



PLANET GAS LIMITED

and its Controlled Entities
A.B.N. 46 098 952 035



ANNUAL REPORT **2007**

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CHAIRMAN'S LETTER



Dear Fellow Shareholder,

As outlined in the Review of Operations in the body of this Annual Report, 2007 was a difficult year for Planet Gas.

The major setback was the fact that our proposed Canadian joint venture partner failed to complete its CDN \$25 million Initial Public Offering. This can be put down to two factors: firstly, the stocks making up the fledgling Canadian CBM industry had experienced poor share market performance, and secondly and more importantly, the parent company of the proposed underwriter experienced financial difficulties during the sub-prime crisis.

The impact on Planet of this failed IPO is that our proposed 50 well development program at West Esponda cannot proceed at present, which in turn most likely means that production from this field will be some way off.

On top of this, significant pipeline capacity constraints were experienced in the Powder River Basin throughout the Northern Autumn, and caused Wyoming Pool gas to be quoted at sub-economic prices for much of that period. Pleasingly the new REX pipeline is now operating and is delivering PRB gas to the populous Eastern regions of the US and, as a direct result, the Wyoming Pool gas price has recovered to much higher levels.

So where to now? Since the gas price has recovered we have received expressions of interest from third parties to farm into some of our PRB assets. There can be no guarantees but discussions are being held.

We have also decided that we should look at the option of purchasing some producing assets. Again, there is no certainty that a deal or deals will be concluded but we are currently reviewing some opportunities.

What I can say with certainty is that your Board is focused on turning around the Company's fortunes and has as its principal aim, the clawing back of the losses experienced in our market capitalisation.

Yours faithfully,

A handwritten signature in black ink, appearing to read 'Norman A. Seckold'. The signature is fluid and cursive, with a long, sweeping tail that loops back under the main part of the name.

Norman A. Seckold
Chairman

REVIEW OF OPERATIONS

SUMMARY

The year ended 31 December 2007 was a difficult year for Planet Gas Limited ('Planet Gas' or 'the Company'), principally due to the non-completion of a major financing transaction caused by North American financial problems.

Despite this set-back, the following significant advances have been achieved since the end of the previous financial year:

- West Esponda project tenement interest increased by 3,787 net hectares (49%) to 11,586 net hectares.
- West Esponda net GIP resources increased by 72.5 Bcf (71%) to 173.8 Bcf.
- Completion of West Esponda project extension program with 8 wells drilled.
- West Esponda pilot production program dewatering continues.
- Oriva Federal conventional oil and gas well completed and tied into production pipelines.
- Gas production (not yet commercial quantities) increasing at East Esponda.
- Formation of a uranium company spin-off, Callabonna Uranium Limited, which has been granted twelve uranium licences and six geothermal licences.
- Conditional sale of the Company's Australian CBM projects to Greenpower Energy Limited.
- Appointment of Robert M. Bell as a Director of the Company.

PROJECTS

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

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

USA

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

Australia

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

Project	Location	Area Net Hectares
USA		
East Esponda	Powder River Basin, Wyoming	469
West Esponda	Powder River Basin, Wyoming	11,586
Oriva Throne	Powder River Basin, Wyoming	146
Oriva Federal	Powder River Basin, Wyoming	359
Skull Creek	Cherokee Basin, Kansas	11,573
Australia		
EL 4500	Gippsland Basin, Victoria	241,600
EL 4807	Gippsland Basin, Victoria	2,600
EL 4859	Gippsland Basin, Victoria	5,900
EL 4860	Gippsland Basin, Victoria	40,500
EL 4861	Gippsland Basin, Victoria	4,200
EL 4862	Gippsland Basin, Victoria	2,600
EL 4877	Gippsland Basin, Victoria	165,100
EL 4368	Otway Basin, Victoria	48,379
EL 4369	Otway Basin, Victoria	24,190
EL 4811	Otway Basin, Victoria	77,800
PELA 145	Willochra Basin, South Australia	619,432
PELA 146	Eromanga Basin, South Australia	267,786
PEL 428	Gunnedah Basin, New South Wales	150,842

REVIEW OF OPERATIONS (CONT.)

POWDER RIVER BASIN, WYOMING, USA

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

ESPONDA PROJECT

The Esponda Project, which is located approximately 25 kilometres southeast of Buffalo, Wyoming, and totals 12,055 net hectares (29,789 acres) in Townships 47 to 50 North, Ranges 79 and 80 West, Johnson County, Wyoming, comprises two project areas, East Esponda and West Esponda. East Esponda has been developed under joint venture arrangements and continues to be dewatered in advance of the commencement of production. West Esponda includes 10 completed wells in a pilot production program with an additional 8 wells in an extension program having been drilled.

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

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

East Esponda

The East Esponda Project is subject to two joint ventures covering 469 net hectares (1,160 acres). It is situated in the Western Gas Indian Creek-Big Cat fields.

Development

To date there have been 23 wells completed within the Company's East Esponda leasehold interests. These include 14 wells in the Big Cat Field and 9 in the Indian Creek Field. Although 3 wells are located exterior to the Company's leasehold, the Company retains an interest in these wells due to the State's mandated 32 hectare spacing orders in its proportional share.

Since the commencement of dewatering, production ranging between ~200 to +1,000 barrels water per day per well (bwpd/well) have been produced.

It is interpreted from the records as reported to the Wyoming Oil and Gas Conservation Commission through November 2007 that the operator of the East Esponda wells has curtailed its efforts to further its dewatering efforts with the late summer price decline and tight pipeline condition. They continue dewatering but, due to water disposal capacity limitations, at a reduced rate.



East Esponda

REVIEW OF OPERATIONS (CONT.)

Resources

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

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

Project Area	Coal Seams	Gross GIP (MMcf)	Net GIP (MMcf)
East Esponda	Big George	21,912.6	7337.7

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

The gas content factor is an estimation based on a published study by Goolsby, Finley & Associates completed on behalf of the State of Wyoming. Although this is the maximum gas content value at these depths that Goolsby, Finley & Associates utilises in its GIP volumetric calculations, Goolsby, Finley & Associates have been apprised of proprietary gas desorption tests indicating values greater than 100 Scf/t in this general area of the Powder River Basin.

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

West Esponda

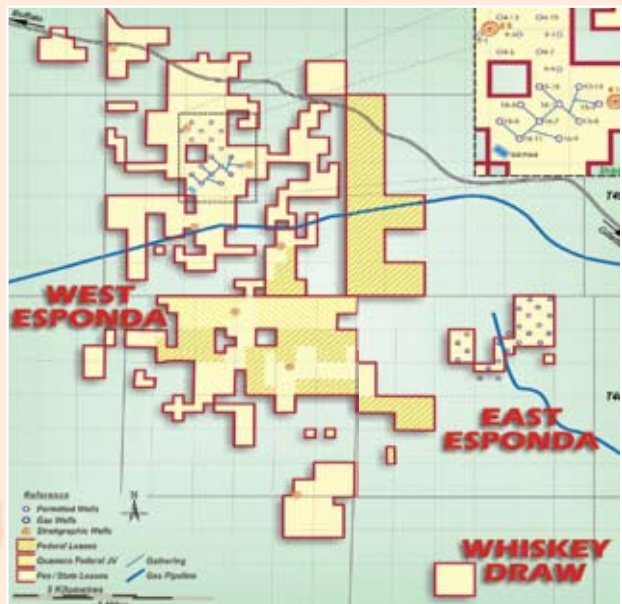
The West Esponda project lies near the Powder River Basin's asymmetric structural axis, and is situated between the depositional centres of the stratigraphically higher Buffalo-Lake De Smet Coalfield to the west (Eocene Wasatch Formation) and the Gillette Coalfield (Paleocene Fort Union Formation) to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

Geological mapping based on the Company's previous West Esponda pilot program wells and stratigraphic bores in this area of the deep Powder River Basin estimates that between 20 to 45 metres of coal is present. This estimate is supported by results from the Company's stratigraphic drilling program which intersected gassy coal with cumulative intersections of up to 50 metres and an average of 35.4 metres, of which the Big George coal seam intervals were between 17 to 22 metres, thereby indicating that the Big George coal horizon can be extended 16 kilometres to the northwest with a total thickness correlative to that present in the western portions of the Company's East Esponda project.

The West Esponda project totals 11,586 net hectares (28,629 acres) and has the capacity for more than 350 wells on the state mandated 32 hectare (80 acre) drill spacing units.

Development of the West Esponda project has begun in the northern portion of the West Esponda project where the Company's tenements have the capacity for approximately 100 contiguous or near contiguous well locations. To date, 10 wells have been completed in a pilot production program with an additional 8 production wells in an extension program having been drilled.

West Esponda



REVIEW OF OPERATIONS (CONT.)

Acquisitions

During the year, the Company increased its interest in West Esponda project tenement holdings by 3,787 net hectares (9,358 acres), or approximately 49%.

Ten Federal mineral leases totalling 3,153 net hectares (7,791 acres) have been conveyed from Lance Oil and Gas, a subsidiary of Western Gas Resources-Anadarko to the Company. The new leases are situated either adjoining or within a kilometre of the Company's West Esponda tenements in Townships 48 and 49 North, Ranges 79 and 80 West, Johnson County.

These leases are not restricted to CBM, but, like the Company's Oriva Federal project which is currently developing a conventional oil and gas project, convey all oil and gas rights to the Company. While the primary CBM target is the Big George Seam at depths of approximately 600 metres, conventional oil and gas prospects to depths greater than 2,500 meters are being evaluated.

Federal leases carry a 12.5% Federal royalty and these new leases also have an additional 5.5% to 7.5% overriding royalty payable. Thus, the Company's net revenue interest in these leases ranges between 80% and 82% and averages 80.9%.

In addition to the 10 Federal mineral leases, the Company further consolidated assorted minority freehold interests within the Esponda leasehold during the year. These leases comprised 154 net hectares (380 acres).

Also during the year, the Company entered into joint venture, as described below, with Quaneco, LLC ('Quaneco') over 194 net hectares (480 acres) of Federal oil and gas leases held by Quaneco.

Further strategic acquisitions continue to be investigated.

Pilot Production Program

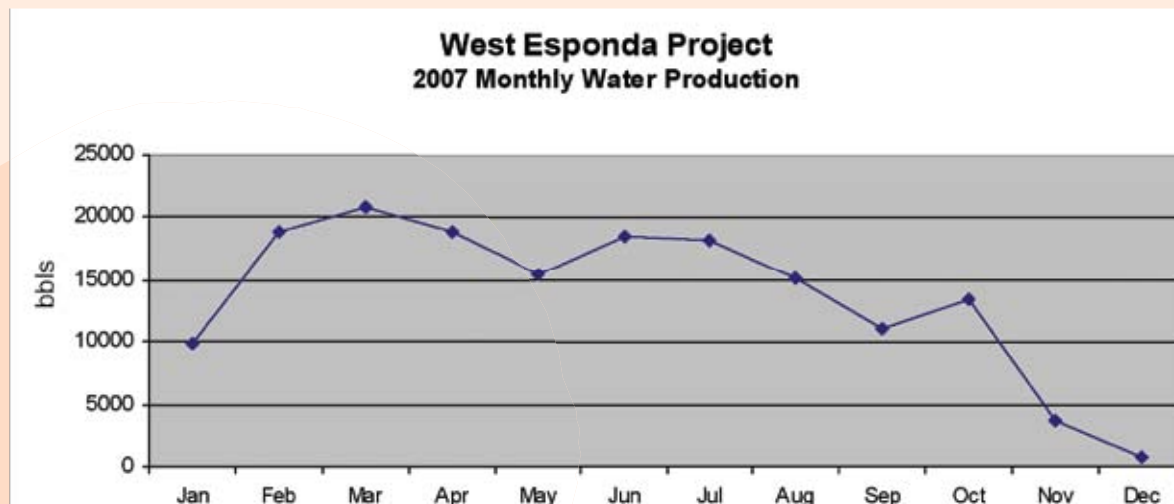
Located in the northern portion of the West Esponda project, a pilot production program, comprising 10 wells, has been developed and is currently in the dewatering phase. The commencement of production from these wells will be assisted by the development of the 8 well extension program.

