D Elliott (Non-Executive resigned on 16 November 2004), and Mr C R Ryan (Non-Executive appointed on 11 February 2005).

Specified Executive

Patrick Sam Yue (Company Secretary/Chief Financial Officer appointed on 1 March 2004)

Details of the nature and amount of remuneration for each Director and for the specified Executive are set out below.

(b) Remuneration Policy and Practices

The Economic Entity's policy for determining the nature and amount of emoluments of Board members and specified Executives is as follows:

(i) Non-Executive Directors

The Board's policy is to remunerate Non-Executive Directors at market rates for comparable companies for time, commitment and responsibilities. The Board determines payments to the Non-Executive Directors and reviews their remuneration annually, based on market practices.

The base fee of each Non-Executive Director for all Board activities is $25,000 per year and the fee for the Chairman is $40,000. Superannuation contributions equal to 9% of the fees is paid to each Non-Executive Director's personal retirement plan.

(ii) Executives

The remuneration structure for Executives, including Executive Directors, is based on a number of factors, including qualifications, particular experience and general past performance of the individual concerned, overall performance of the Economic Entity and general human resources market pricing. There is no predetermined equity compensation element within the remuneration structure nor predetermined performance condition to be satisfied. The contracts for service between the Parent Entity and the Executives are on a continuing basis, the terms of which are not expected to change in the immediate future. Executive Directors have fixed term contracts of service with the Parent Entity under which they are entitled to be paid the full amount due and payable on any unexpired part of the term or a minimum equivalent to 12 months remuneration in the event of early termination. Upon retirement Executive Directors and Executives are paid employee benefit entitlements accrued, in accordance with applicable legislation, to the date of retirement.

Executives are able to participate in the Eastern Star Gas Employee Incentive Plan at the invitation of the Board. Directors may participate in the Eastern Star Gas Employee Incentive Plan subject to approval of shareholders.

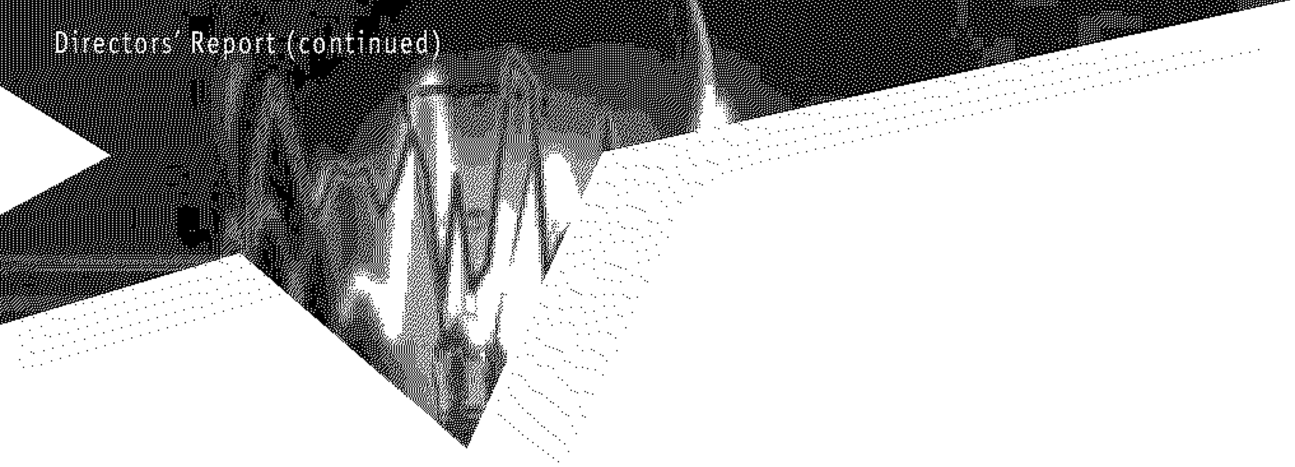
(c) Details of Remuneration

	Primary Salary and fees $	Primary Non-cash Benefits $	Post Employment Super annuation $	Total $
Parent Entity Directors				
2005				
W Davies	40,000	–	3,600	43,600
D Morton	200,000	13,194	18,000	231,194
D King	200,000	13,194	18,000	231,194
P Elliott (resigned on 16 November 2004)	9,469	–	852	10,321
D Battersby	25,000	–	2,250	27,250
C Ryan (appointed on 11 February 2005)	9,566	–	861	10,427
	484,035	26,388	43,563	553,986
2004				
W Davies	40,000	–	3,600	43,600
D Morton	200,000	13,194	18,000	231,194
D King	200,000	13,194	18,000	231,194
P Elliott	25,000	–	2,250	27,250
D Battersby	35,000	–	2,250	37,250
	500,000	26,388	44,100	570,488
Specified Executive				
2005				
P Sam Yue	92,600	7,800	114,500	214,900
2004				
P Sam Yue (appointed on 1 March 2004)	58,333	3,643	5,250	67,226

There were no options granted over unissued shares during or since the end of the financial year by the Parent Entity or a controlled entity to Directors or any specified Executive as part of their remuneration.

Securities Holdings

Securities of the Parent Entity held directly, indirectly or beneficially, by each Director and specified Executive, including their personally-related entities are as follows:



(a) Options

Each option held by Directors is exercisable for one ordinary share at 30 cents on or before 1 December 2005. Each option held by the specified Executive is exercisable for one ordinary share on or before 30 June 2005.

	Beginning of Year Number	Net Change Other Number	Granted Number	End of Year Number
Parent Entity Directors				
2005				
W Davies	1,260,000	–	–	1,260,000
D Morton	4,166,666	–	–	4,166,666
D King	4,166,666	–	–	4,166,666
P Elliott (resigned on 16 November 2004)	2,130,000	(2,130,000)	–	–
D Battersby	4,796,666	–	–	4,796,666
C Ryan (appointed 11 February 2005)	–	–	–	–
	16,519,998	(2,130,000)	–	14,389,998
2004				
W Davies	1,260,000	–	–	1,260,000
D Morton	4,166,666	–	–	4,166,666
D King	4,166,666	–	–	4,166,666
P Elliott	2,130,000	–	–	2,130,000
D Battersby	4,796,666	–	–	4,796,666
	16,519,998	–	–	16,519,998

	Beginning of Year Number	Expired Number	Granted Number	End of Year Number
Specified Executive				
P Sam Yue				
2005				
20 cents per share	87,500	(87,500)	–	–
25 cents per share	87,500	(87,500)	–	–
	175,000	(175,000)	–	–
2004				
(from 1 March 2004)				
20 cents per share	87,500	–	–	87,500
25 cents per share	87,500	–	–	87,500
	175,000	–	–	175,000

(b) Convertible Notes

Mr C Ryan held 500,000 of $1.00 Convertible Notes at the time of his appointment as a Director on 11 February 2005. The Convertible Notes were issued by the Parent Entity on 15 December 2003, are unsecured, interest free in the first year and then earn interest at a rate of 10% per annum payable quarterly in arrears on the remaining 2 years of the 3 year term of the Convertible Notes if not converted to shares. The Convertible Notes are convertible into fully paid ordinary shares at 11 cents per share at any time up to 15 December 2006 at the holder's election.

(c) Ordinary Shares

	Beginning of Year	Acquired under Share Purchase Plan	Net Change Other	End of Year
	Number	Number	Number	Number
Parent Entity Directors				
2005				
W Davies	850,343	40,000	–	890,343
D Morton	18,333,333	80,000	–	18,413,333
D King	18,333,333	80,000	–	18,413,333
D Battersby	18,333,333	80,000	–	18,413,333
C Ryan (appointed 11 February 2005)	–	–	3,070,002	3,070,002
P Elliott (resigned on 16 November 2004)	3,000,000	–	(3,000,000)	–
	58,850,342	280,000	70,002	59,200,344
2004				
W Davies	130,343	–	720,000	850,343
D Morton	18,333,333	–	–	18,333,333
D King	18,333,333	–	–	18,333,333
P Elliott	3,000,000	–	–	3,000,000
D Battersby	18,333,333	–	–	18,333,333
	58,130,342	–	720,000	58,850,342

	Beginning of Year Number	Net Change Number	End of Year Number
Specified Executive			
2005			
P Sam Yue	3,277,051	509,079	3,786,130
2004			
P Sam Yue (appointed on 1 March 2004)	3,047,051	230,000	3,277,051

Loan

A loan was made on 30 June 2004 to the specified Executive under the Eastern Star Gas Employee Incentive Plan to subscribe for fully paid ordinary shares in the Parent Entity. The loan is interest free and matures on 30 June 2009. The issued shares may not be dealt with by the specified Executive until the loan has been repaid. The repayment of the loan is limited to the proceeds on eventual disposal of the shares.

	Beginning of Year $	Interest $	Interest Not Charged $	End of Year $	Number in Group
Specified Executive	30,000	–	–	30,000	1

Employee Incentive Plan

The Parent Entity has established an Eastern Star Gas Employee Incentive Plan under which the Directors may offer options and ordinary shares in the Parent Entity to eligible persons. The Directors may also offer interest free loans for terms of up to 5 years under the plan for subscription of shares and under such loans the Parent Entity holds a lien over the issued shares. The options are issued free at grant. The exercise price of the options cannot be less than 20 cents per share or the market value of a share at the time of offer of the shares. The shares may not be subscribed for less than the market value of the shares at the time an offer is made under the plan. The maximum total number of options and shares that may be offered or issued under the plan may not exceed 5% of the total issued shares of the Parent Entity.

In the case of a disqualifying event arising with respect to a participant under the plan, any options held by that participant which have not been exercised will lapse, except that a period of 6 months is allowed for the exercise of the options, subject to the expiry date of the options, in the case of the participant ceasing to be an eligible person by reason of death, disability or retirement at normal retirement age. Any loan extended for the subscription of shares to that participant becomes repayable immediately and if the loan is not repaid the Parent Entity may dispose the shares on the market to satisfy the debt of the participant but with no recourse to the participant should the proceeds be insufficient to repay the loan.

The shares issued under the plan ranks pari passu with other issued ordinary shares and are not listed while there are loans outstanding on the subscription of the shares.

No options or shares were granted under the plan during the financial year. At 30 June 2005 the Parent Entity has loans of $225,000 made to the participants under the plan against 1,875,000 ordinary shares issued in 2004 at 12 cents each.

Auditor's Independence Declaration

The lead auditor's independence declaration for the year ended 30 June 2005 has been received and can be found on page 26.

Rounding of Amounts

Amounts in the financial report and Directors' report have been rounded to the nearest thousand dollars in accordance with Australian Securities and Investments Commission Class Order 98/100.

This report is made in accordance with a resolution of Directors.

Dated this 26th day of September 2005.

