

PLANET GAS LIMITED
and its controlled entities

A.B.N. 46 098 952 035

**INTERIM FINANCIAL REPORT
FOR THE HALF YEAR ENDED
30 JUNE 2010**

PLANET GAS LIMITED AND ITS CONTROLLED ENTITIES

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PLANET GAS LIMITED AND ITS CONTROLLED ENTITIES

DIRECTORS' REPORT

The directors present their report together with the consolidated interim financial report and the auditor's review report thereon for the half year ended 30 June 2010.

Directors

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

Norman A. Seckold, Executive Chairman

Director since 4 December 2001.

Norman Seckold graduated with a Bachelor of Economics degree from the University of Sydney in 1970. He has spent over 28 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 NL and Palmarejo Silver and Gold Corporation, which discovered and developed the Palmarejo and Guadalupe gold and silver projects in Mexico.

Mr Seckold is currently Chairman of Australian public listed mining companies Kings Minerals NL, Cockatoo Coal Limited and Augur Resources Ltd, and also Canadian public listed company San Anton Resources Inc.

Sharif A. Oussa, Managing Director and CEO

Director since 5 May 2009.

Mr Oussa is a geologist and former resources and finance analyst with more than 17 years experience in the mining and resources sector.

Formerly Head of Mining and Resources at D&D Tolhurst Limited, he focused significantly on financing and advising coal bed methane (CBM) companies. Mr Oussa later established himself as a leading CBM company founder and executive, playing key roles in the establishment of some of Australia's best known CBM companies, including Sydney Gas Company, Eastern Star Gas Limited and Queensland Gas Company.

He is also an original founder and former CEO and Managing Director of Blue Energy Limited, an original founder of Planet Gas Limited, Great Artesian Oil and Gas Limited, a conventional oil and gas company and a founder and former director of Hot Rock Limited, a company with geothermal development assets in Australia.

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DIRECTORS' REPORT

Peter J. Nightingale, Executive Director, Company Secretary and CFO

Director since 4 December 2001.

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

As a director or company secretary Mr Nightingale has, for the past 23 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 Bolnisi Gold NL, Palmarejo Silver and Gold Corporation, Pangea Resources Limited, Timberline Minerals Inc., Perseverance Corporation Limited, Valdora Minerals N.L. and Mogul Mining N.L.. Mr Nightingale is currently a director of Cockatoo Coal Limited, Callabonna Uranium Limited and Augur Resources Ltd.

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.

Mr Bell is currently a director of Kings Minerals NL, a company listed on the Australian Securities Exchange.

Anthony J. 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 of technical, management and financial experience in the resource sector within Australia, Africa and the Americas in project management and executive development roles, including being Managing Director of European Gas Limited until October 2009. He has also worked in the financial services sector and stockbroking, primarily as a resource analyst covering both mineral and energy sectors.

Anthony J. 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.

Robert C. Neale, Independent and Non-Executive Director

Director since 20 November 2009.

Mr Neale is the Managing Director of New Hope and has more than 40 years' experience in the mining and exploration industries covering coal, base metals, gold, synthetic fuels, bulk materials shipping, and power generation. He joined New Hope in 1996 as General Manager, and has been Chief Executive Officer since 2005. He was appointed to the New Hope Board of Directors in November 2008.

PLANET GAS LIMITED AND ITS CONTROLLED ENTITIES

DIRECTORS' REPORT

Operating and Financial Review

The activities of Planet Gas Limited (the 'Company' or 'Planet Gas') during the half year ended 30 June 2010 include the following highlights:

- Planet Gas was awarded three Geothermal Exploration Licences in the Sydney Basin, NSW.
- Planet Gas was awarded one Geothermal Exploration Permit located at the Innot Hot Springs geothermal system, Queensland.
- A heat in place estimate was defined for Clarence Moreton Geothermal project.
- A USA oil and gas exploration team has been established and is fully operational.
- Planet Gas has entered into an agreement to farm-in to 50% of 3 CBM prospective NSW Petroleum Exploration Licences.