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

The 10 well pilot production program in the northern portion of the West Esponda project continues its dewatering period. Down hole mechanical problems have caused the decreased dewatering volumes towards the end of the year.

Extension Program

The extension program, which comprises 8 wells drilled in a staggered offsetting pattern, totals approximately 5,400 metres of drilling. This development is situated immediately northwest of the existing 10 well pilot production program at West Esponda. All wells have been fully cased on reaching total depth. Well completions, including downhole cleanup, seam perforations, formation enhancement, pump installation, and in-field reticulation is anticipated to begin in the near future.



REVIEW OF OPERATIONS (CONT.)

Wells drilled to date have recorded the following coal seam intercept results:

Well Name	Total Logged Depth (metres)	Total Coal Intercepts (metres)	Total Big George Interval (metres)
Esponda 9-5	700.3	31.1	14.6
Esponda 9-9	671.5	32.9	14.9
Esponda 9-7	662.3	35.7	17.7
Esponda 9-1	662.1	31.4	13.1
Esponda 8-1	680.8	29.0	13.7
Esponda 9-3	671.8	39.6	21.0
Esponda 4-15	671.8	35.1	15.8
Esponda 4-13	662.6	33.2	16.6

Quaneco Joint Venture

A Letter of Intent was executed with effect from 10 September 2007 with Quaneco of Willoughby Hills, Ohio and Woodland Hills, California. The Letter of Intent will be followed by a comprehensive agreement providing for a joint venture over 194 net hectares (480 acres) of Federal oil and gas leases held by Quaneco.

The joint venture provides that in return for Quaneco's contribution of its leasehold, the Company shall pay all expenses associated with preparation and submittal of a Plan of Development ('POD') required by the Federal Bureau of Land Management, which, upon approval, will grant the Company the permits necessary to fully develop the subject lease with respect to coalbed natural gas resources.

The agreement shall further provide that development costs, following POD expenses, will be paid 55% by the Company and 45% by Quaneco. The Company plans development of this lease in conjunction with adjoining leasehold interests in which the Company owns 100% interests.

ORIVA PROJECT

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

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

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

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

Resources

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

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

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

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

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

REVIEW OF OPERATIONS (CONT.)

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

Oriva Throne

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

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

CBM production from the Oriva Throne tenements for the year ended 31 December 2007 was as follows:

Coal Seam	CBM Production (Mcf)	Net Revenue Interest (Mcf)
Anderson	74,431	45,217
Felix	12,273	7,456
Wall	5,955	3,618
Totals	92,659	56,290

CBM production was sold for an average of US\$3.88 per Mcf in 2007 for total net revenues of US\$218,221. CBM production is delivered to Western Gas's Richard Compression Station situated in Section 9, Township 50 North, Range 74 West on the Company's Oriva Federal tenements.

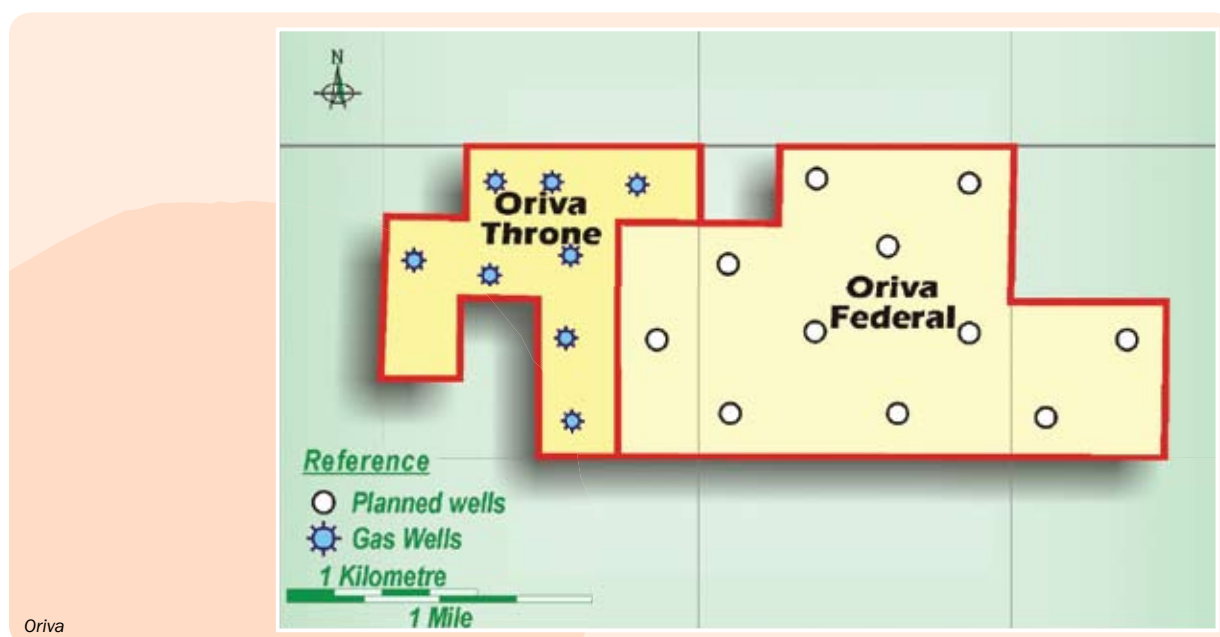
The Company is reviewing opportunities to acquire additional producing acreage in the proximity of the Oriva Project.

Oriva Federal

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

Oriva Federal CBM

The Oriva Federal project will develop 11 pad sites on the State mandated 32 hectare well spacing with three CBM production wells on each pad. Overall project development will involve the drilling of 33 wells totalling approximately 13,400 metres (44,000 feet), in-field for gas and water gathering 20,000 metres (66,000 feet), underground electrification for its pumping requirements, and construction of multiple water retention reservoirs and pits. The Company's Water Management Plan provides for standard CBM style reservoirs either along or in ephemeral channels with the project designed to fully contain its water output of nearly 25,000 barrels of water per day in constructed earthen pits, called Off-Channel Containment Pits.



REVIEW OF OPERATIONS (CONT.)

Oriva Federal Conventional Oil and Gas

Under the terms of the Conventional Oil and Gas Farmout Agreement, Carpenter & Sons and North Finn ("C&S-NF") of Casper Wyoming, as Operator, will earn an 81% Net Revenue Interest to conventional oil and gas (not coalbed methane which is retained by the Company) production in one half of the Oriva Federal leasehold by drilling this test well.

The completion of a second well will earn-in C&S-NF to the remaining leasehold interest.

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

Late in 2006, the Oriva Deep Federal No 9-8A conventional oil and gas well on the Company's Oriva Federal property was completed to a depth of 2,949 metres (9,676 feet).

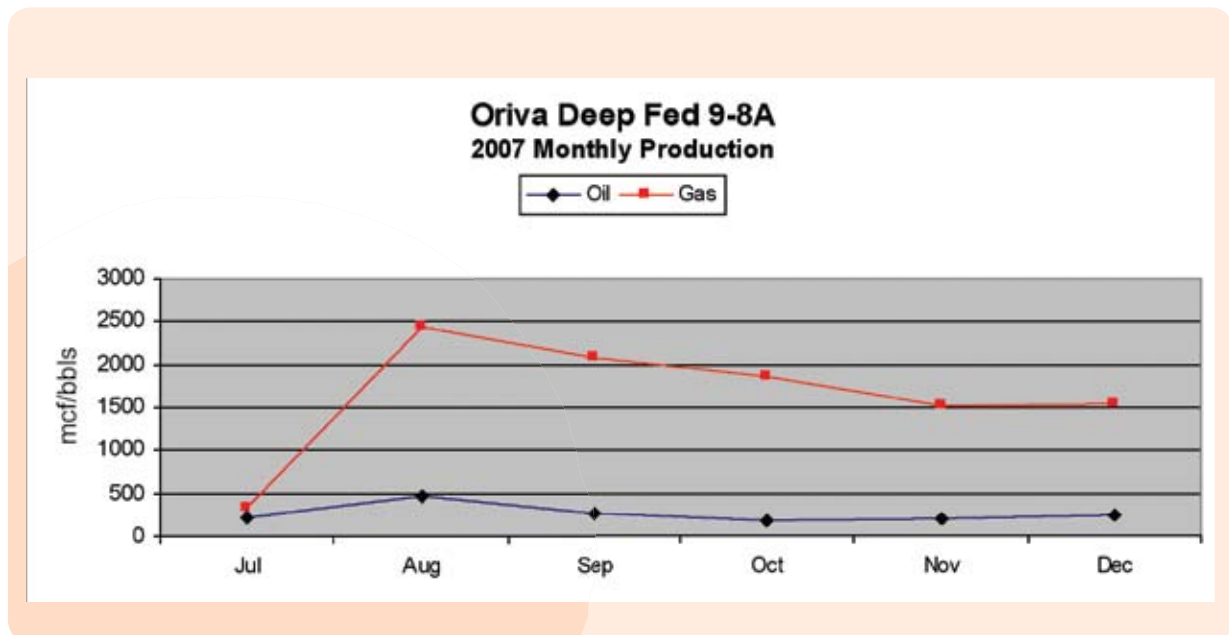
The well has been cased to 2,944 metres (9,660 feet) in the Cretaceous Muddy Formation, the primary target, as a potential natural gas and condensate or oil producer.

In addition to the primary Cretaceous Muddy Formation target, gassy Cretaceous aged fractured shales situated above the primary target were intercepted and will continue to be evaluated for potential oil and gas production. The Muddy pay zone found in Well No.9-8A is similar to that found in the nearby Amos Draw field, located 3 miles northwest, which has a cumulative production of 2.7 MMBO (million barrels of oil) and 67 Bcf of gas since its discovery in 1982. The Kingsbury Creek field has also produced commercial oil and gas since its discovery in 1968; it is located 1 mile southeast, and has produced 627,000 barrels of oil and 11 Bcf of gas.

The Company has been advised by C&S-NF that production testing initially commenced before the Oriva Deep Federal No 9-8A well had been tied into an existing Western Gas-Anadarko pipeline which is less than 1.6 kilometres (1 mile) from the well. Western Gas-Anadarko has advised the Operator that it will restrict the daily gas production to its compressor due to the high pipeline pressure that the Oriva Deep Federal No 9-8A is delivering. The Operator is evaluating piping alternatives while production testing continues.