Dennis Morton
Director

A Member Firm of PKF International

PKF

Chartered Accountants
& Business Advisers

NSW Partnership
ABN 83 236 985 726

Level 10, 1 Margaret Street
Sydney NSW 2000

DX 10173 Sydney Stock Exchange NSW

Tel: 61 2 9251 4100
Fax: 61 2 9240 9821

www.pkf.com.au

Lead auditor's independence declaration

Under section 307C of the Corporations Act 2001

To the Directors of Eastern Star Gas Limited

I declare that, to the best of my knowledge and belief, in relation to the audit for the year ended 30 June 2005, there have been:

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

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

PKF

Chartered Accountants & Business Advisers

B R Gordon

Partner

Sydney

26 September 2005

Corporate Governance Policy

The Board of Directors monitors the business and affairs of the Economic Entity on behalf of the shareholders by whom they are elected and to whom they are accountable. To assist the Board in discharging its responsibilities, the Board has adopted the following principles of corporate governance that are considered appropriate for the present size of the Economic Entity and that unless otherwise explained, follows the recommendations of the Australian Stock Exchange (ASX) Corporate Governance Council.

Board Charter

The Board is responsible for:

(i) developing, approving and monitoring implementation of corporate policy, strategy and performance objectives;

(ii) developing and monitoring adoption of the most appropriate principles of corporate governance;

(iii) reviewing and ratifying systems of risk management and internal control, codes of conduct and legal compliance;

(iv) approving and monitoring the progress of major capital expenditure projects, funding programmes, acquisitions and divestments;

(v) reviewing and approving annual business plans, operating and capital budgets;

(vi) reviewing and ratifying systems for health, safety and environment management and controls;

(vii) appointing and evaluating the performance of senior executives; and

(viii) selecting and appointing new Directors to the Board, and evaluating the performance of all members of the Board.

Composition of the Board

The composition of the Board is determined in compliance with the Parent Entity's constitution and in accordance with the following principles and guidelines:

(i) the Board shall comprise at least three Directors, increasing where additional expertise is considered desirable in certain areas to a maximum of ten Directors;

(ii) at each annual general meeting, except for the Managing Director, a Director appointed since the last annual general meeting, a Director who has attained the age of 72 years, one third of the other Directors, and any Director for whom that annual general meeting would be his third annual general meeting or who has been in office for three years since his last appointment, shall automatically retire and be eligible for re-election;

(iii) the Board shall comprise a majority of non-executive and independent Directors;

(iv) the office of Chairman and of Chief Executive Officer or Managing Director shall not be held by the same person; and

(v) Directors may bring characteristics that allow a mix of qualifications, skills, expertise and experience.

The Board reviews its composition on an annual basis to ensure that it has the appropriate mix of expertise and experience. Where a vacancy exists, for whatever reason, or where it is considered that the Board would benefit from the services of a new Director with particular skills and expertise, the Board selects that new Director from appropriate candidates with relevant qualifications, skills, expertise and experience.

The name, skills, expertise, experience and date of appointment of each Director in office at the date of this annual report is set out in the Directors' Report. The Board presently is composed of a majority of independent

Directors. Dr Wyn Davies, Mr Chris Ryan and Mr Douglas Battersby are non-executive Directors and are considered by the Board to be independent Directors. Mr Battersby is a substantial shareholder, however the Board considers him to be independent as he is one of four substantial shareholders and he has no other relationship that could be perceived to materially interfere with his unfettered and independent judgement. The other Directors are considered to be not independent for the following reasons: Mr Dennis Morton is the Managing Director and Dr David King is an Executive Director and both are substantial shareholders.

Nomination

Given the present size of the Economic Entity, the existing Board structure is able to meet the needs of the Economic Entity in the examination of selection and appointment practices without the establishment of a nomination committee of the Board, a committee which is recommended by the ASX Corporate Governance Council.

Independent Professional Advice

Each Director has the right to seek independent professional advice at the Company's expense. However, prior approval is required and not be unreasonably withheld, from the Chairman.

Performance Assessment

The performance of individual Directors is reviewed annually by the Board under a peer review procedure. Any identified areas of unsatisfactory performance are addressed with the individual Director concerned.

Remuneration Committee

The Board has established a Remuneration Committee consisting of Dr Wyn Davies, Mr Douglas Battersby and Mr Chris Ryan. The Remuneration Committee reviews the remuneration packages and policies applicable to all Directors and senior executives on an annual basis and makes recommendations to the Board. The policy is for remuneration levels to be competitively set to retain and/or attract qualified and experienced Directors and senior executives. Where necessary, the Remuneration Committee obtains independent advice on the appropriateness of remuneration packages.

Business Risk

The Board monitors and receives advice as required on areas of operational and financial risk, and considers appropriate risk management strategies.

Specific areas of risk that are identified are regularly considered at Board meetings. Included in these areas are performance of activities, human resources, health, safety and the environment, continuous disclosure obligations, asset protection and financial exposures.

Code of Conduct

Ethical Standards

The Board's policy is for the Directors and management to conduct themselves with the highest ethical standards. All Directors and employees are expected to act with integrity and objectivity, striving at all times to enhance the reputation and performance of the Economic Entity.

In particular, Directors and employees must at all times: manage situations where their personal interests may conflict with the interests of the Economic Entity; not take advantage of property, information or position for personal gain; not compete with the Economic Entity; not use non-public information except where disclosure is authorised or legally mandated; deal fairly with customers, suppliers, competitors and employees; protect and make proper use of the Economic Entity's assets; comply with laws and regulations, and actively promote compliance; and report any unlawful or unethical behaviour knowing that they will have proper protection by the Board when making such reports in good faith.

Environment, Health and Safety Management

The Board recognises the importance of environmental, occupational health and safety issues, and is committed to the highest standards of performance. All Directors and employees are required to comply with all relevant legislation, continually assess and improve the impact of the Economic Entity's operations on the environment, and encourage the adoption of similar standards by the Economic Entity's principal suppliers, contractors and joint venture partners.

The Board regularly reviews risk management with management at Board meetings.

Securities Trading

The Board has set a policy on dealing with securities of the Company. Directors and employees, and their family members and close associates, may not buy, sell or subscribe for any securities of the Company, whether on their own account or on behalf of another person, other than during the two week period following one business day after the release to the Australian Stock Exchange Limited (ASX) of the quarterly report, the half year or full year financial results or the annual report of the Economic Entity.

Financial Reporting

Financial Report

To assist the Board in approving the Economic Entity's financial report, the Managing Director, the Executive Director and the Chief Financial Officer are required to present a statement with regard to the integrity of the financial statements of the Economic Entity to confirm 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 that operational results are in accordance with applicable accounting standards and the Corporations Act 2001. In addition management is required to complete a Directors' Questionnaire to support the statement.

Audit

The Board has established an Audit Committee to assist in matters relating to the audit functions and to safeguard the integrity of the Company's financial reporting.

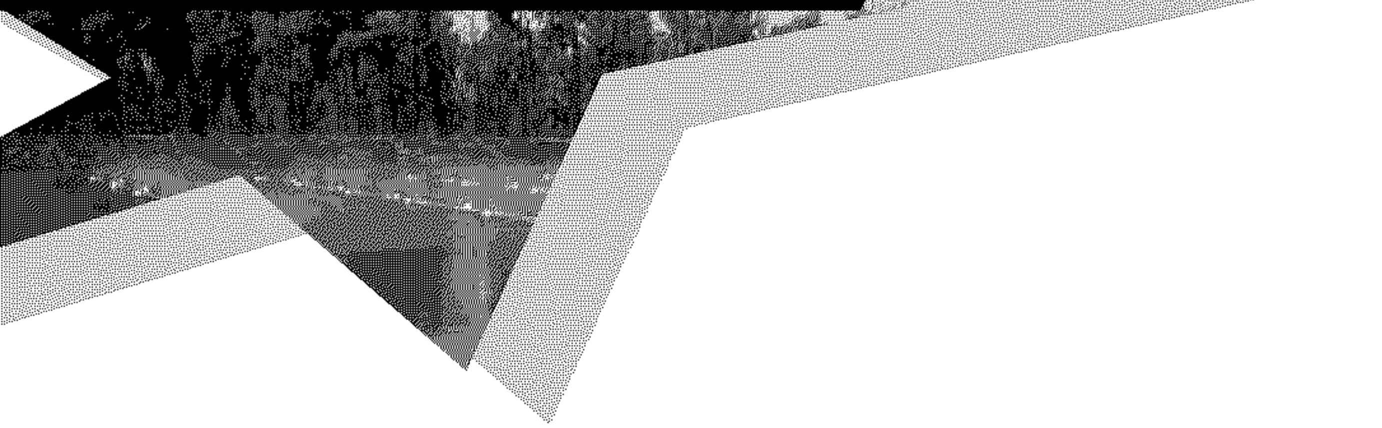
The auditor has been invited to attend the Company's forthcoming Annual General Meeting and will be available to answer questions put to him by members at the meeting.

The Board has set an Audit Policy which states the services that may or may not normally be conducted by the Company's external auditing firm under the following guiding principles:

Acceptable Services

The auditing firm may provide audit and audit-related services that are consistent with the role of auditor, although outside the scope of the audit required under the Corporations Act 2001. These include audit-related services and reviews required by third parties. Examples include:

- financial audits;
- audits of regulatory returns, such as Workcover;
- audits of the share register as required under the Listing Rules of Australian Stock Exchange Limited;
- reviews undertaken for trustees of convertible notes, bankers, joint venture partners and owners of royalty and net profit interests; and
- reviews of the adequacy of controls and recommendations for improvements.



Unacceptable Services

The auditing firm should not provide services that are perceived to be materially in conflict with the role of auditor. These include investigations and consulting advice and subcontracting of operational activities normally undertaken by management, and where the auditor may ultimately be required to express an opinion on its own work. Examples include:

- investigating accountant work on securities transactions;
- due diligence on potential acquisitions or investments/ divestments;
- advice on deal structuring and assistance in deal documentation;
- tax planning and strategy;
- designing or implementing new IT systems or financial controls;
- advice on sales and purchasing contracts;
- book-keeping;
- valuations;
- executive recruitment and appointments;
- senior management secondments; and
- internal audit activities.

Services Subject to Specific Approval

The auditing firm may be permitted to provide non-audit services that are not perceived to be materially in conflict with the role of auditor, subject to the express approval of the Audit Committee. Examples include:

- advice on appropriate accounting standards; and
- review of legislation and advice on its application to the Company.