Corporate

Grant of 8,000,000 Options

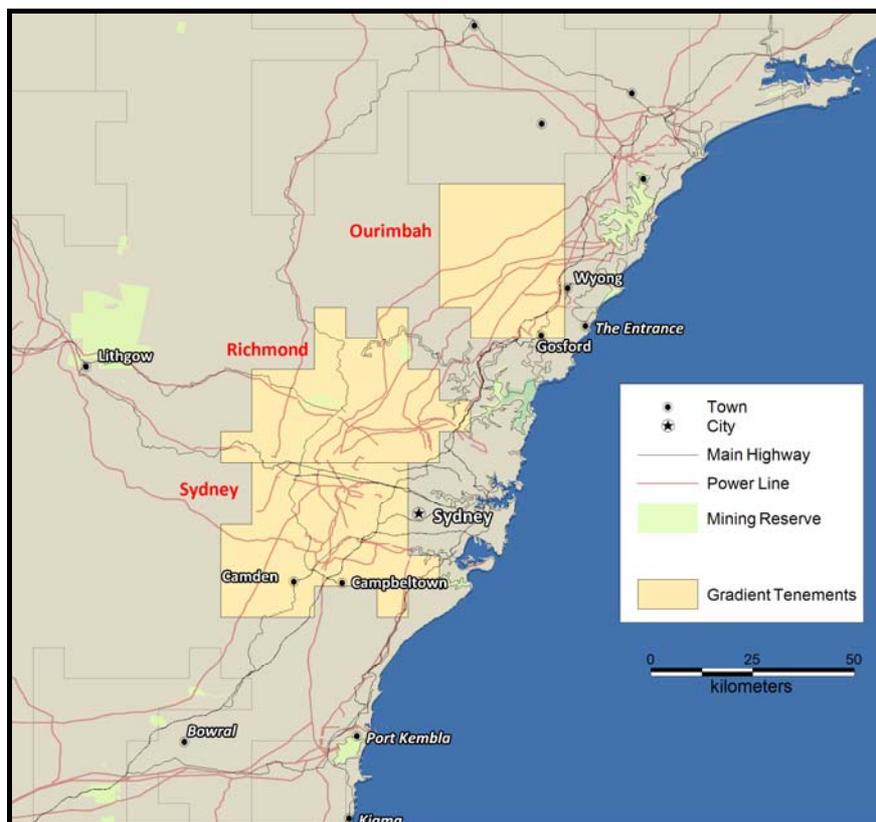
During the half year, the Company granted 8,000,000 options, each to acquire one fully paid ordinary share for 13.2 cents up to 20 August 2014, as part remuneration for consultancy services rendered to the Company.

Sydney Basin Geothermal Project

During the half year, the Company via its wholly owned subsidiary, Gradient Energy Limited, was awarded three Sydney Basin geothermal exploration licences.

Offered under competitive tender during 2009, by the New South Wales Department of Primary Industries, the Geothermal Exploration Licences, EL 7510 Ourimbah, EL 7512 Richmond and EL 7513 Sydney, cover approximately 5,077 km² of prospective ground in the Sydney Basin.

The Company plans to target exploration in these areas for large scale Hot Sedimentary Aquifer (HSA) geothermal resources hosted by the Illawarra Coal Measures and the Shoalhaven Group.