The first oil and gas income from the Oriva Deep Federal well were received during the September quarter. During the December quarter the Company's 4.5% NRI share of production was sold for total net revenues of US\$2,380.

In addition to Oriva Deep Federal well No 9-8A, on the basis of 65 hectare (160 acre) spacings, there are an additional 5 Muddy well locations which are able to be developed on the Oriva Federal project.



REVIEW OF OPERATIONS (CONT.)

CHEROKEE BASIN, KANSAS, USA

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

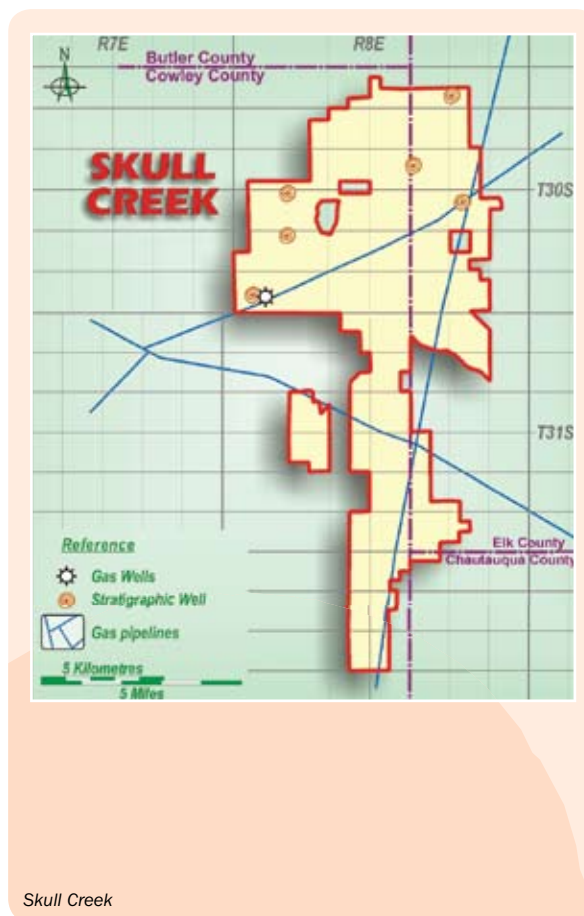
The Weir-Pittsburg Seam has been actively mined by both open pit and underground methods in southeast Kansas since the 1900s. With the exception of the Weir-Pittsburg coal these as well as the “Bw”, Drywood and Tebo coals are present within the Skull Creek Project.

SKULL CREEK PROJECT

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

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

The principal CBM target coal seams occur in the Cabaniss and Krebs Formations of the Cherokee Group at depths of approximately 600 metres. The leases are not restricted to CBM, but convey all oil and gas rights to the Company. Conventional oil and gas targets may also exist in the Skull Creek Project and will be evaluated during any future drilling operations. Underlying the region is Mississippian and Ordovician aged carbonates that yield conventional hydrocarbons. Also, the Ordovician sediments serve as a water disposal zone for co-produced coalbed methane water. Additional conventional hydrocarbon occurrences in the overlying strata of the Kansas City-Lancing Group are potential targets.



Exploration

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

Currently the company is in dispute with its joint venture partner as to the extent of work undertaken and the Company's obligations. A proposal to resolve the dispute has been put to the joint venturer but there is no indication that will be achieved. No further work is likely until the dispute is resolved.

REVIEW OF OPERATIONS (CONT.)

AUSTRALIAN OPERATIONS

The Company holds rights to prospective CBM projects in the Gippsland and Otway Basins of Victoria, the Eromanga and Willochra Basins of South Australia and the Gunnedah Basin of New South Wales. As described below, the Company has entered into an agreement with Greenpower Energy Limited ('Greenpower') to sell the Company's Australian CBM projects to Greenpower upon successful completion of ASX listing. The Company has been advised that applications for the Greenpower IPO have closed, conditional Listing Approval was granted to Greenpower by the ASX in January 2008 and ASX listing of Greenpower is expected in March 2008. Due to the progress of the Greenpower IPO, field activities during the year have been minimal.

Gippsland Basin, Victoria

The Gippsland Basin Project is located to the southeast of metropolitan Melbourne between Dandenong, Wonthaggi, Leongatha and Moe.

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

During the year a number of tenements in Gippsland were subject to statutory reductions as prescribed by the Department of Primary Industries, Victoria. The Company now controls a total area of approximately 3,843 square kilometres.

All of the Gippsland ELs have active registered work plans.

Otway Basin, Victoria

The Otway Basin Project is adjacent to the South Australian border and alongside the route of the South East Australia gas pipeline. During the year ELs 4368 and 4369 were granted and it is now possible to start exploration work on this area which is adjacent to EL 4811.

A work program to facilitate the drilling of up to four 1,200 metre stratigraphic test holes on EL 4811 has been approved and registered with the Department of Primary Industries.

Gunnedah Basin, New South Wales

PEL 428 covers an area of 6,021 square kilometres in northern New South Wales and lies immediately north and west of Eastern Star Gas Limited's ('Eastern Star Gas') PEL 238 permit which contains the Coonarah Gas Field, the Wilga Park Power Station and the Bohena coal seam gas pilot. Eastern Star Gas is funding Comet Ridge Limited's expenditure commitment at present and is the operator. No significant exploration work was completed during the year but a planned Seismic Survey on PEL 428 was successfully completed during August 2007.

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

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

Willochra and Eromanga Basins, South Australia

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

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

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

REVIEW OF OPERATIONS (CONT.)

CORPORATE ACTIVITIES

Callabonna Uranium Limited IPO

During the year, the Company entered into a binding Heads of Agreement with Touchstone Management Pty Ltd ('Touchstone') to form the basis of Callabonna Uranium Limited which is proposed to be listed for quotation by the ASX.

Callabonna's operating activities will be focused on uranium exploration, initially in South Australia and the Northern Territory. In summary, Callabonna has rights to exploration licences with uranium potential totalling approximately 8,835 square kilometres in South Australia and the Northern Territory ('Project Area').

Callabonna's commercial intent and principle business will be the exploration and exploitation of the uranium potential of the Project Area.

Planet Gas Limited shareholders will be offered an entitlement to participate in the Callabonna IPO and the Company will hold a substantial investment in Callabonna.

The Company has been granted three mineral exploration licences. These mineral exploration licences cover an area of approximately 4,128 square kilometres in the Northern Territory. Existing exploration licence areas previously held by Touchstone in the Frome Embayment near Lake Callabonna in South Australia (known as the Curnamona project) have been transferred to Frome Uranium Pty Ltd, a wholly owned subsidiary of Callabonna. These six licences cover an area of approximately 3,370 square kilometres. A further three applications made by Touchstone for mineral licences in the Northern Territory have been granted. These three licences cover an area of approximately 1,337 square kilometres and will be transferred to Arunta Uranium Pty Ltd, a wholly owned subsidiary of Callabonna.

Tenement	Location	Area (Km ²)
EL3844	South Australia	131.0
EL3845	South Australia	777.0
EL3846	South Australia	908.0
EL3847	South Australia	528.0
EL3841	South Australia	125.0
EL3842	South Australia	901.0
EL25956	Northern Territory	957.7
EL25957	Northern Territory	1,624.0
EL25958	Northern Territory	1,546.0
EL26006	Northern Territory	797.3
EL26012	Northern Territory	376.6
EL26040	Northern Territory	163.3
Total		8,834.9

All of these areas are considered to be prospective for uranium and will form the basis for Callabonna's exploration activities and IPO.

Callabonna also holds via its 100% owned subsidiary Callabonna Energy Pty Limited Geothermal Exploration Licence Applications (GELAs 296, 304, 305, 306, 307 and 350) in South Australia, in the north-eastern Curnamona Craton. Following the end of the December quarter, these six licences have been offered to Callabonna, and are provisional simply on the payment of the first year's annual rent for each licence and a security deposit. Potential exists for Callabonna to discover thermal conditions required for geothermal energy production in this area based on its interpretation of the geology of the GELs and the heat flow parameters already established in the region.

Geothermal energy may be extracted from hot rocks at depth by engineering the movement of water through the hot rocks, heating the water, bringing the water to surface, extracting the heat, and thereby driving a turbine to produce electricity. Once established, such a system may produce geothermally generated power for decades.

Tenement	Location	Area (Km ²)
GELA296	South Australia	497.1
GELA304	South Australia	497.5
GELA305	South Australia	473.7
GELA306	South Australia	428.0
GELA307	South Australia	481.6
GELA350	South Australia	500.0
Total		2,877.8

Callabonna's initial focus will be to explore the Curnamona project located in the Frome Embayment in South Australia. The first stage will be an airborne electromagnetic survey to map channels and structure throughout the region with infill in the areas where channels or structure are indicated from previous work. Based on the results from this airborne survey and interpretation of existing data, Callabonna expects to target favourable structural belts and channels for follow up drilling.

REVIEW OF OPERATIONS (CONT.)

Greenpower Energy Limited

During the year, the Company has entered into an agreement with Greenpower to sell the Company's Australian CBM projects to Greenpower for 12.5 million fully paid ordinary shares upon successful completion of ASX listing. The Company has been advised applications for the Greenpower Energy Limited IPO have closed, conditional Listing Approval was granted to Greenpower by the ASX in January 2008 and ASX listing of Greenpower is expected in March 2008.

Greenpower's operating activities will be focused the exploration, appraisal, drilling and development of CBM projects in Australia, including two hydrocarbon exploration permits it currently holds in the Perth Basin of Western Australia and the Planet Gas exploration projects in the Gippsland and Otway Basins of Victoria, the Willochra and Eromanga Basins of South Australia and the Gunnedah Basin of New South Wales. Greenpower will also consider new acquisitions.

With the Company's focus on its USA based CBM projects, particularly the Powder River Basin projects, this proposed transaction will facilitate increased exploration and development of the Company's Australian CBM projects whilst allowing the Company to retain an interest in the future possible success of the projects.

Share Placements

During the year the Company issued 6,664,817 new shares to Cornell Capital, LP as full repayment of a \$2.0 million convertible loan facility which was drawn down on 11 December 2006.

On 4 May 2007 the Company completed a placement of 9,000,000 new shares at an issue price of \$0.31 per share to raise \$2.79 million to provide funds for the continued development and exploration of the Company's CBM projects and for working capital purposes.

On 18 October 2007 the Company issued 4,000,000 ordinary shares at a fair value of 22.5 cents each to nominees of Touchstone Management Pty Ltd as part consideration for Touchstone's exploration licences that go to form part of the suite of properties for the Callabonna Uranium IPO.

Responsibility Statements

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

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

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

STATEMENT OF CORPORATE GOVERNANCE

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

Board of Directors

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

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

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

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

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

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

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

Remuneration

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

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

Internal Controls

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

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

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

STATEMENT OF CORPORATE GOVERNANCE (CONT.)