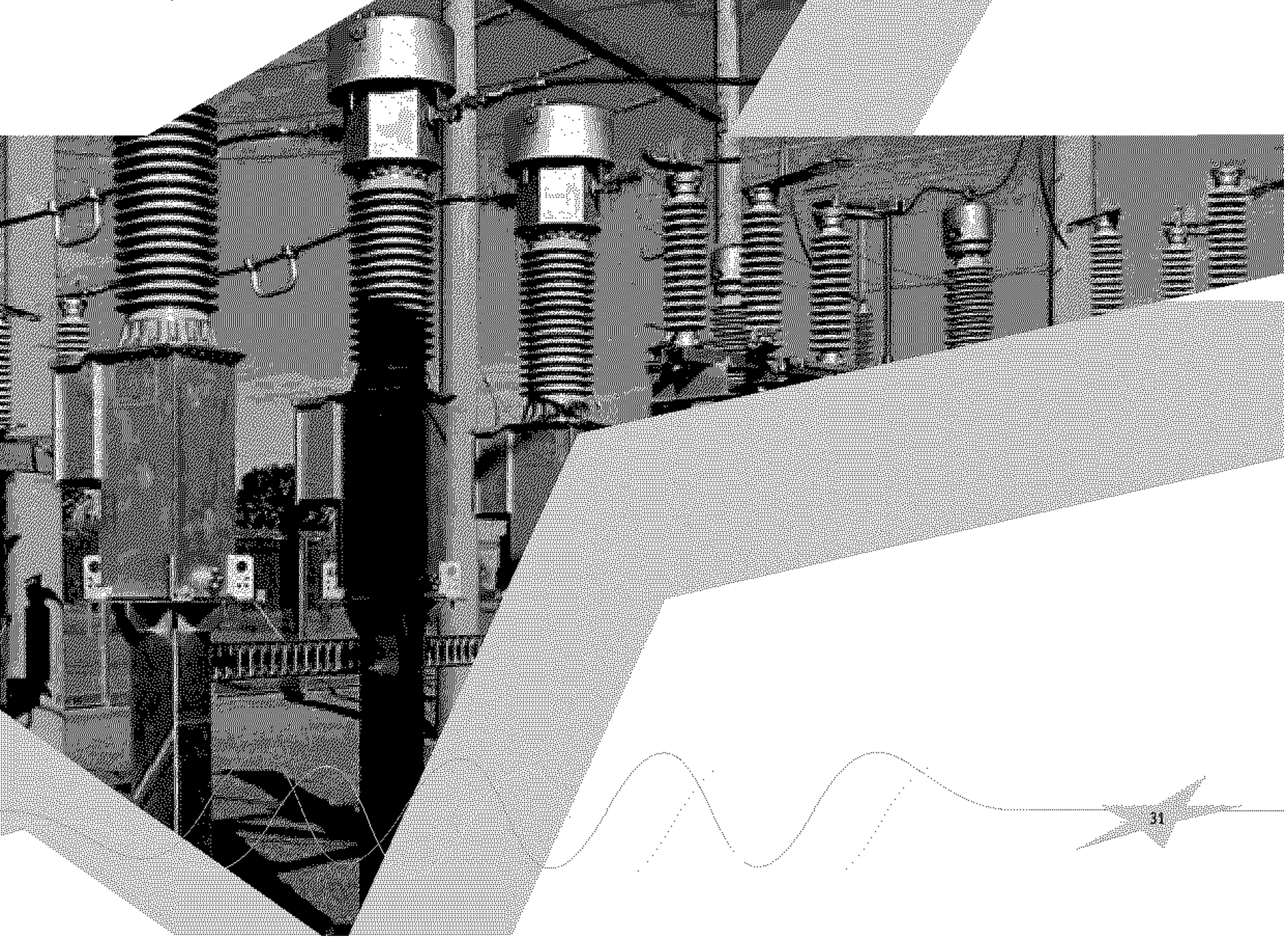
Exception

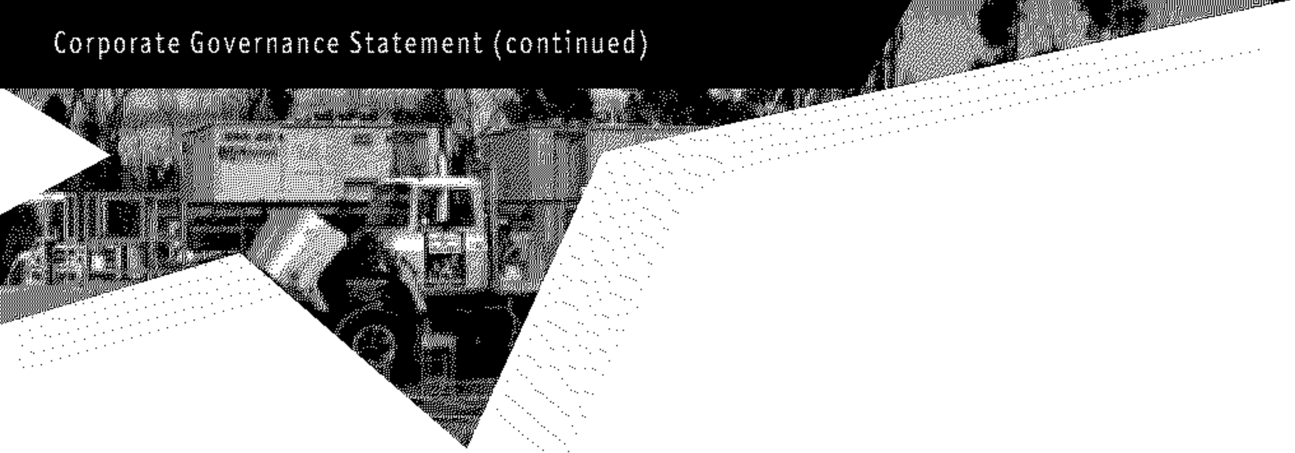
An exception can be made to the above policy where the variation is in the interests of the Economic Entity and

arrangements are put in place to preserve the integrity of the audit of the Economic Entity's accounts. Any such exception requires the approval of the Board.

Audit Committee

The membership of the Audit Committee consists of two Directors. Mr Douglas Battersby, the Chairman of the Audit Committee, is a geologist and executive experienced in the oil and gas industry. Dr David King is a geophysicist and executive experienced in the management of oil and gas entities and an Executive Director. Further details on the qualifications, experience and expertise of the members of the Audit Committee are set out in the Directors' Report. The Audit Committee did not consist of independent directors only as recommended by the ASX Corporate Governance Council, given the size of the Parent Entity and its Board and the inability of other non-executive Directors to allocate time





to attend the committee meetings as and when required. The membership of the Audit Committee will change and expand when the size of the Economic Entity warrants.

Senior executives and the auditors are invited to attend meetings as required to assist the Audit Committee with its deliberations. The Audit Committee met two times during the financial year with attendances by Mr Bruce Gordon, the audit partner from PKF.

The Audit Committee is responsible for:

(i) reviewing the quality and integrity of the Economic Entity's financial reporting to shareholders, the ASX and the Australian Securities and Investments Commission;
(ii) reviewing the accounting policies, internal controls, practices and disclosures to assist the Board in making informed decisions, with direct access to management;
(iii) reviewing the scope and outcome of external audits, with direct access to external auditors;
(iv) nominating external auditors and reviewing the adequacy of existing external audit arrangements;
(v) ensuring the independence of external auditors and reviewing any other services provided by them;
(vi) reviewing the Economic Entity's risk management systems; and
(vii) reporting to the Board on its meetings and the results of any assessments and reviews.

Listing Rules Disclosures

The Board's policy is for all investors to have equal and timely access to material information concerning the Economic Entity, including its financial position, performance, ownership and governance.

The Board has delegated the function of continuous disclosure under the ASX's Listing Rules to the Managing Director, the Executive Director and the Company Secretary to assess the type of information that needs to be disclosed and to ensure that Company's announcements are made in a timely manner, are factual, do not omit material information and are in compliance with the Listing Rules. Information which is considered to be price sensitive is approved by the Board before its release.

Shareholder Communication

The Board has established practices to facilitate communication with the Parent Entity's shareholders. The Company Secretary oversees this process through the Company's website and direct mailing by email and/or post. Major shareholders and investors are invited to visit the Economic Entity's gas development and producing field and power plant to view operations and to be briefed by management. Regular briefings are held with professional investors and at industry forums. Prior to such briefings, information to be given is first released to the ASX and later broadcast to shareholders/investors who have registered their email address with the Economic Entity.

Eastern Star Gas Limited and Controlled Entities

FINANCIAL INFORMATION

Statements of Financial Performance for the year ended 30 June 2005

	Note	Economic Entity 2005 $ 000	Economic Entity 2004 $ 000	Parent Entity 2005 $ 000	Parent Entity 2004 $ 000
Revenue from ordinary activities					
Operating activities					
Sales		3,605	–	–	–
Interest income		278	108	249	108
Research and development rebate		–	88	–	88
Other		92	–	5	–
Total Revenue		**3,975**	**196**	**254**	**196**
Expenses from ordinary activities					
Raw materials and consumables used		(3,234)	–	–	–
Exploration and development expenditure written off		(2,347)	(2,107)	(1,707)	(2,107)
Provision for write down of development expenditure to recoverable amount		(1,805)	–	–	–
Depreciation and amortisation		(1,725)	(73)	(88)	(73)
Restoration and rehabilitation		(150)	–	–	–
Provision for write down of investment in controlled entity		–	–	(4,050)	–
Provision for non-recovery of amount receivable from controlled entity		–	–	(711)	–
Borrowing costs		(582)	(99)	(203)	(99)
Other	2	(1,126)	(912)	(997)	(912)
Total Expenses		**(10,969)**	**(3,191)**	**(7,756)**	**(3,191)**
Loss from ordinary activities before income tax expense		**(6,994)**	**(2,995)**	**(7,502)**	**(2,995)**
Income tax expense relating to ordinary activities	3	–	–	–	–
Net loss attributable to members of the Parent Entity		**(6,994)**	**(2,995)**	**(7,502)**	**(2,995)**
Expenses attributable to members of the Parent Entity and recognised directly in equity	15(a)	(375)	(63)	(375)	(63)
Total changes in equity other than those resulting from transactions with owners as owners		**(7,369)**	**(3,058)**	**(7,877)**	**(3,058)**

The above Statements of Financial Performance are to be read in conjunction with the accompanying notes.

	Note	Economic Entity 2005 $ 000	Economic Entity 2004 $ 000
Basic loss per share	1(t)	2.9 cents	2.1 cents
Operating loss after income tax used in the calculation of basic loss per share		(6,994)	2,995
		Number	**Number**
Weighted average number of ordinary shares outstanding during the year used in the calculation of basic loss per share		237,607,409	142,535,697

The above Statements of Financial Performance are to be read in conjunction with the accompanying notes.