PLANET GAS LIMITED AND ITS CONTROLLED ENTITIES

DIRECTORS' REPORT

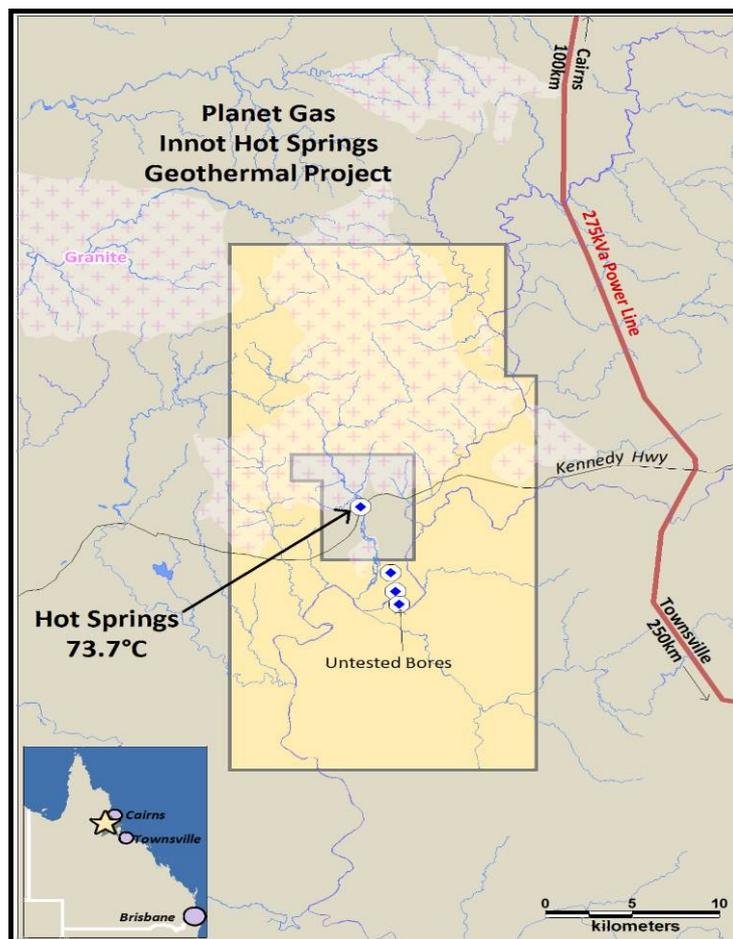
Innot Geothermal Project

During the half year, the Geothermal Exploration Permit (EPG 29), located at the Innot Hot Springs geothermal system, 100 kilometres south-west of Cairns in northern Queensland, was granted to the Company's wholly owned subsidiary, Gradient Energy Limited, with a licence commencement date of 1 May 2010.

The Innot geothermal project, covering 596 km², has excellent year round access located on the Kennedy Highway 100 kilometres from Cairns and 250 kilometres from Townsville in northern Queensland. Innot is also well placed for future supply of power with the 275 kV power lines of the main east coast grid located 10 kilometres from the project.

The Innot geothermal project is regarded as a potential 'fast-track' project given the significant heat gradient of at-surface and near-surface geothermal waters in the area, as well as the population growth characteristics in the region.

These qualities could potentially provide the project with cost and development advantages when compared to the Hot Fractured Rock deep drilling style geothermal projects, more commonly focused on in Australia to date.



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

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DIRECTORS' REPORT

Clarence Moreton Geothermal Project

The following key milestones have been achieved at Clarence Moreton project:

Defined a heat in place estimate of:

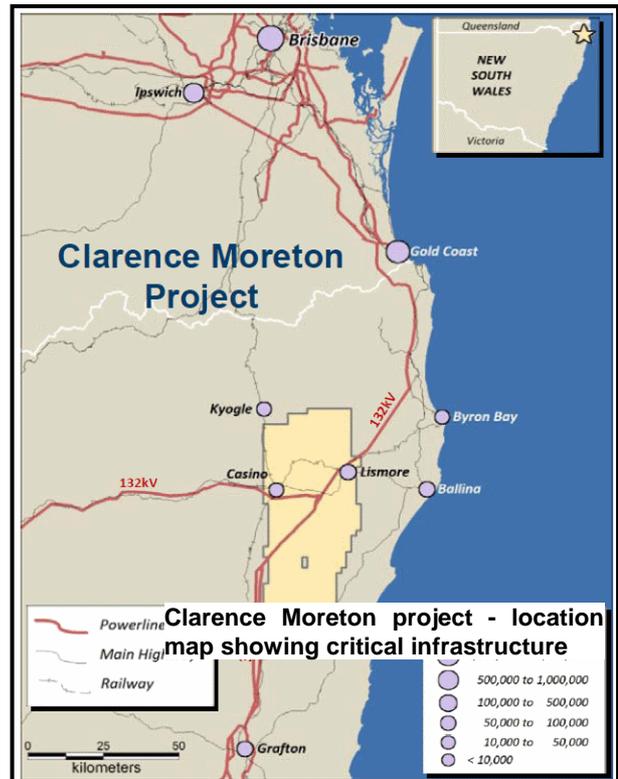
- P₅₀ hot sedimentary aquifer heat in place of 180,000 PJ_{thermal};
- P₅₀ hot fractured rock heat in place of 450,000 PJ_{thermal}; and
- P₅₀ heat-exchange within insulator heat in place of 800,000PJ_{thermal}.