External Auditors

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

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

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

Significant Business Risks

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

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

Performance

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

Ethical Standards

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

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

The Role of Shareholders

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

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

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

DIRECTORS' REPORT

The directors present the consolidated financial report of Planet Gas Limited ('Planet Gas' or 'the Company') and its controlled entities for the financial year ended 31 December 2007. In order to comply with the provisions of the Corporations Act 2001, the directors report as follows:

Directors

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

Norman Alfred Seckold, Executive Chairman and CEO

Director since 4 December 2001.

Norman Seckold graduated with a Bachelor of Economics degree from the University of Sydney in 1970. He has spent more than 25 years in the full time management of natural resource companies, both in Australia and overseas.

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

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

Peter James Nightingale, Executive Director, Secretary and CFO

Director since 4 December 2001.

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

As a director or company secretary Mr. Nightingale has, for the past 20 years, been responsible for the financial control, administration, secretarial and in-house legal functions of a number of private and public listed companies in Australia, the USA and Europe including Pangea Resources Limited, Timberline Minerals Inc., Perseverance Corporation Limited, Valdora Minerals N.L., ETT Limited and Bolnisi Gold N.L..

Mr. Nightingale is currently a director or company secretary of Biotron Limited, BMDi International Limited and Cockatoo Coal Limited.

Robert M. Bell, Independent and Non-Executive Director

Director since 30 October 2007.

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

He has a continuing interest in the Peat CBM field and was a founder of, and a major investor in, Queensland Gas Company.

Anthony John McClure, Independent and Non-Executive Director

Director since 27 August 2003.

Anthony McClure graduated with a Bachelor of Science (Geology) degree from Macquarie University in 1986. Mr. McClure has over 20 years technical, management and financial experience in the resource sector within Australia, Africa and the Americas in project management and executive development roles. He has worked in the financial services sector and stockbroking, primarily as a resource analyst covering both mineral and energy sectors.

Mr. McClure is currently a director of European Gas Limited.

Anthony John McDonald, Independent and Non-Executive Director

Director since 19 November 2003.

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

Mr. McDonald has been a director, secretary and/or legal advisor to a number of listed and unlisted public companies in the resources sector. He is currently a director of Deep Yellow Limited and Industrea Limited.

Norman Joseph Zillman, Independent and Non-Executive Director

Director from 20 August 2002 to 13 February 2007.

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

DIRECTORS' REPORT (CONT.)

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

Bruce Fullerton Riederer, Executive Director of Exploration and Development

Director from 10 September 2003 to 8 January 2008.

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

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

Directors' Interests

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

Director	Fully Paid Ordinary Shares
Norman A. Seckold	23,250,003
Peter J. Nightingale	3,625,001
Anthony J. McClure	3,000,000
Anthony J. McDonald	3,000,000
Robert M. Bell	-

Directors' Meetings

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

Director	Board Meetings	
	Held	Attended
Norman A. Seckold	5	5
Peter J. Nightingale	5	5
Bruce F. Riederer	5	5
Anthony J. McClure	5	3
Anthony J. McDonald	5	4
Robert M. Bell	-	-
Norman J. Zillman	1	-

Directors' and Executives' Remuneration

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

Principal Activities

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

Financial Results

The consolidated loss after income tax attributable to members of the Company for the year was \$1,867,776 (2006 – \$1,684,394).

Review of Operations

The Review of Operations is set out on pages 2 to 12 of this Annual Report.

Dividends

The directors do not recommend the payment of a dividend in respect of the financial year ended 31 December 2007. No dividends have been paid or declared during the financial year.

Changes in State of Affairs

In the opinion of the directors, significant changes in the state of affairs of the Group that occurred during the year ended 31 December 2007 were as follows:

- West Esponda project tenement interest increased by 3,787 net hectares (49%) to 11,586 net hectares.
- West Esponda net GIP resources increased by 72.5 Bcf (71%) to 173.8 Bcf.
- Completion of West Esponda project extension program with 8 wells drilled.
- West Esponda pilot production program dewatering continues.
- Oriva Federal conventional oil and gas well completed and tied into production pipelines.
- Gas production (not yet commercial quantities) increasing at East Esponda.
- Formation of a uranium company spin-off, Callabonna Uranium Limited, which has been granted twelve uranium licences and six geothermal licences.
- Conditional sale of the Company's Australian CBM projects to Greenpower Energy Limited.
- Issue of 15,664,817 fully paid ordinary shares for the repayment of a \$2.0 million convertible loan facility and \$2.79 million cash.
- Issue of 4,000,000 fully paid ordinary shares as part consideration for the Company's interest in Callabonna Uranium Limited.

DIRECTORS' REPORT (CONT.)

Environmental Regulations

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

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

Subsequent Events

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

Likely Developments

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

Indemnification of Officers and Auditors

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

Remuneration Report

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

The directors are not employed directly by the Company. Their services are compensated by way of arrangements with related parties. The remuneration disclosed below represents the cost to the Group for the services provided under these fee arrangements.

No directors or executives receive performance related remuneration.

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

	Year	Fees \$	Total \$
Specified Directors			
<i>Executive directors</i>			
Norman A. Seckold (Chairman and CEO)	2007	90,000	90,000
	2006	90,000	90,000
Peter J. Nightingale (Director, Secretary and CFO)	2007	67,500	67,500
	2006	60,000	60,000
Bruce F. Riederer (Director of Exploration and Development)	2007	164,482	164,482
	2006	183,488	183,488
<i>Non-executive directors</i>			
Anthony J. McClure	2007	35,417	35,417
	2006	35,000	35,000
Anthony J. McDonald	2007	66,000	66,000
	2006	60,000	60,000
Robert M. Bell	2007	4,000	4,000
	2006	-	-
Norman J. Zillman	2007	-	-
	2006	24,000	24,000
Total, all specified directors	2007	427,399	427,399
	2006	452,488	452,488

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

Non-audit Services

During the year ended 31 December 2007 KPMG, the Company's auditor has not performed other services in addition to their statutory audit duties.

	2007 \$	2006 \$
Statutory audit		
Auditors of the Company		
- audit and review of financial reports	47,158	49,985
Services other than statutory audit		
- corporate structure advice	-	4,500

DIRECTORS' REPORT (CONT.)


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

The lead auditor's independence declaration is set out on page 19 and forms part of the directors' report for the year ended 31 December 2007.

Signed at Sydney this 29th day of February 2008 in accordance with a resolution of the Board of Directors:



Norman A. Seckold
Director



Peter J. Nightingale
Director

LEAD AUDITOR'S INDEPENDENCE DECLARATION



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

I declare that, to the best of my knowledge and belief, in relation to the audit for the year ended 31 December 2007, 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.

KPMG
29 February 2008

S.J. Board
Partner

INCOME STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007

	Notes	Consolidated		Company	
		2007 \$	2006 \$	2007 \$	2006 \$
Revenue from the sale of coalbed methane		261,069	486,456	-	-
Financial income	2	42,925	60,030	41,604	59,496
Financial expenses	2	(182,053)	(307,475)	(52,658)	(53,248)
Net finance costs		(139,128)	(247,445)	(11,054)	6,248
Production and transport costs		(594,322)	(795,987)	-	-
Consultants' and administration expenses		(832,303)	(798,867)	(817,624)	(798,389)
Depreciation expense	2	(6,201)	(9,857)	(3,251)	(4,933)
Amortisation expense	2	(428,800)	(170,175)	-	-
Impairment loss		-	-	(1,913,896)	(2,020,476)
Impairment reversal		-	-	-	11,833,696
Other expenses		(128,091)	(148,519)	(114,638)	(54,937)
Profit/(Loss) before income tax expense		(1,867,776)	(1,684,394)	(2,860,463)	8,961,209
Income tax expense	3	-	-	-	-
Profit/(Loss) for the period		(1,867,776)	(1,684,394)	(2,860,463)	8,961,209
Basic loss per share	15	0.97 cents	0.95 cents		
Diluted loss per share	15	0.97 cents	0.95 cents		

STATEMENTS OF RECOGNISED INCOME AND EXPENSE FOR THE YEAR ENDED 31 DECEMBER 2007

	Consolidated		Company	
	2007 \$	2006 \$	2007 \$	2006 \$
Foreign exchange translation differences	(1,790,565)	(1,253,696)	-	-
Net expense recognised directly in equity	(1,790,565)	(1,253,696)	-	-
Profit/(Loss) for the period	(1,867,776)	(1,684,394)	(2,860,463)	8,961,209
Total recognised income and expense for the period	(3,658,341)	(2,938,090)	(2,860,463)	8,961,209

Other movements in equity arising from transactions with owners as owners are set out in Note 13.

BALANCE SHEETS AS AT 31 DECEMBER 2007

	Notes	Consolidated		Company	
		2007 \$	2006 \$	2007 \$	2006 \$
CURRENT ASSETS					
Cash and cash equivalents		84,485	1,065,779	38,060	1,065,115
Trade and other receivables	4	99,895	153,540	21,711	32,415
Prepayment		-	141,485	-	141,485
Assets classified as held for sale	8	2,506,609	-	112,441	-
TOTAL CURRENT ASSETS		2,690,989	1,360,804	172,212	1,239,015
NON-CURRENT ASSETS					
Investments	5	-	-	16,905,198	15,849,840
Property, plant and equipment	6	16,660,620	15,868,596	6,089	9,340
Exploration and evaluation expenditure	7	2,353,256	5,067,856	-	84,782
Other	9	1,187,971	189,515	1,029,997	20,000
TOTAL NON-CURRENT ASSETS		20,201,847	21,125,967	17,941,284	15,963,962
TOTAL ASSETS		22,892,836	22,486,771	18,113,496	17,202,977
CURRENT LIABILITIES					
Trade and other payables	10	870,565	852,583	646,703	775,803
Borrowings	12	250,000	1,900,418	250,000	1,900,418
TOTAL CURRENT LIABILITIES		1,120,565	2,753,001	896,703	2,676,221
NON-CURRENT LIABILITIES					
Other payables	10	1,560,807	1,502,689	-	-
Provisions	11	88,224	-	-	-
TOTAL NON-CURRENT LIABILITIES		1,649,031	1,502,689	-	-
TOTAL LIABILITIES		2,769,596	4,255,690	896,703	2,676,221
NET ASSETS		20,123,240	18,231,081	17,216,793	14,526,756
EQUITY					
Issued capital	13	28,539,389	22,988,889	28,539,389	22,988,889
Option premium reserve	14	46,058	46,058	46,058	46,058
Foreign currency translation reserve	14	(3,410,813)	(1,620,248)	-	-
Accumulated losses	16	(5,051,394)	(3,183,618)	(11,368,654)	(8,508,191)
TOTAL EQUITY		20,123,240	18,231,081	17,216,793	14,526,756