		Economic Entity		Parent Entity	
		2005	2004	2005	2004
	Note	$ 000	$ 000	$ 000	$ 000
Current Assets					
Cash assets	21(a)	1,542	4,547	1,469	4,449
Receivables	4	634	880	13,726	4,819
Other	5	467	268	355	259
Total Current Assets		2,643	5,695	15,550	9,527
Non-Current Assets					
Receivables	6	225	225	225	225
Well equipment		603	245	239	245
Property, plant and equipment	7	5,053	5,204	325	216
Exploration, evaluation and development expenditure	8	15,392	10,360	4,193	2,686
Other financial assets	9	–	–	–	4,050
Total Non-Current Assets		21,273	16,034	4,982	7,422
Total Assets		23,916	21,729	20,532	16,949
Current Liabilities					
Payables	10	966	3,083	295	1,820
Interest-bearing liabilities	11	919	1,471	84	9
Provision	12	118	122	118	122
Total Current Liabilities		2,003	4,676	497	1,951
Non-Current Liabilities					
Interest-bearing liabilities	13	3,248	3,907	2,028	1,852
Provision	14	150	–	–	–
Total Non-Current Liabilities		3,398	3,907	2,028	1,852
Total Liabilities		5,401	8,583	2,525	3,803
Net Assets		**18,515**	**13,146**	**18,007**	**13,146**
Equity					
Contributed equity	15	32,368	20,005	32,368	20,005
Accumulated losses	16	(13,853)	(6,859)	(14,361)	(6,859)
Total Equity		**18,515**	**13,146**	**18,007**	**13,146**

The above Statements of Financial Position are to be read in conjunction with the accompanying notes.

Statements of Cash Flows for the year ended 30 June 2005

		Economic Entity		Parent Entity	
		2005	2004	2005	2004
	Note	$ 000	$ 000	$ 000	$ 000
Cash Flows from Operating Activities					
Receipts from customers and others		3,634	–	–	–
Payments to suppliers and employees		(4,427)	(817)	(1,031)	(817)
Interest received		263	103	235	103
Interest paid		(427)	(6)	(127)	(6)
Research and development rebate received		–	253	–	253
Sundry receipts		5	–	4	–
Net Cash Used in Operating Activities	21(b)	(952)	(467)	(919)	(467)
Cash Flows from Investing Activities					
Payments for property, plant and equipment		(1,227)	(4,616)	(209)	(154)
Payments for exploration and development		(13,668)	(1,227)	(4,680)	(932)
Payments for security deposits		(76)	(84)	(76)	(84)
Payments to controlled entities		–	–	(9,459)	(1,355)
Net Cash Used in Investing Activities		(14,971)	(5,927)	(14,424)	(2,525)
Cash Flows from Financing Activities					
Contributions from joint venture partner		2,000	–	–	–
Proceeds from issue of shares		11,238	4,775	11,238	4,775
Capital raising costs		(375)	(63)	(375)	(63)
Proceeds from issue of converting/convertible notes		1,500	2,000	1,500	2,000
Proceeds from project finance		–	3,500	–	–
Repayment of project finance		(1,445)	–	–	–
Net Cash Provided by Financing Activities		12,918	10,212	12,363	6,712
Net (Decrease) Increase in Cash Held		(3,005)	3,818	(2,980)	3,720
Cash at the Beginning of the Financial Year		4,547	729	4,449	729
Cash at the End of the Financial Year	22 (a)	1,542	4,547	1,469	4,449

The above Statements of Cash Flows are to be read in conjunction with the accompanying notes.

Note 1 – Summary of Accounting Policies

The financial report is a general purpose financial report which has been drawn up in accordance with Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board, Urgent Issues Group Consensus Views and the Corporations Act 2001.

(a) Basis of accounting

The financial report has been prepared on the historical cost basis and does not take into account changing money values. Cost is based on the fair values of the consideration given in exchange for assets.

(b) Principles of consolidation

The consolidated accounts have been prepared by combining the financial statements of all the entities that comprise the Economic Entity, being Eastern Star Gas Limited (Parent Entity) and its controlled entities as defined in Accounting Standard AASB1024 "Consolidated Accounts". A list of controlled entities appears in Note 17. Consistent accounting policies have been employed in the preparation and presentation of the consolidated accounts.

The consolidated accounts include the information and results of each controlled entity from the date on which the Parent Entity obtains control and until such time as the Parent Entity ceases to control such entity.

In preparing the consolidated accounts, all inter-company balances and transactions, and unrealised profits arising within the Economic Entity, are eliminated in full.

(c) Operating cycle

An operating cycle of twelve months has been used as the basis for identifying current assets and current liabilities in the Statement of Financial Position.

(d) Revenue recognition

(i) Sale of Products

Revenue from the sale of products is recognised when control of the products has passed to the buyer, the amount of revenue can be measured reliably and it is probable that it will be received by the Economic Entity.

(ii) Interest revenue

Interest revenue is recognised on a time proportionate basis that takes into account the effective yield on the financial asset.

(e) Borrowing costs

Borrowing costs include interest on short-term and long-term borrowings, ancillary costs incurred in connection with the arrangement of borrowings, amount payable on interest rate swap contact and finance lease charges. Borrowing costs are recognised as expenses in the period in which they are incurred except where they are included in the cost of projects under development.

(f) Foreign currency translation

Foreign currency transactions during the year are translated to Australian currency at the rates of exchange applicable at the dates of the transactions. Amounts receivable and payable in foreign currencies at balance date are converted at the rates of exchange current at that date. The gains and losses from translation of assets and liabilities, whether realised or unrealised, are included in profit or loss from ordinary activities as they arise.

(g) Income tax

Income tax has been brought to account using a method of tax effect accounting whereby income tax expense for the period is calculated on the accounting profit after adjusting for items which, as a result of their treatment under income tax legislation, create permanent differences between that profit and the taxable income. The tax effect of timing differences, which arise from the recognition in the accounts of items of revenue and expenses in periods different from those in which they are assessable or allowable for income tax purposes, are represented in the Statements of Financial Position as "future income tax benefits" or "provision for deferred income tax", as the case may be at current tax rates. A future income tax benefit is only carried forward as an asset where realisation of the benefit can be regarded as being assured beyond reasonable doubt.

(h) Cash

For the purposes of the Statement of Cash Flows, cash includes deposits at call which are readily convertible to cash on hand and are subject to an insignificant risk of changes in value.

(i) Receivables

Trade accounts receivable and other receivables represent the principal amounts due at balance date plus accrued interest and less, where applicable, any unearned income and provisions for doubtful accounts.

(j) Recoverable amounts

The carrying amounts of non-current assets do not exceed the net amounts that are expected to be recovered through the cash inflows and outflows arising from the continued use and subsequent disposal of the assets. The expected net cash flows included in determining the recoverable amounts have been discounted to their present value at a rate of 10%. Where a group of assets work together to generate net cash inflows, the recoverable amount test is applied to that group of assets.

(k) Well equipment

Tubing, pipes and other parts acquired for use on wells are stated at cost. When installed in wells these parts will be included as part of deferred exploration, evaluation and development expenditure.

(l) Property, plant and equipment

Property, plant and equipment are stated at cost. On disposal of an item of property, plant and equipment, the difference between the sales proceeds and the carrying amount of the asset is recognised as a gain or loss. All items of property, plant and equipment, except for land, are depreciated using the straight line method over their expected useful lives to the Economic Entity. The expected useful lives are as follows:

Office furniture	10 years
Computer equipment	3 years
Other office equipment	5 years
Field plant and equipment	5 years
Motor vehicles	5 years

The power plant and the pipeline under construction in 2004 were stated at cost, including finance costs. On commissioning in July 2004, certain connection equipment has been transferred to Country Energy, the electricity network services provider, in accordance with equipment ownership requirement of the National Electricity Code and that equipment remains in the carrying value of the plant. After commissioning, the power plant and the pipeline are depreciated on a units of production basis over the useful life of the gas fields that supply the power plant and use the pipeline, determined by reference to estimated proved and probable reserves but not exceeding a useful life of 10 years.

The carrying amount of plant and equipment is reviewed to ensure it is not in excess of the recoverable amount of those assets. The recoverable amount is assessed on the basis of the expected net cash flows arising from the assets' employment and subsequent disposal. The expected net cash flows are discounted to their present values at a rate of 10% in determining recoverable amounts.

(m) Exploration, evaluation and development expenditure

Exploration, evaluation and development expenditure incurred is accumulated in respect of each identifiable area of interest, and carried forward in the statement of financial position where:

(a) rights to tenure of the area of interest are current; and
(b) one of the following conditions is met:
   (i) such costs are expected to be recouped through successful development and exploitation of the area of interest or alternatively, by its sale; or
   (ii) exploration and/or evaluation activities in the area of interest have not at balance date yet 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 areas continuing.

Indirect costs relating to exploration, evaluation and development in areas of interest are capitalised in the year they are incurred. Development expenditure related to an area of interest in the pre-production stage is carried forward to the extent that such expenditure is expected to be recouped. A regular review is undertaken of each area of interest to determine the appropriateness of continuing to carry forward costs in relation to that area of interest. At such regular review the indirect costs arising during the early stages of a project are written off when deemed inappropriate to continue to be carried forward. Accumulated expenditure on areas which have been abandoned, or are considered to be of no value, is written off in the year in which such a decision is made.

On the commencement of production in an area of interest, accumulated exploration, evaluation and development costs for that area are amortised on a units of production basis over the useful life of the field determined by reference to the estimated proved and probable reserves.

(n) Controlled entities

Investment in the controlled entities is carried in the Parent Entity's accounts at cost less provision for write down.

The carrying amount of investments is reviewed every six months by Directors to ensure it is not in excess of the recoverable amount of these investments. The recoverable amount is assessed from the shares' current market value or the underlying net assets in the particular companies. The expected net cash flows from investments have been discounted to their present values at a rate of 10% in determining the recoverable amounts, except where stated.

Dividends are brought to account in the Statement of Financial Performance when received except for dividends from controlled entities which are brought to account when they are declared by the controlled entity.

(o) Accounts payable

Accounts payable represent the principal amounts outstanding at balance date plus, where applicable, any accrued interest. The carrying amounts of accounts payable approximate net fair values.

(p) Convertible notes

Convertible notes, issued by the Parent Entity, are compound financial instruments that contain both a financial liability and an equity element. The financial liability is a contractual obligation to deliver cash at the maturity date and under certain circumstances prior to maturity date if the notes have not been converted and the equity element is a call option granting the holder the right, from the date of issue until the maturity date, to convert the notes into fully paid ordinary shares at a predetermined price per share. On issue of the notes, the value of the liability component, being the present value of the contractually determined stream of future cash flows discounted at the applicable market rate of interest, is included as a liability on the Statement of Financial Position. The difference between the total value of the liability component and the proceeds of the notes issue is recognised as the value of the equity component and credited to issued capital.

(q) Converting note

Converting notes, issued by the Parent Entity, that convert at maturity date to a predetermined number of fully paid ordinary shares with no option exercisable by the Parent Entity or the holder for the redemption of the converting notes for cash or another financial asset, are classified as equity in the Statement of Financial Position.

(r) Joint venture

Interests in joint ventures have been reported in the accounts by including the Economic Entity's share of assets employed in the joint ventures, the share of liabilities incurred in relation to the joint ventures and the share of expenses incurred in relation to the joint ventures in their respective classification categories.