STATEMENTS OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2007

	Notes	Consolidated		Company	
		2007 \$	2006 \$	2007 \$	2006 \$
Cash flows from operating activities					
Cash receipts from customers		305,245	629,027	-	-
Cash paid to suppliers		(619,251)	(1,001,920)	(589,882)	(960,361)
Payments for production		(563,417)	(928,171)	-	-
Cash generated from operations		(877,423)	(1,301,064)	(589,882)	(960,361)
Interest received		42,924	67,335	41,603	66,801
Net cash used in operating activities	17	(834,499)	(1,233,729)	(548,279)	(893,560)
Cash flows from investing activities					
Investments in controlled entities		-	-	(3,133,938)	(5,686,811)
Payments for security deposits		-	(311,016)	-	-
Payments for development		(2,613,911)	(4,083,718)	-	-
Payments for capitalised production costs		(25,340)	(93,878)	-	-
Payments for exploration and evaluation		(134,828)	(459,881)	(6,830)	(8,172)
Payments for deferred expenditure	9	(129,997)	-	(129,997)	-
Payments for acquisitions of exploration areas		(31,673)	(406,687)	-	-
Payments for plant and equipment		-	(628)	-	(1,550)
Net cash used in investing activities		(2,935,749)	(5,355,808)	(3,270,765)	(5,696,533)
Cash flows from financing activities					
Proceeds from issue of shares		2,790,000	4,250,000	2,790,000	4,250,000
Costs of issue		(139,500)	(26,125)	(139,500)	(26,125)
Interest paid		(55,693)	(7,190)	(52,658)	(7,190)
Proceeds from borrowings		250,000	1,900,418	250,000	1,900,418
Net cash provided by financing activities		2,844,807	6,117,103	2,847,842	6,117,103
Net decrease in cash held		(925,441)	(472,434)	(971,202)	(472,990)
Cash and cash equivalents at 1 January		1,065,779	1,530,861	1,065,115	1,530,753
Effect of exchange rate adjustments on cash held		(55,853)	7,352	(55,853)	7,352
Cash and cash equivalents at the end of the financial year	17	84,485	1,065,779	38,060	1,065,115

NOTES TO THE FINANCIAL STATEMENTS

1. REPORTING ENTITY

Planet Gas Limited (the 'Company') is a company domiciled in Australia. The address of the Company's registered office is Level 8, 261 George Street, Sydney, NSW, 2000. The consolidated financial report of the Company for the year ended 31 December 2007 comprises the Company and its subsidiaries (together referred to as the 'Group'). The Group is engaged in the acquisition, exploration, development, production and operation of oil, gas and CBM properties in the USA and Australia.

2. BASIS OF PREPARATION

(a) Statement of compliance

The financial report is a general purpose financial report which has been prepared in accordance with Australian Accounting Standards ('AASBs') adopted by the Australian Accounting Standards Board ('AASB') and the Corporations Act 2001. The consolidated financial report of the Group and the financial report of the Company comply with the International Financial Reporting Standards (IFRSs) and interpretations adopted by the International Accounting Standards Board (IASB).

The financial report was authorised for issue by the directors on 29 February 2008.

(b) Basis of measurement

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

(c) Functional and presentation currency

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

(d) Use of estimates and judgements

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

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

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

- Note 5 – investments
- Note 6 – property, plant and equipment
- Note 10 – trade and other payables

3. SIGNIFICANT ACCOUNTING POLICIES

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

The Group has elected to early adopt the following accounting standards and amendments:

- AASB 101 *Presentation of Financial Statements (October 2006)*
- AASB 2007-4 *Amendments to Australian Accounting Standards arising from ED 151 and other amendments.*

New standards and interpretations not yet adopted

The following standards, amendments to standards and interpretations have been identified as those which may impact the entity in the period of initial application. They are available for early adoption at 31 December 2007, but have not been applied in preparing this financial report:

- AASB 2007-2 *Amendments to Australian Accounting Standards arising from AASB Interpretation 12* makes amendments to AASB 1 *First-time Adoption of Australian Equivalents to International Financial Reporting Standards*, AASB 117 *Leases*, AASB 118 *Revenue*, AASB 120 *Accounting for Government Grants and Disclosures of Government Assistance*, AASB 121 *The Effects of Changes in Foreign Exchange Rates*, AASB 127 *Consolidated and Separate Financial Statement*, AASB 131 *Interest in Joint Ventures*, and AASB 139 *Financial Instruments: Recognition and Measurement*. AASB 2007-2 is applicable for annual reporting periods beginning on or after 1 January 2008 and must be applied at the same time as Interpretation 12 *Service Concession Arrangements*.

NOTES TO THE FINANCIAL STATEMENTS (CONT.)

3. SIGNIFICANT ACCOUNTING POLICIES (CONT.)

- AASB 2007-3 *Amendments to Australian Accounting Standards arising from AASB 8* makes amendments to AASB 5 *Non-current Assets Held for Sale and Discontinued Operations*, AASB 6 *Exploration for and Evaluation of Mineral Resources*, AASB 107 *Cash Flow Statements*, AASB 119 *Employee Benefits*, AASB 127 *Consolidated and Separate Financial Statements*, AASB 134 *Interim Financial Reporting*, AASB 136 *Impairment Assets*. AASB 2007-3 is applicable for annual reporting periods beginning on or after 1 January 2009 and must be adopted in conjunction with AASB 8 *Operating Segments*. This standard is only expected to impact disclosures contained within the financial report.
- Interpretation 10 *Interim Financial Reporting and Impairment* prohibits the reversal of an impairment loss recognised in a previous interim period in respect of goodwill, an investment in an equity instrument or a financial asset carried at cost. Interpretation 10 will become mandatory for the Group's 2008 financial statements, and will apply to goodwill, investments in equity instruments, and financial assets carried at cost prospectively from the date that the Group first applied the measurement criteria of AASB 136 and AASB 139 respectively (i.e. 1 July 2004 and 1 July 2005, respectively). The potential impact on the Company and the consolidated financial report has not yet been determined.
- AASB 2007-6 *Amendments to Australian Accounting Standards arising from AASB 123* [AASB 1, AASB 101, AASB 107, AASB 111, AASB 116 and AASB 138 and Interpretations 1 and 12]. AASB 2007-3 is applicable for annual reporting periods beginning on or after 1 January 2009 and must be adopted in conjunction with AASB 123 *Borrowing Costs*. The potential impact on the Company and the consolidated financial report has not yet been determined.
- AASB 2007-7 *Amendments to Australian Accounting Standards* [AASB 1, AASB 2, AASB 4, AASB 5, AASB 107 and AASB 128] is applicable for annual reporting periods beginning on or after 1 January 2009 and must be adopted in conjunction with AASB 123 *Borrowing Costs*. The potential impact on the Company and the consolidated financial report has not yet been determined.
- Interpretation 11 *AASB 2 Share-based Payment – Group and Treasury Share Transactions* addresses the classification of a share-based payment transaction (as equity or cash settled), in which equity instruments of the parent or another group entity are transferred, in the financial statements of the entity receiving the services. Interpretation 11 will become mandatory for the Group's 2008 financial report. Interpretation 11 is not expected to have any impact on the financial report. The potential effect of the interpretation on the financial report has not yet been determined.
- AASB 2007-1 *Amendments to Australian Accounting Standards arising from AASB Interpretation 11* amends AASB 2 *Share-based Payments* to insert the transitional provision of AASB 2, previously contained in AASB 1 *First-time Adoption of Australian Equivalents to International Financial Reporting Standards*. AASB 2007-1 is applicable for annual reporting periods beginning on or after 1 March 2007 and is not expected to have any impact on the consolidated financial report. The potential impact on the Group has not yet been determined.

Revenue recognition

Interest revenue

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

Sale of coalbed methane

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

Goods and services tax

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

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

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

Exploration expenditure

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

NOTES TO THE FINANCIAL STATEMENTS (CONT.)

3. SIGNIFICANT ACCOUNTING POLICIES (CONT.)

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

- the expenditures are expected to be recouped through successful development and exploitation of the area of interest; or
- activities in the area of interest have not at the reporting date, reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves and active and significant operations in, or in relation to, the area of interest are continuing.

Exploration and evaluation assets are assessed for impairment if sufficient data exists to determine technical feasibility and commercial viability and facts and circumstances suggest that the carrying amount exceeds the recoverable amount. For the purposes of impairment testing, exploration and evaluation assets are allocated to cash-generating units to which the exploration activity relates. The cash generating unit shall not be larger than the area of interest.

Once the technical feasibility and commercial viability of the extraction of mineral resources in an area of interest are demonstrable, exploration and evaluation assets attributable to that area of interest are first tested for impairment and then reclassified to developing mine properties.

Property, plant and equipment

Developing mine properties

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

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

Producing mine properties

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

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

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

Depreciation

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

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

Acquisition of assets

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

Non-current assets held for sale

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

Rehabilitation costs

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONT.)

3. SIGNIFICANT ACCOUNTING POLICIES (CONT.)

Financial instruments issued by the Company

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

Basis of consolidation

Subsidiaries

Subsidiaries are entities controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable or convertible are taken into account. The financial statements of subsidiaries are included in the financial report from the date that control commences until the date that control ceases. The accounting policies of the subsidiaries have been changed when necessary to align them with the policies adopted by the Group.

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

Joint ventures

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

Jointly controlled operations

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

Transactions eliminated on consolidation

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

Unrealised gains arising from transactions with associates and jointly controlled entities are eliminated to the extent of the Group's interest in the entity with adjustments made to the 'Investment in associates' and 'Share of associates net profits' accounts.

Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

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

Impairment

The carrying amounts of the Group's assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated.

An impairment loss is recognised whenever the carrying amount of an asset or its cash generating unit exceeds its recoverable amount. Impairment losses are recognised in the income statement unless the asset has previously been revalued, in which case the impairment loss is recognised as a reversal to the extent of that previous revaluation with any excess recognised through the income statement.

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

Calculation of recoverable amount

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONT.)

3. SIGNIFICANT ACCOUNTING POLICIES (CONT.)

Reversals of impairment

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

An impairment loss in respect of goodwill is not reversed.

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

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

Foreign currency transactions

Transactions in foreign currencies are translated at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to Australian dollars at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to Australian dollars at foreign exchange rates ruling at the dates the fair value was determined.

Financial statements of foreign operations

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

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

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

Trade and other receivables/payables

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

Income tax

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

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

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

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

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

Intercompany loans

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

NOTES TO THE FINANCIAL STATEMENTS (CONT.)

3. SIGNIFICANT ACCOUNTING POLICIES (CONT.)

Investments in controlled entities

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

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

Cash and cash equivalents

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

Rehabilitation costs

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

Compound financial instruments

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

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

Borrowings

Borrowing costs are expensed as incurred.

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

2. PROFIT/LOSS FROM OPERATING ACTIVITIES

Profit/loss from ordinary activities includes the following items of revenue and expense:

Financial income and expense

Interest revenue	42,925	60,030	41,604	59,496
Interest expense	(55,693)	(53,248)	(52,658)	(53,248)
Unwind of discount on development expenditure liability	(126,361)	(254,227)	-	-

Expenses

Amortisation of producing mine properties	428,800	170,175	-	-
Auditors' remuneration				
- Audit and review of financial reports	47,158	49,985	47,158	54,854
- Other services	-	4,500	-	4,500
Depreciation of plant and equipment				
- Office equipment	2,513	3,827	2,513	3,827
- Plant and equipment	3,688	6,030	738	1,106

Consolidated

Company

2007
\$

2006
\$

2007
\$

2006
\$

NOTES TO THE FINANCIAL STATEMENTS (CONT.)

3. INCOME TAX EXPENSE

Current tax expense

	Consolidated		Company	
	2007	2006	2007	2006
	\$	\$	\$	\$
Current year	(546,114)	(503,965)	(304,982)	(298,804)
Adjustments for prior year	(4,498)	(400,746)	(4,498)	(495,529)
De-recognition of losses	550,612	904,711	309,480	794,333
	-	-	-	-

Numerical reconciliation of income tax expense to prima facie tax payable

Profit/(loss) before tax	(1,867,776)	(1,684,394)	(2,860,463)	8,961,209
Prima facie income tax expense/(benefit) at the Australian tax rate of 30% (2006 – 30%)	(560,333)	(505,318)	(858,139)	2,688,363
Increase/(decrease) in income tax expense due to:				
- non-deductible expenses	3,488	4,740	44,747	4,740
- net loss of tax group	-	-	(693)	41,672
- effect of net deferred tax assets not brought to account	556,845	500,578	814,085	(2,734,775)
Income tax expense	-	-	-	-

Unrecognised deferred tax assets

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

Tax losses	4,162,569	3,611,957	1,441,119	1,131,639
Net deductible temporary differences	(2,930,242)	(2,940,943)	1,761,559	546,052
Potential tax benefit at 30%	1,232,327	671,014	3,202,678	1,677,691

The deductible temporary differences and tax losses do not expire under current tax legislation. Deferred tax assets have not been recognised in respect of these items because it is not probable that future taxable profit will be available against which the Group can utilise the benefits therefrom.

4. RECEIVABLES

Other debtors	78,184	137,507	1	16,382
GST receivable	21,711	16,033	21,710	16,033
	99,895	153,540	21,711	32,415

NOTES TO THE FINANCIAL STATEMENTS (CONT.)

	Consolidated		Company	
	2007 \$	2006 \$	2007 \$	2006 \$
5. INVESTMENTS				
Investment in controlled entities	-	-	25,311,413	22,342,159
Less cumulative impairment losses	-	-	(8,406,215)	(6,492,319)
Investment in controlled entities, at recoverable amount	-	-	16,905,198	15,849,840

Due to inherent uncertainty over the ultimate recovery of exploration and evaluation assets, the Company has impaired all intercompany investments in respect of exploration and evaluation expenditure, until such time as there is conclusive evidence the impairment has reversed. In 2006 the Company reversed an amount of \$11,833,696, in relation to the provision for impairment in respect of all intercompany investments where the underlying assets are classified as development or production assets. This decision was based on the greater degree of confidence of the recoverability of investments in these areas following the preparation of a resource estimate and an estimate of reserves and future revenues by independent experts.

6. PROPERTY, PLANT AND EQUIPMENT

Office equipment – at cost	43,551	43,551	43,551	43,551
Accumulated depreciation	(38,940)	(36,427)	(38,940)	(36,427)
Net book value	4,611	7,124	4,611	7,124
Plant and equipment – at cost	17,059	18,507	3,985	3,985
Accumulated depreciation	(9,926)	(6,875)	(2,507)	(1,769)
Net book value	7,133	11,632	1,478	2,216
Developing mine properties – at cost	14,183,000	12,726,604	-	-
Producing mine properties – at cost	3,227,430	3,528,922	-	-
Accumulated amortisation	(761,554)	(405,686)	-	-
Net book value	2,465,876	3,123,236	-	-
Total property, plant and equipment	16,660,620	15,868,596	6,089	9,340

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

Additional impairment testing was conducted in 2007 in relation to producing assets following the delay in completing the dewatering program and it was determined that the carrying value of producing mine assets was not in excess of the present value of estimated future cash flows. Key assumptions when conducting the impairment testing were recoverable reserves which are based on third party estimates, a discount rate of 15% and a gas price of US\$5.85/Mcf, an estimate of the open market price.

NOTES TO THE FINANCIAL STATEMENTS (CONT.)

6. PROPERTY, PLANT AND EQUIPMENT (CONT.)

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

Office equipment

	Consolidated		Company	
	2007	2006	2007	2006
	\$	\$	\$	\$
Carrying amount at beginning of year	7,124	9,401	7,124	9,401
Additions	-	1,550	-	1,550
Depreciation	(2,513)	(3,827)	(2,513)	(3,827)
Net book value	4,611	7,124	4,611	7,124

Plant and equipment

Carrying amount at beginning of year	11,632	18,586	2,216	3,322
Depreciation	(3,688)	(6,030)	(738)	(1,106)
Net foreign currency differences on translation	(811)	(924)	-	-
Net book value	7,133	11,632	1,478	2,216

Developing mine properties

Carrying amount at beginning of year	12,726,604	3,594,317	-	-
Additions	2,505,014	4,907,785	-	-
Provision for rehabilitation	49,201	-	-	-
Reclassification from capitalised exploration and evaluation expenditure	-	4,721,953	-	-
Net foreign currency adjustment on translation	(1,097,819)	(497,451)	-	-
Net book value	14,183,000	12,726,604	-	-

Producing mine properties

Carrying amount at beginning of year	3,123,236	3,517,426	-	-
Additions	25,340	41,861	-	-
Provision for rehabilitation	39,023	-	-	-
Net foreign currency adjustment on translation	(292,923)	(265,876)	-	-
Amortisation	(428,800)	(170,175)	-	-
Net book value	2,465,876	3,123,236	-	-

NOTES TO THE FINANCIAL STATEMENTS (CONT.)

	Consolidated		Company	
	2007 \$	2006 \$	2007 \$	2006 \$
7. EXPLORATION AND EVALUATION EXPENDITURE				
Areas of Interest – Exploration/Evaluation Phase				
Skull Creek – Cherokee Basin, Ks, USA	2,332,747	2,713,429	-	-
Gippsland Basin – Victoria (ELs 4500, 4807, 4858 to 4862, 4877 and 4902)	-	1,960,410	-	-
Otway Basin – Victoria (ELs 4368, 4369 and 4811)	-	101,160	-	66,663
Willochra Basin – SA (PELA 145)	-	8,953	-	8,953
Eromanga Basin – SA (PELA 146)	-	9,166	-	9,166
Gunnedah Basin – NSW (PEL 428)	-	274,738	-	-
Beetaloo – NT (ELs 25956, 25957 and ELA 25958)	20,509	-	-	-
	<u>2,353,256</u>	<u>5,067,856</u>	<u>-</u>	<u>84,872</u>
Reconciliations of exploration and evaluation areas of interest:				
Exploration and evaluation				
Carrying amount at beginning of year	5,067,856	9,791,857	84,872	76,609
Additions	92,814	212,605	7,569	8,263
Reclassification to developing and producing mine properties	-	(4,721,953)	-	-
Net foreign currency adjustment on translation	(380,805)	(214,653)	-	-
Transfer to assets classified as held for sale	(2,426,609)	-	(92,441)	-
Net book value	<u>2,353,256</u>	<u>5,067,856</u>	<u>-</u>	<u>84,872</u>

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

8. ASSETS CLASSIFIED AS HELD FOR SALE

Assets classified as held for sale – exploration and evaluation	<u>2,506,609</u>	<u>-</u>	<u>112,441</u>	<u>-</u>
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During 2007 the Company entered into an agreement with Greenpower Energy Limited ('Greenpower') to sell the Company's Australian CBM projects to Greenpower for 12.5 million fully paid ordinary shares at an issue price of \$0.20 each, upon successful completion of ASX listing. The Company has been advised that the ASX listing of Greenpower is to occur in March 2008 at which point these assets held for sale will transfer to Greenpower.

NOTES TO THE FINANCIAL STATEMENTS (CONT.)

9. OTHER NON-CURRENT ASSETS

	Consolidated		Company	
	2007 \$	2006 \$	2007 \$	2006 \$
Security deposits	157,974	189,515	-	20,000
Deferred expenditure – Callabonna Uranium Limited	1,029,997	-	1,029,997	-
	<u>1,187,971</u>	<u>189,515</u>	<u>1,029,997</u>	<u>20,000</u>

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

During the year the Company issued 4,000,000 ordinary shares at 22.5 cents to nominees of Touchstone Management Pty Ltd as part consideration for Touchstone's exploration licences that go to form part of the suite of properties for the Callabonna Uranium IPO ("Callabonna"). Additionally the Company reimbursed Touchstone \$120,000 for expenditure undertaken on Callabonna's behalf, and undertook \$9,997 of expenditure itself on behalf of Callabonna. The Company and Touchstone are co-sponsoring the IPO of Callabonna. Following successful completion of the Callabonna IPO, expenditure undertaken by the Company beyond the \$120,000 reimbursed to Touchstone will be refunded and the Company will receive shares in Callabonna equivalent to approximately 23.3% of Callabonna's issued capital, based on an IPO of \$10 million. If the Callabonna IPO does not raise the minimum and a listing of Callabonna does not occur, the Company and Touchstone have agreed to form a joint venture for the exploration of minerals in the project areas.

10. TRADE AND OTHER PAYABLES

Current

Creditors and accruals	870,565	852,583	646,703	775,803
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Non-current

Share of East Esponda development expenditure	1,560,807	1,502,689	-	-
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The amount payable in relation to East Esponda Development expenditure represents the Company's share (40%) of development expenditure which was incurred by Kennedy Oil at the East Esponda project. There are no other assets, liabilities or expenses of the joint venture operation.

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

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

11. PROVISIONS

Rehabilitation provision	88,224	-	-	-
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A provision of \$88,224 was made during the year in respect of the Group's obligation to rectify any environmental footprint left following the shut down of any of its wells. The provision has been calculated using a discount rate of 10%. The Group has assumed that the sites will be restored with technology and materials that are currently available.

NOTES TO THE FINANCIAL STATEMENTS (CONT.)

12. BORROWINGS

Current

	Consolidated		Company	
	2007	2006	2007	2006
	\$	\$	\$	\$
Convertible note	-	1,900,418	-	1,900,418
Other	250,000	-	250,000	-
	<u>250,000</u>	<u>1,900,418</u>	<u>250,000</u>	<u>1,900,418</u>

As part of an A\$8,000,000 Equity Line of Credit Facility established in November 2006, the Company secured a Convertible Loan Facility with USA based Investment Fund, Cornell Capital Partners, LP. At 31 December 2006 the facility was drawn to A\$1,900,418 and this amount was subsequently repaid during the year in full by the issue of 6,664,817 shares. As part of the Equity Line of Credit Facility the Company may draw down up to A\$250,000 in any 10 day trading period, in return for issuing to Cornell the equivalent value of the Company's shares, based on the lowest daily volume weighted average price during the 10 days after a draw down. The remaining balance of the facility at 31 December 2007 was \$5.75 million.

On 10 December 2007 Norman Seckold, a director, advanced \$250,000 to the Company to fund ongoing working capital requirements. The loan is interest free and with no set date for repayment.