(s) Restoration and rehabilitation obligations

A provision for restoration and rehabilitation obligations is recognised on a gradual basis over the life of the exploration licences. The amount recognised includes costs of reclamation and site rehabilitation after taking into account restoration works which are carried out during exploration. Costs are determined from estimates of future costs on an undiscounted basis.

(t) Earnings per share

(a) Basic earnings per share
Basic earnings per share is determined by dividing the operating loss after income tax attributable to members of the Parent Entity by the weighted average number of ordinary shares outstanding during the financial year.

(b) Diluted earnings per share
Diluted earnings per share adjusts the figures used in the determination of basic earnings per share by taking into account any reduction in earnings per share that will probably arise from the exercise of options outstanding during the financial year.

When the earnings of the Economic Entity is an operating loss after income tax and the conversion of ordinary share capital in respect of potential ordinary shares does not lead to a diluted earnings per share that shows an inferior view of the earnings performance of the Economic Entity, than is shown by basic earnings per share, the diluted earnings per share is not reported.

(u) Employee benefits

The following liabilities arising in respect of employee benefits are measured at their nominal amounts:

- salaries and annual leave regardless of whether they are expected to be settled within twelve months of the reporting date; and
- other employee benefits expected to be settled within twelve months of the reporting date.

At balance date there were no other employee benefit liabilities expected to be settled more than twelve months after the reporting date.

(v) Leases

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

(w) Goods and Services Tax (GST)

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

(x) Rounding of amounts

The Parent Entity and Economic Entity have applied the relief available under Australian Securities and Investments Commission Class Order 98/100 and accordingly, amounts in the financial report and Directors' report have been rounded to the nearest thousand dollars.

(y) Adoption of Australian Equivalents to International Financial Reporting Standards

The Economic Entity is preparing and managing the transition to Australian Equivalents to International Financial Reporting Standards (AIFRS) effective for the financial years'commencing from 1 January 2005. The adoption of AIFRS will be reflected in the Economic Entity's and the Parent Entity's financial statements for the financial year ending 30 June 2006. On first time adoption of AIFRS, comparatives for the financial year ended 30 June 2005 are required to be restated. The majority of the AIFRS transitional adjustments will be made retrospectively against retained earnings at 1 July 2004.

The Economic Entity has assessed the significance of the expected changes and is preparing for their implementation. The impact of the alternative treatments and elections under AASB 1: First Time Adoption of Australian Equivalents to International Financial Reporting Standards has been considered where applicable.

In the opinion of the Directors, the key material differences in the Economic Entity's accounting policies on conversion to AIFRS and the financial effect of these differences, where known, are set out below. However the amounts disclosed could change if there are any amendments by standard-setters to the current AIFRS or changes in interpretation of the AIFRS requirements.

Income Tax: Currently the Economic Entity adopts the liability method of tax-effect accounting whereby the income tax expense is based on the accounting profit adjusted for any permanent differences. Timing differences are currently brought to account as either a provision for deferred income tax or future income tax benefit. Under AASB 112: Income Taxes, the Economic Entity will be required to adopt a balance sheet approach under which temporary differences are identified for each asset and liability rather than the effects of the timing and permanent differences between taxable income and accounting profit.

The Economic Entity has not recognised future income tax benefits or deferred income tax liabilities in past years on the basis of lack of virtual certainty in deriving sufficient taxable amounts to permit timing differences to reverse. Consistent with this approach the Economic Entity has not recognised any temporary differences under AASB 112 until there is sufficient probability that these taxable amounts will be derived in future years.

Derivative Financial Instruments: The Economic Entity does not currently recognise derivative financial instruments in the financial statements. AASB 139: Financial Instruments: Recognition and Measurement requires a change to the method of accounting for derivative financial instruments and hedging activities so that they are recorded in the financial statements. AASB 1 provides an election whereby the requirements of AASB 139 dealing with financial instruments are not required to be applied to the first AIFRS comparative year, and the first adoption of this standard will apply from 1 July 2005. The Economic Entity has decided that it will adopt this election and will not restate comparative information for the financial year ending 30 June 2005.

Impairment of Assets: Under AASB 136: Impairment of Assets, the recoverable amount of an asset is determined as the higher of fair value less costs to sell and value in use. In determining value in use, projected future cash flows are discounted using a risk adjusted pre-tax discount rate and impairment is assessed for the individual asset or at the "cash generating unit" level. A "cash generating unit" is determined as the smallest group of assets that generates cash flows that are largely independent of the cash flows from other assets or group of assets. The Economic Entity currently determines the recoverable amount of an asset on the basis of discounted net cash flows, using a risk adjusted pre-tax discount rate, that will be received from the asset's use and subsequent disposal. It is likely that this change in accounting policy will lead to impairments being recognised more often than under the existing policy.

The Economic Entity has reassessed its impairment testing policy and tested all assets for impairment in accordance with AASB 136 and has not identified any material impact that would require an adjustment to the assets or to retained earnings at 30 June 2005.

Exploration, Evaluation and Development Expenditure: Under AASB 6: Exploration for and Evaluation of Mineral Resources requires entities to apply "area of interest" accounting to exploration and evaluation expenditures in the same manner as the existing accounting policy. However, exploration and evaluation expenditures will be required to be assessed for impairment in accordance with AASB 136: Impairment of Assets.

The Economic Entity has not identified a requirement for adjustment to exploration and evaluation expenditures at 30 June 2005 and 1 July 2004.

Interests in Joint Ventures: Under AASB 131: Interests in Joint Ventures, an interest in a jointly controlled entity is recognised using the equity method and an interest in a traditional mining joint venture is accounted for under the proportional consolidation method. All joint ventures in which the Economic Entity participates are traditional mining joint ventures.

As a result there will be no change to the current accounting policy under which interests in jointly controlled entities are brought to account by consolidating the Economic Entity's share of the assets and liabilities and the profit or loss of the jointly controlled entities.

No adjustment to retained earnings or the carried value of exploration and evaluation expenditure at 30 June 2005 will be required as a consequence.

Provisions for Close Down and Restoration and for Environmental Costs: Under AASB 137: Provisions, Contingent Liabilities and Contingent Assets, provision is made for both close down and restoration and environmental clean up costs in the accounting period when the related environmental disturbance occurs, based on the net present value of estimated future costs. For close down and restoration costs, which include the dismantling and demolition of infrastructure, removal of residual materials and remediation of disturbed areas, movements in provision other than the amortisation of the discount, such as those resulting in changes of the cost estimates, in the lives of operations or in the discount rates, are capitalised and depreciated over future production periods.

Under the current accounting policy, restoration costs are provided for on an incremental basis over the remaining field life of petroleum assets. Restoration costs have been estimated on the basis of current, undiscounted costs and changes in estimates are dealt with on a prospective basis.

At 30 June 2005 there is a provision for restoration costs of $150,000 in the Statement of Financial Position. On adoption of AASB 137 on 1 July 2005, an amount of $150,000 will be capitalised to plant and equipment with a corresponding credit adjustment in the retained earnings at 30 June 2005. The capitalised amount of $150,000 will be depreciated over the remaining useful life of the plant and equipment.

	Economic Entity		Parent Entity	
	2005	2004	2005	2004
	$ 000	$ 000	$ 000	$ 000
Note 2 – Other Expenses from Ordinary Activities				
Rental on operating leases	149	110	141	110
Employee costs	204	72	204	72
Provision for employee entitlements	(5)	47	(5)	47
Audit fees	50	17	47	17
Corporate services	163	273	81	273
Members' reports, meetings and registers	96	36	96	36
Other	469	357	433	357
Other expenses from ordinary activities	1,126	912	997	912

	Economic Entity		Parent Entity	
	2005	2004	2005	2004
	$ 000	$ 000	$ 000	$ 000
Note 3 – Income Tax				
The prima facie tax benefit on loss from ordinary activities before income tax is reconciled to the income tax expense in the accounts as follows:				
Prima facie tax benefit on the loss from ordinary activities calculated at 30% (2004 – 30%)	2,098	898	2,250	898
Tax effect of permanent differences:				
Non-deductible expenditure	(4)	(9)	(1,432)	(9)
Non-assessable item	28	–	28	–
Timing differences and tax losses not brought to account as future income tax benefits	(2,122)	(889)	(846)	(889)
Income tax expense	–	–	–	–
Future income tax benefits				
Attributable to tax losses the benefits of which are not virtually certain of realisation at 30% (2004 – 30%)	6,103	3,188	4,457	3,069

The taxation benefits will only be obtained if:

(a) the Economic Entity derives future assessable income of a nature and of an amount sufficient to enable the benefit from the deduction for the loss to be realised;

(b) the Economic Entity continues to comply with the conditions for deductibility imposed by law; and

(c) no changes in tax legislation adversely affect the Economic Entity in realising the benefit from the deductions for the loss.

	Economic Entity 2005	Economic Entity 2004	Parent Entity 2005	Parent Entity 2004
Note 4 – Current Receivables				
Debtors	621	871	27	170
Interest receivable	13	9	12	9
	634	880	39	179
Amounts receivable from controlled entities	–	–	14,398	4,640
Less: Provision for non-recovery	–	–	(711)	–
	–	–	13,687	4,640
	634	880	13,726	4,819

The amount receivable from controlled entities is dependent on the successful development and exploitation or alternatively, by the sales of the areas of interest held by the controlled entities. The provision for non-recovery has been made by the Parent Entity so that the amount receivable from Narrabri Power Limited does not exceed the net asset value of that controlled entity at 30 June 2005.

	Economic Entity		Parent Entity	
	2005	2004	2005	2004
	$ 000	$ 000	$ 000	$ 000
Note 5 – Current Other				
Security deposits	343	256	343	256
Prepayments	124	12	12	3
	467	268	355	259
Note 6 – Non-current Receivables				
Loans	225	225	225	225

The Parent Entity made interest free loans in 2004 to eligible persons under the Employee Incentive Plan to apply for 1,875,000 fully paid ordinary shares at 12 cents each. The loans mature on 30 June 2009 and the Parent Entity holds a lien on the shares until the loans are repaid.