13. ISSUED CAPITAL

202,384,903 (2006 – 182,720,086)

fully paid ordinary shares

28,539,389	22,988,889	28,539,389	22,988,889
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Fully paid ordinary shares

	2007		2006	
	No.	\$	No.	\$
Balance at beginning of financial year	182,720,086	22,988,889	168,800,005	18,765,014
Issue of shares	19,664,817	5,690,000	13,920,081	4,430,000
Less costs of issue	-	(139,500)	-	(206,125)
Balance at end of financial year	<u>202,384,903</u>	<u>28,539,389</u>	<u>182,720,086</u>	<u>22,988,889</u>

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

- The Company issued 9,000,000 ordinary shares for cash totalling \$2,790,000. There were no amounts unpaid on shares issued. Transaction costs of \$139,500 were recognised as a reduction of the proceeds of issue of these shares.
- The Company issued 6,664,817 ordinary shares in ten tranches at an average fair value of \$0.30 per share to Cornell Capital Partners, ("Cornell") LP for cash equivalent \$2.0 million as repayment of the convertible loan facility taken as part of the \$8.0 million equity line of credit facility established with Cornell during 2006.
- The Company issued 4,000,000 ordinary shares at a fair value of 22.5 cents per share to nominees of Touchstone Management Pty Ltd as part consideration for Touchstone's exploration licences that go to form part of the suite of properties for the Callabonna Uranium IPO.

There were no amounts unpaid on shares issued.

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

On 6 December 2006 as part of the convertible note facility 1,000,000 options were issued, each exercisable at 45 cents each to acquire one fully paid ordinary share at any time up to 11 December 2008.

NOTES TO THE FINANCIAL STATEMENTS (CONT.)

14. RESERVES

Option premium reserve

	Consolidated		Company	
	2007	2006	2007	2006
	\$	\$	\$	\$
Opening balance	46,058	-	46,058	-
Issue of options at a premium	-	46,058	-	46,058
Closing balance	46,058	46,058	46,058	46,058

The issue of Company options results in a credit to the option premium reserve to the fair value of consideration received by the Company for issued options. During the year ended 31 December 2007, 0 (2006 – 1,000,000) options were granted.

Foreign currency translation reserve

Opening balance	(1,620,248)	(366,552)	-	-
Translation adjustment on a controlled foreign entity's financial statements during the year	(1,790,565)	(1,253,696)	-	-
Closing balance	(3,410,813)	(1,620,248)	-	-

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

15. LOSS PER SHARE

The calculation of basic loss per share at 31 December 2007 was based on the loss attributable to ordinary shareholders of \$1,867,776 (2006 – \$1,684,394) and a weighted average number of ordinary shares outstanding during the financial year ended 31 December 2007 of 193,530,542 (2006 – 178,195,685), calculated as follows:

Net loss for the year	1,867,776	1,684,394
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Weighted average number of ordinary shares

	Number	Number
Issued ordinary shares at beginning of year	182,720,086	168,800,005
Effect of shares issued in April 2006	-	9,246,575
Effect of shares issued in November 2006	-	76,549
Effect of shares issued in December 2006	-	72,556
Effect of shares issued in May 2007	5,942,466	-
Effect of shares issued under convertible note agreement	4,867,990	-
Weighted average number of ordinary shares at year end	193,530,542	178,195,685

All potential shares on issue are anti-dilutive.

NOTES TO THE FINANCIAL STATEMENTS (CONT.)

	Consolidated		Company	
	2007 \$	2006 \$	2007 \$	2006 \$
16. ACCUMULATED LOSSES				
Accumulated losses at the beginning of the year	3,183,618	1,499,224	8,508,191	17,469,400
Net (profit)/loss attributable to members of the parent entity	1,867,776	1,684,394	2,860,463	(8,961,209)
Accumulated losses at the end of the year	5,051,394	3,183,618	11,368,654	8,508,191

17. STATEMENTS OF CASH FLOWS

Reconciliation of net profit/(loss) from operating activities after tax to net cash used in operating activities

Profit/(loss) from operating activities after tax	(1,867,776)	(1,684,394)	(2,860,463)	8,961,209
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Items classified as investing/financing activities

Borrowing costs	55,693	7,190	52,658	7,190
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Non-cash items

Depreciation of plant and equipment	6,201	9,857	3,251	4,933
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Amortisation of areas in production	428,800	170,175	-	-
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Foreign exchange gain on cash	55,853	(7,352)	55,853	(7,352)
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Impairment loss/(reversal)	-	-	1,913,896	(9,813,220)
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Borrowing costs – non-cash	126,361	300,285	-	46,058
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Changes in assets and liabilities

(Increase)/decrease in receivables	53,645	177,836	10,705	(764)
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Increase/(decrease) in other assets	141,485	(138,766)	141,485	(141,485)
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Increase/(decrease) in accounts payable	165,239	(68,560)	134,336	49,871
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Net cash used in operating activities

	(834,499)	(1,233,729)	(548,279)	(893,560)
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Reconciliation of cash

For the purposes of the Statement of Cash Flows, cash includes cash on hand and at bank and cash on deposit net of bank overdrafts and excluding security deposits. Cash at the end of the financial year as shown in the Statement of Cash Flows is reconciled to the related items in the Balance Sheet as follows:

Cash	84,485	1,065,779	38,060	1,065,115
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NOTES TO THE FINANCIAL STATEMENTS (CONT.)

18. KEY MANAGEMENT PERSONNEL DISCLOSURES

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

The directors are not employed directly by the Company. Their services are compensated by way of informal fee arrangements with related parties. No options or bonuses were granted to directors or executives as part of their remuneration, and no performance related remuneration was paid.

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

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

	Year	Primary Fees \$	Total \$
Executive directors			
Norman A. Seckold (Chairman and CEO)	2007	90,000	90,000
	2006	90,000	90,000
Peter J. Nightingale (Director, Secretary and CFO)	2007	67,500	67,500
	2006	60,000	60,000
Bruce F. Riederer (Director of Exploration and Development)	2007	164,482	164,482
	2006	183,488	183,488
Non-executive directors			
Anthony J. McClure	2007	35,417	35,417
	2006	35,000	35,000
Anthony J. McDonald	2007	66,000	66,000
	2006	60,000	60,000
Robert M. Bell	2007	4,000	4,000
	2006	-	-
Norman J. Zillman	2007	-	-
	2006	24,000	24,000
Total, all specified directors	2007	427,399	427,399
	2006	452,488	452,488

During the year ended 31 December 2007, Norman A. Seckold and Peter J. Nightingale had an interest in an entity, Mining Services Trust, which provided full administrative services, including rental accommodation, administrative staff, services and supplies, to the Group. Fees paid to Mining Services Trust during the year, which were in the ordinary course of business and on normal terms and conditions, amounted to \$141,381 (2006 – \$124,428).

The board reviews remuneration arrangements annually based on services provided.

On 10 December 2007 Norman Seckold advanced \$250,000 to the Company to fund ongoing working capital requirements. The loan is interest free and with no set date for repayment.

On 30 October 2007 Robert M. Bell was appointed as a non-executive director of the Company.

On 9 January 2008 Bruce F. Riederer resigned as a director of the Company.

NOTES TO THE FINANCIAL STATEMENTS (CONT.)

19. RELATED PARTY DISCLOSURES

Directors

The names of each person holding the position of director of the Company during the year are Norman A. Seckold, Peter J. Nightingale, Bruce F. Riederer, Anthony J. McClure, Anthony J. McDonald, Robert M. Bell and Norman J. Zillman. Details of directors' remuneration are set out in Note 18.

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

Director	Held at 31 December 2006	Purchased shares	Sales	Held at 31 December 2007
Norman A. Seckold	23,250,003	-	-	23,250,003
Peter J. Nightingale	3,625,001	-	-	3,625,001
Bruce F. Riederer	4,000,000	-	-	4,000,000
Anthony J. McClure	3,000,000	-	-	3,000,000
Anthony J. McDonald	3,000,000	-	-	3,000,000
Robert M. Bell	-	-	-	-
Norman J. Zillman	4,000,000	-	-	4,000,000*

* Number held at the date of ceasing to be a director.

Apart from the details disclosed in this note, no director has entered into a contract with the Company during the year and there were no contracts involving directors' interests subsisting at year end. Informal fee arrangements were entered into between the directors and the Company as set out in Note 18.

Controlled entities

At 31 December 2007 the Company had amounts receivable from Beetaloo Uranium Pty Limited totalling \$20,509 (2006 – \$0), Davidson Prospecting Pty Limited totalling \$275,268 (2006 – \$274,738), Greenpower Pty Ltd totalling \$1,396,110 (2006 – \$1,361,314), Pauper's Dream Company totalling \$20,167,933 (2006 – \$17,206,698), Planet Gas Resources, LLC totalling \$2,700,511 (2006 – \$2,830,122), Planet Gas Properties, LLC totalling \$953 (2006 – \$953) and Sawells Pty Ltd totalling \$199,920 (2006 – \$117,225). These amounts are classified as investments as they are interest free, unsecured, there is no fixed term of repayment, and they are repayable out of profits.

NOTES TO THE FINANCIAL STATEMENTS (CONT.)

20. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS DISCLOSURE

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

- Credit risk
- Liquidity risk
- Market risk

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

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

Credit risk

Exposure to credit risk

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

Trade and other receivables

The Group's exposure to credit risk for trade receivables is mitigated by the fact that any revenues arising from production at its producing assets at Oriva Throne are paid by Sabine Pipeline Company, an affiliated company of Chevron Corporation to the Group's joint operating partners Emerald Operating Company and Rocky Mountain Exploration. Sabine Pipeline Company is the pipeline operator into which production from Oriva Throne is pumped. Additionally revenues from the Oriva Federal Conventional Oil and Gas project are also first collected by Carpenter and Sons and North Finn, the Group's partner in a farmout agreement, prior to being collected by the Group.

The carrying amount of the Group's financial assets represents the maximum credit exposure. The Group's maximum exposure to credit risk at the reporting date as a result of trade receivables was \$78,185 (2006 – \$121,124).

Impairment losses

None of the Company's receivables are past due (2007 – \$0). No impairment has been taken up against trade receivables.

Liquidity risk

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

The Company's and the Group's interest bearing financial liabilities consist of the convertible note, to which a fixed rate of interest of 8% was charged on the outstanding balance. At reporting date the balance outstanding on the convertible note was \$0 (2006 – \$1,900,418). The following are the contractual maturities of financial liabilities:

	Consolidated		Company	
	2007	2006	2007	2006
	\$	\$	\$	\$
Six months or less	1,120,565	2,753,001	896,703	2,676,221
One to three years	1,560,807	1,502,689	-	-

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

The Group maintains the following line of credit:

- \$8 million equity line of credit facility of which \$5.75 million is currently available. The Company may draw down up to \$250,000 in any 10 day trading period, in return for issuing the equivalent value of the Company's shares, based on the lowest daily volume weighted average price during the 10 days after a draw down.

NOTES TO THE FINANCIAL STATEMENTS (CONT.)

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

Market risk

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

Currency risk

The Group is exposed to currency risk on sales, purchases and borrowings that are denominated in a currency other than Australian dollars, the functional currency of the Group.

Sensitivity analysis

A 10 percent strengthening of the Australian dollar against the United States dollar at 31 December would have decreased the net assets of the Group by \$1,581,456. A 10 percent weakening of the Australian dollar against the United States dollar at 31 December would have increased the net assets of the Group by \$1,932,891.

The Group has not entered into derivative financial instruments to hedge purchases and sales denominated in foreign currencies. The Group's exposure to foreign currency risk at balance date was as follows, based on notional amounts:

	31 December 2007		31 December 2006	
	AUD \$	USD \$	AUD \$	USD \$
Trade receivables	-	78,185	-	121,124
Trade payables	(646,703)	(223,862)	(775,803)	(76,780)
Borrowings	(250,000)	-	(1,900,418)	-
Other payables	-	(1,560,807)	-	(1,502,689)
Gross balance sheet exposure	(896,703)	(1,706,484)	(2,676,221)	(1,458,345)

The following significant exchange rates applied during the year:

	Average rate		Reporting date spot rate	
	2007	2006	2007	2006
AUD/USD	0.839	0.7536	0.8767	0.7893

Interest rate risk

With the exception of cash and convertible notes, all the Company's and Group's financial assets and liabilities are non-interest bearing. The cash balance earns interest at an average of 6.67% (2006 – 3.0%) and are at call while interest was charged on the balance of the convertible note at a fixed rate of 8% per annum. At the reporting date the interest rate profile of the Company's and the Group's interest bearing financial liabilities was:

	Consolidated Carrying amount		Company Carrying amount	
	2008	2007	2008	2007
Convertible note	-	1,900,418	-	1,900,418

Capital Management

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

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

Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

Net fair values of financial assets and liabilities

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

NOTES TO THE FINANCIAL STATEMENTS (CONT.)

21. JOINT VENTURE OPERATIONS

	Area	Output Interest	
		2007	2006
		%	%
East Esponda – Sections 9, 10, 11 and 15 (Western Gas)	USA	40	40
East Esponda – Section 2 (Western Gas)	USA	20	20
Oriva Throne	USA	61	61
Davidson Prospecting (PEL 428)	Australia	20	20

The Group's interest in assets employed in the above joint venture operations includes capitalised exploration, evaluation and development expenditure totalling \$5,518,584 (2006 – \$6,260,324), and current accounts receivable totalling \$78,185 (2006 – \$121,124). The contingent liabilities and capital commitments arising from the Group's interest in joint venture operations, where applicable, are disclosed in Note 23 to the financial statements. All joint venture operations are engaged in the evaluation, exploration, development and production of oil and gas properties.

22. SEGMENT REPORTING

Segment information is presented in respect of the Group's geographical segments. This is based on the Group's management and internal reporting structure.

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

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

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

Geographical segments

The Group operates wholly within the mining industry in Australia and the USA.

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

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

	Australia	United States	Consolidated Total
	\$	\$	\$
31 DECEMBER 2007			
Revenue			
External segment revenue	-	261,069	261,069
Unallocated revenue			42,925
Total revenue			303,993
Result			
Segment result	-	(918,899)	(918,899)
Unallocated corporate revenues and expenses			(948,877)
Net loss			(1,867,776)
Assets			
Segment assets	3,617,835	19,268,912	22,886,747
Unallocated corporate assets			6,089
			22,892,836
Including non-current assets acquired during the year:			
Exploration and evaluation	92,814	-	92,814
Mining projects	-	25,340	25,340
Mine development	-	2,505,014	2,505,014
	92,814	2,530,354	2,623,168
Segment liabilities	443,035	2,326,561	2,769,596

NOTES TO THE FINANCIAL STATEMENTS (CONT.)

22. SEGMENT REPORTING (CONT.)

	Australia	United States	Consolidated Total
	\$	\$	\$
31 DECEMBER 2006			
Revenue			
External segment revenue	-	486,456	486,456
Unallocated revenue			60,030
Total revenue			<u>546,486</u>
Result			
Segment result	-	(832,440)	(832,440)
Unallocated corporate revenues and expenses			(851,954)
Net loss			<u>(1,684,394)</u>
Assets			
Segment assets	3,624,108	18,853,323	22,477,431
Unallocated corporate assets			9,340
			<u>22,486,771</u>
Including non-current assets acquired during the year:			
Exploration and evaluation	146,423	66,182	212,605
Mining projects	-	41,861	41,861
Mine development	-	4,907,785	4,907,785
	<u>146,423</u>	<u>5,015,828</u>	<u>5,162,251</u>
Segment liabilities	<u>2,024,033</u>	<u>2,231,657</u>	<u>4,255,690</u>

23. COMMITMENTS AND CONTINGENCIES

The Company is currently in dispute with its joint venture partner at its Skull Creek project as to the extent of work undertaken and the Company's obligations. The Company believes it has met its commitments under the joint venture agreement to earn a 50% working interest in the project and has no further obligations. Legal advice to this effect has been received. A proposal to resolve the dispute has been put to the joint venturer but there has been no response at this stage.

24. CONTROLLED ENTITIES

Parent Entity

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

Wholly Owned Controlled Entities

	Country of Incorporation	Ownership Interest	
		2007	2006
		%	%
Beetaloo Uranium Pty Limited	Australia	100	-
Davidson Prospecting Pty Limited	Australia	100	100
Greenpower Energy Pty Limited	Australia	100	100
Pauper's Dream Company	USA	100	100
Planet Gas Properties, LLC	USA	100	100
Planet Gas Resources, LLC	USA	100	100
Sawells Pty Limited	Australia	100	100

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

During the year, the Company acquired Beetaloo Uranium Pty Limited (formerly Indpro Consulting Pty Limited), an Australian wholly owned subsidiary, for an initial investment of \$100 and the fair value of the net assets acquired was \$100.

DIRECTORS' DECLARATION

In the opinion of the directors of Planet Gas Limited:

- (a) the financial statements and notes thereto, set out on pages 20 to 43, are in accordance with the Corporations Act 2001, including:
 - (i) giving a true and fair view of the financial position of the Company and Group as at 31 December 2007 and of their performance, for the year ended on that date; and
 - (ii) complying with Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001; and
- (b) the financial report also complies with International Financial Reporting Standards as disclosed in Note 1.
- (c) there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.
- (d) the directors have been given the declarations by the chief executive officer and chief financial officer for the financial year ended 31 December 2007 pursuant to Section 295A of the Corporations Act 2001.

Signed at Sydney this 29th day of February 2008 in accordance with a resolution of the Board of Directors:



Norman A. Seckold
Director



Peter J. Nightingale
Director

INDEPENDENT AUDIT REPORT TO THE MEMBERS OF PLANET GAS LIMITED



Report on the financial report

We have audited the accompanying financial report of Planet Gas Limited (the "Company"), which comprises the balance sheets as at 31 December 2007, and the income statements, statements of recognised income and expense and cash flow statements for the year ended on that date, a description of significant accounting policies and other explanatory notes 1 to 24 and the directors' declaration of the Group comprising the Company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' responsibility for the financial report

The directors of the Company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Act 2001. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 1, the directors also state, in accordance with Australian Accounting Standard AASB 101 Presentation of Financial Statements, that the financial report of the Group, comprising the financial statements and notes, complies with International Financial Reporting Standards.

Auditor's responsibility

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

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

We performed the procedures to assess whether in all material respects the financial report presents fairly, in accordance with the Corporations Act 2001 and Australian Accounting Standards (including the Australian Accounting Interpretations), a view which is consistent with our understanding of the Company's and the Group's financial position and of their performance.

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

Auditor's opinion

In our opinion:

- (a) the financial report of Planet Gas Limited is in accordance with the Corporations Act 2001, including:
 - (i) giving a true and fair view of the Company's and the Group's financial position as at 31 December 2007 and of their performance for the financial year ended on that date; and
 - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001.
- (b) the financial report of the Group and the financial report of the Company also complies with International Financial Reporting Standards as disclosed in Note 1.

KPMG
29 February 2008

S.J. Board
Partner

ADDITIONAL STOCK EXCHANGE INFORMATION

Additional information as at 31 January 2008 required by the Australian Stock Exchange Listing Rules and not disclosed elsewhere in this report.

Home Exchange

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

Audit Committee

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

Substantial Shareholdings

As at 31 January 2008 the Register of Substantial Shareholders showed the following:

Altinova Nominees Pty Ltd	23,250,001 fully paid ordinary shares
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Class of Shares and Voting Rights

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

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

As at 31 January 2008 the twenty largest quoted shareholders held 52.47% of the fully paid ordinary shares as follows:

	Name	Number	%	Name	Number	%
1	ANZ Nominees Ltd Cash Income A/C	17,401,897	8.60	11	Anthony J McClure	3,000,000 1.48
2	Permgold Pty Limited	14,125,011	6.98	12	Trio Investments Pty Ltd	3,000,000 1.48
3	Citicorp Nominees Pty Limited	11,025,541	5.45	13	Umbiram Pty Ltd	2,849,321 1.41
4	Altinova Nominees Pty Ltd	9,750,001	4.82	14	Mrs Narelle Fay	2,254,029 1.11
5	Rigi Investments Pty Ltd	7,359,941	3.64	15	Bertney Pty Ltd	2,207,000 1.09
6	Berpaid Pty Ltd	6,000,000	2.96	16	Act 2 Pty Ltd	2,200,000 1.09
7	Fortis Clearing Nominees	5,335,011	2.64	17	All States Secretarial Pty Ltd	2,000,000 0.99
8	Removale Pty Ltd	4,150,000	2.05	18	Bond Street Custodians Limited	2,000,000 0.99
9	Mr. Bruce Riederer	4,000,000	1.98	19	Predictive Mineral Discovery Pty Ltd	2,000,000 0.99
10	Rosignol Pty Ltd	3,625,000	1.79	20	Paradyn Holdings Pty Ltd	1,875,000 0.93

ADDITIONAL STOCK EXCHANGE INFORMATION (CONT.)

Distribution of Shareholders

As at 31 January 2008, the total distribution of fully paid shareholders, being the only class of equity, was as follows:

Range	Total Holders	Units	% Issued Capital
1 – 1,000	38	3,003	0.00%
1,001 – 5,000	136	417,852	0.21%
5,001 – 10,000	163	1,413,514	0.70%
10,001 – 100,000	592	24,798,913	12.25%
100,001 and over	197	175,751,621	86.84%
Total	1,126	202,384,903	100.00%

As at 31 January 2008, 82 shareholders held less than marketable parcels of 4,167 shares.

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

On Market Buy Back

There is no on market buy-back.

CORPORATE DIRECTORY

Directors

Mr. Norman A. Seckold (Chairman)

Mr. Peter J. Nightingale

Mr. Robert M. Bell

Mr. Anthony J. McClure

Mr. Anthony J. McDonald

Company Secretary

Mr. Peter J. Nightingale

Principal Place of Business and Registered Office

Level 8, 261 George Street

SYDNEY NSW 2000

Phone: 61-2 9247 5112

Fax: 61-2 9247 7273

Auditors

KPMG

Level 16, Riparian Plaza

71 Eagle Street

BRISBANE QLD 4000

Solicitors

Minter Ellison

88 Phillip Street

SYDNEY NSW 2000

Share Registrars

Computershare Investor Services Pty Limited

PO Box 523

BRISBANE QLD 4001

Phone: 61-7 3237 2100

Fax: 61-7 3229 9860



PLANET GAS LIMITED