	Economic Entity 2005 $ 000	Economic Entity 2004 $ 000	Parent Entity 2005 $ 000	Parent Entity 2004 $ 000
Note 7 – Property, Plant and Equipment				
Land at cost	210	210	–	–
Leasehold improvements at cost	–	25	–	25
Accumulated amortisation	–	(25)	–	(25)
	–	–	–	–
Plant, equipment and motor vehicles at cost	585	378	575	378
Accumulated depreciation	(250)	(162)	(250)	(162)
	335	216	325	216
Power plant (under construction in 2004)	3,227	2,849	–	–
Accumulated depreciation	(387)	–	–	–
	2,840	2,849	–	–
Pipeline (under construction in 2004)	1,895	1,929	–	–
Accumulated depreciation	(227)	–	–	–
	1,668	1,929	–	–
	5,053	5,204	325	216

	Economic Entity		Parent Entity	
	2005	2004	2005	2004
	$ 000	$ 000	$ 000	$ 000
Movements during the year:				
Land				
At beginning of year	210	–	–	–
Additions at cost	–	210	–	–
At end of year	210	210	–	–
Leasehold improvements				
At beginning of year	–	12	–	12
Amortisation expense	–	(12)	–	(12)
At end of year	–	–	–	–
Plant, equipment and motor vehicles				
At beginning of year	216	122	216	122
Additions at cost	207	155	197	155
Depreciation expense	(88)	(61)	(88)	(61)
At end of year	335	216	325	216
Power plant (under construction in 2004)				
At beginning of year	2,849	–	–	–
Additions at cost	378	2,626	–	–
Capitalised borrowing costs	–	223	–	–
Depreciation expense	(387)	–	–	–
At end of year	2,840	2,849	–	–
Pipeline (under construction in 2004)				
At beginning of year	1,929	–	–	–
Additions at cost	(34)	1,929	–	–
Depreciation expense	(227)	–	–	–
At end of year	1,668	1,929	–	–
Total				
At beginning of year	5,204	134	216	134
Additions at cost	551	5,143	197	155
Depreciation expense	(702)	(73)	(88)	(73)
At end of year	5,053	5,204	325	216

	Economic Entity		Parent Entity	
	2005	2004	2005	2004
	$ 000	$ 000	$ 000	$ 000
Note 8 – Exploration, Evaluation and Development Expenditure				
Costs carried forward in respect of areas of interest in:				
Exploration and evaluation phase	8,829	3,095	4,193	2,686
Development producing phase	6,563	7,265	–	–
	15,392	10,360	4,193	2,686
Movements during the year:				
Exploration and evaluation areas				
At beginning of year	3,095	2,667	2,686	2,667
Additions at cost	7,441	1,913	3,214	1,504
Research and development rebate received	–	(165)	–	(165)
Amount written off during the year	(1,707)	(1,320)	(1,707)	(1,320)
At end of year	8,829	3,095	4,193	2,686
Developed producing area (not producing in 2004)				
At beginning of year	7,265	7,539	–	2,210
Additions at cost	2,766	5,291	–	931
Transfer to power plant cost under construction	–	(2,849)	–	–
Transfer to pipeline cost under construction	–	(1,929)	–	–
Amount written off during the year	(640)	(787)	–	(787)
Provision for write down to recoverable amount	(1,805)	–	–	–
Transfer to controlled entity	–	–	–	(2,354)
Amortisation	(1,023)	–	–	–
At end of year	6,563	7,265	–	–

Certain indirect costs which were initially capitalised to exploration, evaluation and development expenditure have been written off following a review of the appropriateness of carrying such costs at the early stages of exploration and project development.

The aggregate carrying amount of the developed producing area, as stated above, the power plant and pipeline (Note 7) has been reviewed to ensure that it is not in excess of the aggregate recoverable amount of those assets. The recoverable amount has been assessed on the basis of the expected net cash flows arising from the continued use and subsequent disposal of those assets. The expected net cash flows have been computed on the assumed continuous production of gas from the Coonarah Gas Field which has gas reserves estimated by the Directors at 5.8 Petajoules. The expected net cash flows have been discounted to their present value at a rate of 10% in determining the recoverable amount and as a result a provision for write down has been made to the developed producing area at 30 June 2005.

The review of reserves estimate at the Coonarah Gas Field is ongoing and a new estimate of the reserves will be made as further pressure data are collected and field surveys are conducted in the near future. The carrying values of the developed producing area, the pipeline and the power plant will be reassessed in light of any new estimate of the gas reserves.

The timing for completion and the nature of the work/expenditure commitments of certain exploration licences are under negotiation with the NSW Department of Primary Industries – Mineral Resources and the Department of Primary Industries in Victoria. The aggregate carrying value amounting to $2,490,000 of exploration expenditure relating to those exploration licences is dependent on successful negotiation of those commitments and/or their renewals at their expiry dates. The Directors are confident on a favourable outcome from the negotiations and the renewal of the relevant licences.

Ultimate recoupment of the carrying value of the exploration, evaluation and development areas is dependent on successful development and exploitation, or alternatively sale of the respective areas of interest.

	Economic Entity		Parent Entity	
	2005	**2004**	**2005**	**2004**
	$ 000	**$ 000**	**$ 000**	**$ 000**
Note 9 – Other Financial Assets				
Shares in controlled entities at cost	–	–	4,050	4,050
Less: Provision for write down	–	–	(4,050)	–
	–	–	–	4,050

A provision has been made against the cost of investment in Narrabri Energy Limited to write it down to the net asset value of that controlled entity at 30 June 2005.

Note 10 – Current Payables				
Creditors and accruals	966	3,083	295	1,820
Note 11 – Current Interest-Bearing Liabilities				
Loans – unsecured	84	26	84	9
Project loan – secured	835	1,445	–	–
	919	1,471	84	9

The project loan is secured by a fixed and floating charge over the assets of the controlled entity, Narrabri Power Limited which is the borrower, and of the Parent Entity which acts as guarantor.

Note 12 – Current Provision				
Employee entitlements	118	122	118	122

There were 17 (2004 – 6) employees during the year.

	Economic Entity		Parent Entity	
	2005	2004	2005	2004
	$ 000	$ 000	$ 000	$ 000
Note 13 – Non-current Interest-Bearing Liabilities				
Convertible notes December 2006 – unsecured	2,028	1,852	2,028	1,852
Project loan – secured (Note 11)	1,220	2,055	–	–
	3,248	3,907	2,028	1,852

In December 2003, the Parent Entity issued 2,000,000 unsecured convertible notes at $1 per note for total proceeds of $2,000,000. The notes bear interest at a rate of 10% per annum payable quarterly in arrears starting from 16 December 2004 to the maturity date on 15 December 2006. Each note may be converted at the election of the holder on or before maturity date to fully paid ordinary shares at 11 cents per share. Notes that have not been converted at maturity date are redeemable. The notes are carried at the present value of the stream of future payments of interest and principal applying a discount rate 9.25% per annum. The equity component of the notes has been valued at $148,000 using the residual valuation method and credited to issued capital (Note 15(a)).

Note 14 – Non-current Provision				
Provision for restoration and rehabilitation	150	–	–	–

	Economic Entity		Parent Entity	
	2005	2004	2005	2004
	$ 000	$ 000	$ 000	$ 000
Note 15 – Contributed Equity				
(a) Issued capital				
Balance at beginning of year:				
178,360,834 fully paid ordinary shares (2004 – 123,735,834)	19,857	14,920	19,857	14,920
Fully paid ordinary shares issued during the year:				
26,450,000 shares at 12 cents each by private placement in July 2004	3,174	–	3,174	–
14,700,000 shares at 12 cents each under a shareholders' Share Purchase Plan in July 2004	1,764	–	1,764	–
15,000,000 shares at 12 cents each by private placement in September 2004	1,800	–	1,800	–
18,750,000 shares at 24 cents each by private placement in January 2005	4,500	–	4,500	–
2,750,000 shares at 10 cents each by private placement in October 2003	–	275	–	275
50,000,000 shares at 9 cents each by private placement in March 2004	–	4,500	–	4,500
1,875,000 shares at 12 cents each under the Employee Incentive Plan	–	225	–	225
	31,095	19,920	31,095	19,920
Less: Transaction costs arising on share issues	(375)	(63)	(375)	(63)
Balance at end of year:				
253,260,834 fully paid ordinary shares (2004 – 178,360,834)	30,720	19,857	30,720	19,857
Equity component of convertible notes issued (Note 13)	148	148	148	148
	30,868	20,005	30,868	20,005
Converting note	1,500	–	1,500	–
	32,368	20,005	32,368	20,005

In July 2004, the Parent Entity issued 12,500,000 converting notes at 12 cents each bearing no interest raising $1,500,000; each note mandatorily converts to one fully paid ordinary share at the maturity date on 10 June 2007 or earlier at the holder's election. There is no election for redemption of the face value of the convertible notes during the term to maturity date.

(b) Options

At the end of the financial year, the Parent Entity had the following options over unissued ordinary shares, each option exercisable for one ordinary share:

Expiry Date	Exercise Price	2005	2004
	$	Number	Number
30 June 2005	0.20	–	412,500
30 June 2005	0.25	–	412,500
1 December 2005	0.30	20,091,667	20,091,667
23 May 2009	0.16	1,050,000	1,050,000
		21,141,667	21,966,667

	Economic Entity		Parent Entity	
	2005	2004	2005	2004
	$ 000	$ 000	$ 000	$ 000
Note 16 – Accumulated Losses				
At beginning of financial year	6,859	3,864	6,859	3,864
Net loss attributable to members of the Parent Entity	6,994	2,995	7,502	2,995
At end of financial year	13,853	6,859	14,361	6,859

	Percentage Owned		Economic Entity		Parent Entity	
	2005	2004	2005	2004	2005	2004
	%	%	$ 000	$ 000	$ 000	$ 000
Note 17 – Controlled Entities						
The controlled entities are as follows:						
Narrabri Energy Limited	100	100	–	–	–	–
Eastern Energy Australia Pty Ltd	100	100	–	–	–	–
Tooncomet Pty Limited	100	100	–	–	–	–
Sulu Resources Pty Limited	100	100	–	–	–	–
Narrabri Power Limited	100	100	–	–	–	–
			–	–	–	–

The Parent Entity and controlled entities are incorporated and domiciled in Australia. The shares held in the controlled entities are ordinary shares.

Note 18 – Remuneration of Auditors

Audit and review of financial reports	49,000	17,000	46,000	17,000
Other services	1,000	1,000	1,000	1,000
	50,000	18,000	47,000	18,000

The other services were in respect of the audit of the securities register to satisfy Listing Rule 8.16 of Australian Stock Exchange Limited.

Note 19 – Related Party Disclosures

Related Party Transactions

In 2004, $10,000 was paid to Veruse Pty Limited, a company of which Mr. D Battersby is a director and in which he has substantial financial interests, for the provision of consultancy services to the Economic Entity. The amount paid has been included in the Remuneration Report in the Directors Report.

Note 20 – Financial Instruments

(a) Interest Rate Risk

The Economic Entity's exposure to interest rate risk, which is the risk that a financial instrument's value will fluctuate as a result of changes in market, interest rates and the effective weighted average interest rates on those financial assets, is set out below:

	Average Interest Rate	Variable Interest Rate	Fixed Interest Rate Maturing Within 1 Year	1 to 5 Years	Non-Interest Bearing	Total
	%	$ 000	$ 000	$ 000	$ 000	$ 000
2005						
Financial Assets						
Cash and deposits	5.3	–	1,542	–	–	1,542
Receivables	–	–	–	–	634	634
Security deposits	5.2	–	343	–	–	343
		–	1,885	–	634	2,519
Financial Liabilities						
Creditors and accruals	–	–	–	–	966	966
Loan	9.7	–	919	3,248	–	4,167
		–	919	3,248	966	5,133

	Average Interest Rate	Variable Interest Rate	Fixed Interest Rate Maturing Within 1 Year	1 to 5 Years	Non-Interest Bearing	Total
	%	$ 000	$ 000	$ 000	$ 000	$ 000
2004						
Financial Assets						
Cash and deposits	5.4	4	4,543	–	–	4,547
Receivables	–	–	–	–	880	880
Security deposits	5.4	–	256	–	–	256
		4	4,799	–	880	5,683
Financial Liabilities						
Creditors and accruals	–	–	–	–	3,083	3,083
Loan	10	–	1,471	3,907	–	5,378
		–	1,471	3,907	3,083	8,461

(b) Credit Risk

The maximum exposure to credit risk, excluding the value of any collateral or other security, at balance date, to recognised financial assets is the carrying amount, net of any provisions for doubtful debts, as disclosed in the Statements of Financial Position and notes to the financial statements.

The controlled entity, Narrabri Power Limited, sells electricity to a single customer and has Country Energy as a single debtor. The Economic Entity does not have any other material credit risk exposure to any single debtor or group debtors, under financial instruments entered into by it.

(c) Net Fair Values

Methods and assumptions used in determining net fair value.

For assets and other liabilities, the net fair value approximates their carrying values. No financial assets and financial liabilities are readily traded on organised markets in standardised form. The Economic Entity has no financial assets where the carrying amount exceeds net fair values at balance date. The aggregate net fair values and carrying amounts of financial assets and financial liabilities are disclosed in the Statements of Financial Position and in the notes to and forming part of the financial statements.

(d) Derivative Financial Instruments

The Economic Entity used derivative financial instruments in the normal course of business in order to hedge exposure to fluctuations in interest rate.

(e) Interest Rate Swap Contract

The project finance loan of the controlled entity, Narrabri Power Limited, bears a fixed margin interest rate above the variable 90 day bank bill rate. In order to protect the loan from exposure to increasing interest rates for the term of the loan, the controlled entity has entered into an interest rate swap contract hedging the 90 day bank bill rate under which it is obliged to receive interest at variable rates and to pay interest at a fixed rate of 6.26%. The contract is settled on a net basis and the net amount payable of $58,000 at the reporting date is included in other creditors and as an adjustment to borrowing costs.

The contract requires settlement of net interest receivable or payable every 90 days in accordance with the dates on which interest is payable on the project loan. The swap contract covers the full amount of the loan principal outstanding and is timed to expire as each loan repayment falls due for the period to 30 September 2007.

At 30 June 2005, the notional principal amounts and periods of expiry of the interest rate swap contract are as follows:

	Economic Entity		Parent Entity	
	2005	2004	2005	2004
	$ 000	$ 000	$ 000	$ 000
Settlement Period				
Less than 1 year	1,220	2,055	–	–
1-2 years	305	1,220	–	–
2-3 years	–	305	–	–

Note 21 – Notes to the Statements of Cash Flows

(a) Reconciliation of cash

Cash at bank and on hand	143	4	70	6
Deposits	1,399	4,543	1,399	4,443
	1,542	4,547	1,469	4,449

	Economic Entity		Parent Entity	
	2005	2004	2005	2004
	$ 000	$ 000	$ 000	$ 000
(b) Reconciliation of loss from ordinary activities after income tax to net cash used in operating activities				
Loss from operating activities after income tax	(6,994)	(2,995)	(7,502)	(2,995)
Add non cash items in operating costs:				
Depreciation and amortisation	1,875	73	88	73
Provision for employee entitlements	(5)	47	(5)	47
Provision for write down of development expenditure to recoverable amount	1,805	–	–	–
Provision for non-recovery of amount receivable from controlled entity	–	–	711	–
Provision for write down of investment in controlled entity	–	–	4,050	–
Exploration and development expenditure written off	2,347	2,107	1,707	2,107
Cash flows excluded from loss from operating activities but attributable to operating activities:				
Research and development rebate received	–	165	–	165
Changes in assets and liabilities relating to operations:				
(Decrease) Increase in creditors and accruals	(119)	140	119	140
(Decrease) Increase in interest bearing liabilities	(96)	4	(100)	4
Decrease in receivables	233	–	12	–
Decrease (Increase) in prepayments	6	(3)	5	(3)
Increase in interest receivable	(4)	(5)	(4)	(5)
Net Cash used in Operating Activities	(952)	(467)	(919)	(467)

(c) Non-cash financing or investing activities

In the previous financial year the following transactions occurred.

As part consideration for a project finance facility extended to the controlled entity, Narrabri Power Limited, the Parent Entity granted to N M Rothschilds & Sons (Australia) Limited 1,050,000 options over unissued ordinary shares exercisable as to each option for one share at 16 cents on or before 23 May 2009.

(d) Finance standby arrangements

The controlled entity, Narrabri Power Limited, has a project finance facility of $3,500,000 with N M Rothschild & Sons (Australia) Ltd. During the year, $1,445,000 was repaid and at balance date $2,055,000 was outstanding with no amount available for drawdown under the facility.

Note 22 – Segment Information

The Economic Entity operates in Australia and in the energy, oil and gas industry.

Note 23 – Superannuation

The Economic Entity makes contributions based on each employee's salary, to superannuation plans that provide employees with benefits on retirement in accordance with the requirements of superannuation guarantee legislation.

Note 24 – Commitments for Expenditure

The Economic Entity is required to outlay lease rentals and to meet minimum committed expenditure requirements to maintain current rights of tenure to exploration tenements. These obligations may be subject to renegotiation, may be farmed out or may be relinquished and have not been provided for in the financial statements and are due:

	Economic Entity		Parent Entity	
	2005	2004	2005	2004
	$ 000	$ 000	$ 000	$ 000
Within twelve months	5,147	7,404	4,562	7,404
Twelve months or longer and not longer than 5 years	1,985	2,404	1,400	2,404
	7,132	9,808	5,962	9,808
Operating contracts				
Minimum payments under non-cancellable contracts according to the time expected to elapse to the expected date of payment:				
Not later than 1 year	3,144	532	342	532
Later than 1 year and not later than 5 years	3,145	616	273	616
	6,289	1,148	615	1,148

Note 25 – Contingent Liabilities

Bankers' guarantees issued for fulfilment of obligations under exploration licences and operating contracts secured by a charge over term deposits lodged with the bankers.	238	231	172	155
Termination benefits payable in certain circumstances in accordance with service agreements with Directors:-				
D J Morton	218	218	218	218
D W King	218	218	218	218
	674	667	608	591

The Parent Entity has entered into a Deed of Access, Indemnity and Insurance with each of the Directors and the Secretary/Chief Financial Officer of the Company. Subject to the Corporations Act 2001, the Deed provides an indemnity in respect of liability each Director and the Secretary/Chief Financial Officer may incur in relation to the conduct of the business or affairs of the Parent Entity, acts or omission of each of the Directors and the Secretary/Chief Financial Officer in relation to the business or affairs of the Parent Entity or the performance, manner of performance or failure to perform the Directors and the Secretary/Chief Financial Officer responsibilities in relation to the business or affairs of the Parent Entity, in each case in the period during which each Director (respectively) and the Secretary/Chief Financial Officer holds office as a Director or Secretary/Chief Financial Officer of the Parent Entity.

Note 26 – Interests in Joint Ventures

The Economic Entity has the following participating interests in joint ventures with principal activities of oil and gas exploration. The joint ventures are not separate legal entities and are contractual arrangements between the participants for the sharing of costs and output.

	Percentage Interest			
	Economic Entity		Parent Entity	
	2005	2004	2005	2004
	%	%	%	%
PEL 6 Joint Venture, Bowen-Surat Basin, NSW	97.5	97.5	97.5	97.5
PEL 238 Gunnedah Coal Seam Gas Joint Venture, Gunnedah Basin, NSW	25.0	15.0	–	–

During the year the Economic Entity increased its interests in PEL 238 Gunnedah Coal Seam Gas Joint Venture from 15 per cent to 25 per cent. Subsequent to balance date the Economic Entity has achieved the requisite expenditure to increase its interests to 32.5 per cent.

The joint ventures did not contribute to the Economic Entity's net loss for the year. The Economic Entity's interests in net assets employed in the joint ventures are included in the Statements of Financial Position items as follows:

	Economic Entity		Parent Entity	
	2005	2004	2005	2004
	$ 000	$ 000	$ 000	$ 000
Current Assets				
Cash	–	–	–	–
Receivable	261	8	8	8
Non Current Assets				
Exploration expenditure (included in Note 8)	4,751	–	–	–
Total Assets	5,012	8	8	8
Current Liabilities				
Creditors	–	–	–	–
Net Assets	5,012	8	8	8

Note 27 – Events Occurring After Reporting Date

There has not arisen in the interval since 30 June 2005 and up to the date of this report, any matter that, in the opinion of the Directors, has significantly affected or may significantly affect the operations of the Economic Entity, the results of those operations or the state of affairs of the Economic Entity in future financial years other than the following:

(a) In September 2005, the agreements entered into in July 2004 to farm in PELs 13 and 426, to earn 85% by completing a work program, were terminated as the Parent Entity elected not to continue with the work program due to the uncertainty arising on changes made by the NSW Government on land title.

(b) on 26 September 2005, the Parent Entity agreed to privately place 19,239,000 fully paid ordinary shares at 13 cents each to raise $2,501,070 from sophisticated and/or professional investors; and

(c) on 26 September 2005, the Parent Entity issued a prospectus for a fully underwritten non-renounceable rights issue offer to its shareholders on the basis of 1 fully paid ordinary share for every 3 shares held on 11 October 2005 at 13 cents each to raise approximately $11,828,023 with the issue of approximately 90,984,793 fully paid ordinary shares, subject to adjustments for rounding of entitlements.

The financial effects of the above events have not been brought to account at 30 June 2005.

In the opinion of the Directors of Eastern Star Gas Limited:

(a) the accompanying financial statements and notes are in accordance with the Corporations Act 2001, comply with the accounting standards and give a true and fair view of the Parent Entity's and Economic Entity's financial position as at 30 June 2005 and of their performance for the year ended on that date; and

(b) at the date of this declaration there are reasonable grounds to believe that the Parent Entity will be able to pay its debts as and when they become due and payable.

The Directors have been given the declarations by the Chief Executive Officer and the Chief Financial Officer required by section 295A of the Corporations Act 2001.

This declaration is made in accordance with a resolution of the Directors.

Dated this 26th day of September 2005.

D J Morton
Director

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To the members of Eastern Star Gas Limited.

Scope

The financial report and directors' responsibility

The financial report comprises the statement of financial position, statement of financial performance, statement of cash flows, accompanying notes to the financial statements, and the directors' declaration for both Eastern Star Gas Limited (the company) and the consolidated entity for the year ended 30 June 2005. The consolidated entity comprises both the company and the entities it controlled during that year.

The company has disclosed information about the remuneration of directors and executives ("remuneration disclosures"), as required by Accounting Standard AASB 1046 Director and Executive Disclosures by Disclosing Entities, under the heading "Remuneration Report" in pages 20 to 24 of the directors report, as permitted by the Corporations Regulations 2001.

The directors of the company are responsible for the preparation and true and fair presentation of the financial report in accordance with the Corporations Act 2001. This includes the responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report.

Audit approach

We conducted an independent audit in order to express an opinion to the members of the company. Our audit was conducted in accordance with Australian Auditing Standards in order to provide reasonable assurance as to whether the financial report is free of material misstatement. The nature of an audit is influenced by factors such as the use of professional judgement, selective testing, the inherent limitations of internal control, and the availability of persuasive rather than conclusive evidence. Therefore, an audit cannot guarantee that all material misstatements have been detected.

We performed procedures to assess whether in all material respects the financial report presents fairly, in accordance with the Corporations Act 2001, including compliance with Accounting Standards and other mandatory financial reporting requirements in Australia, a view which is consistent with our understanding of the company's and the consolidated entity's financial position, and of their performance as represented by the results of their operations and cash flows.

We formed our audit opinion on the basis of these procedures, which included:

- *examining, on a test basis, information to provide evidence supporting the amounts and disclosures in the financial report, and*
- *assessing the appropriateness of the accounting policies and disclosures used and the reasonableness of significant accounting estimates made by the directors.*

While we considered the effectiveness of management's internal controls over financial reporting when determining the nature and extent of our procedures, our audit was not designed to provide assurance on internal controls.

Independence

In conducting our audit, we followed applicable independence requirements of Australian professional ethical pronouncements and the Corporations Act 2001.

Audit opinion

In our opinion, 1. the financial report of Eastern Star Gas Limited is in accordance with:

(a) The Corporations Act 2001, including:

(i) giving a true and fair view of the company's and consolidated entity's financial position as at 30 June 2005 and of their performance for the year ended on that date; and

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

(b) other mandatory financial reporting requirements in Australia.

2. the remuneration disclosures that are contained in pages 20 to 24 of the directors' report comply with Accounting Standard AASB 1046 and the Corporations Regulations 2001.

PKF

B.R. Gordon

Sydney, 26th September 2005.

Additional information included in accordance with Listing Rules of the Australian Stock Exchange Limited.

1. SHAREHOLDINGS

Distribution of Shareholders as at 15 September 2005

Size of Holding	Number of Holders	Ordinary Shares Held	%
1 – 1,000	15	7,007	–
1,001 – 5,000	230	850,167	0.3
5,001 – 10,000	360	3,247,504	1.3
10,001 – 100,000	1,079	42,436,018	16.7
100,001 – over	280	207,174,683	81.7
	1,964	253,715,379	100.0

105 shareholders held less than a marketable parcel.

Top Twenty Shareholders as at 15 September 2005

Shareholder	Number of Ordinary Shares	% Held of Issued Ordinary Capital
Tricom Nominees Pty Ltd (LPG A/C)	20,167,763	8.0
David W King	18,413,333	7.3
Dennis J Morton	18,413,333	7.3
Douglas G Battersby	18,413,333	7.3
RBC Global Services Australia Nominees Pty Ltd	10,582,223	4.2
ANZ Nominees Limited (Cash Income A/C)	10,238,610	4.1
J P Morgan Nominees Australia Limited	5,825,000	2.3
Three Crowns Investments Pty Limited	5,722,222	2.3
Merrill Lynch (Australia) Nominees Pty Ltd	3,981,861	1.6
Alexander Sundich	2,636,201	1.0
Pine Street Pty Ltd (Pine Street A/C)	2,380,000	0.9
Fuloughby Pty Limited	1,780,001	0.7
Stacey Andrew Radford	1,666,666	0.7
Katbbe Pty Ltd (Ryan Family No 2 A/C)	1,661,836	0.7
National Nominees Limited	1,661,220	0.7
Philip Harold Lewis	1,660,646	0.7
Crown Financial Pty Ltd	1,593,294	0.6
Equity Trustees Limited (ACF Lowell Resources Fund)	1,457,556	0.6
Ryan Superannuation Nominees Pty Ltd	1,408,166	0.5
Geared Investments Pty Ltd (Investment A/C)	1,391,667	0.5
	131,054,931	**52.0**

2. OPTIONHOLDINGS

Distribution of Optionholders as at 15 September 2005

30 cents Expiring 1 December 2005 Options

Size of Holding	Number of Holders	Options Held	%
1 – 1,000	–	–	–
1,001 – 5,000	2	10,000	0.1
5,001 – 10,000	3	22,917	0.1
10,001 – 100,000	8	558,750	2.8
100,001 – over	13	19,500,000	97.0
	26	20,091,667	100.0

Distribution of Optionholders as at 15 September 2005

16 cents Expiring 23 May 2009 Options

Size of Holding	Number of Holder	Options Held	%
100,001 – over	1	1,050,000	100.0

3. CONVERTIBLE NOTE HOLDINGS

Distribution of Convertible Note holders as at 15 September 2005

Convertible at 11 cents per Share Expiring 15 December 2006 $1 Convertible Notes

Size of Holding	Number of Holders	Options Held	%
10,001 – 100,000	6	365,000	18.7
100,001 – over	3	1,585,000	81.3
	9	1,950,000	100.0

Distribution of Converting Note holders as at 15 September 2005

12 cents Expiring 10 June 2007 Converting Note

Size of Holding	Number of Holder	Options Held	%
100,001 – over	1	1,500,000	100.0

4. VOTING RIGHTS

(a) At meetings of members each member entitled to vote may vote in person or by proxy or attorney or, in the case of a member which is a body corporate, by representative duly authorised.

(b) On a show of hands every member entitled to vote and be present in person or by proxy or attorney or representative duly authorised shall have one (1) vote.

(c) On a poll every member entitled to vote and be present in person or by proxy or attorney or representative duly authorised shall have one (1) vote for each fully paid share of which he is a holder.

5. AUDIT COMMITTEE

As at the date of this report the Economic Entity has an Audit Committee, a subcommittee of the Board of Directors.

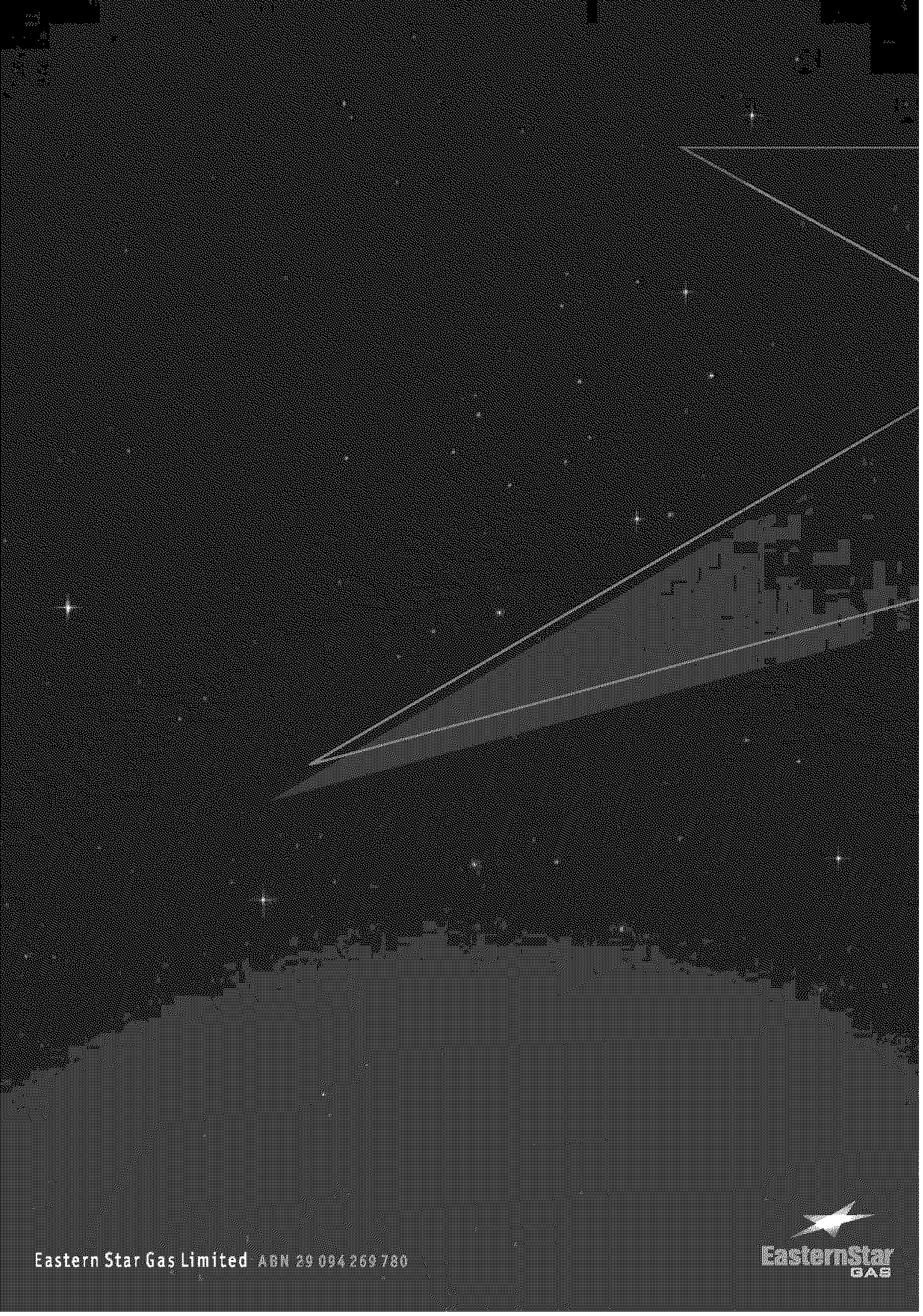
6. SUBSTANTIAL SHAREHOLDERS

The securities held by substantial shareholders as at 15 September 2005 are as follows:

Name	Number of Shares	Number of Options
D C Battersby	18,413,333	4,796,666
D J Morton	18,413,333	4,166,666
D W King	18,413,333	4,166,666
Three Crowns Investments Pty Ltd	24,944,048	–

The options are exercisable at 30 cents per share expiring on 1 December 2005

DESIGNED AND PRODUCED BY VILLANI & SYDNEY



Eastern Star Gas Limited ABN 29 094 269 780