This estimate is considered to be an inferred Resource estimate¹. The Company will move to further refine this estimate by more accurately defining temperature constraints and by determining extractability and commerciality constraints of the identified units that are interpreted to contain the heat.

¹ A geothermal Inferred Resource, as per the Australian Code for Reporting of Exploration Results, Geothermal Resources and Geothermal Reserves, 2008, is a heat in place estimate and does not consider extractability.

In addition to the given heat estimates, the Company has:

- analysed historic core samples from wells at the periphery of the tenement for thermal conductivity and porosity-permeability properties and re-evaluated the geological model;
- completed a preliminary environmental investigation of a number of potential exploration drilling sites; and
- undertaken a conceptual development analysis based on existing data.



PELA 514 (South Australia – Cooper Basin)

The Right to Negotiate ('RTN') process is continuing with native title claimants. The RTN process, once completed, will allow for the granting of the exploration licence.

During the half year, the Company undertook data collection and has commenced interpretation towards the identification of conventional prospects and leads and undertaken a significant amount of interpretation of the non-conventional hydrocarbon prospectivity of the block, including CBM and shale-gas potential. Seismic indicates laterally extensive coal deposits within the permit boundaries, in addition to more conventional oil and gas prospectivity. In the coming half year, the Company will rank these prospects and leads in order to allow for a commencement of its field activities.

UNITED STATES OPERATIONS, POWDER RIVER BASIN, WYOMING, USA

The Company is engaged in the acquisition, exploration, development, production and operation of oil, gas and properties. The Company has interests in the following tenements in the Powder River Basin, Wyoming in the USA.

**PLANET GAS LIMITED
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DIRECTORS' REPORT

Block/Project	Area Net Hectares
East Esponda	469
West Esponda	11,586
Oriva Throne	146
Oriva Federal	359

As a result of the assessment of the technical merits of its Powder River Basin portfolio, the Company's USA subsidiary, Pauper's Dream Company, was extensively reorganised during the period. The name has been changed to Planet Gas USA, Inc to better reflect the Company's decision to actively pursue conventional oil and gas exploration and production opportunities and, given the very poor economic environment in the Powder River Basin of eastern Wyoming, de-emphasise the coal bed methane ('CBM') activities in that area.

The Company has established a new USA management team which has more than 100 years of combined experience, pursuing all aspects of the exploration and production business in most of the historical producing areas of the USA. Various members of the team have also had significant international experience.

Subsequent events

NSW CBM Projects

Subsequent to the end of the half year, the Company has agreed to a 50% farm-in and operatorship of three highly prospective and well situated NSW petroleum exploration licences.

The agreement with Leichhardt Resources Pty Ltd covers a tenement portfolio of 5,579 km² at Bylong (PEL 468) and Shoalhaven (PEL 469) in the Sydney Basin, and at Mooki (PEL 470) in the Gunnedah Basin.

All three licences are regarded as highly prospective for CBM and natural gas resources, as well as having potential for conventional and shale gas resources.

The Company, through its wholly owned subsidiary Planet Gas & CBM Pty Ltd will earn up to 50% in each project, via an agreed work program, and immediately assumes the role of operator of the PELs.

In the Sydney Basin tenements, the Company plans to target any CBM resources hosted by the geological sequences of the Illawarra Coal Measures (or equivalent) and the Shoalhaven Groups. Such resources could potentially deliver natural gas production for electrical power generation and gas reticulation to serve Sydney's rapidly expanding electrical and energy demands.

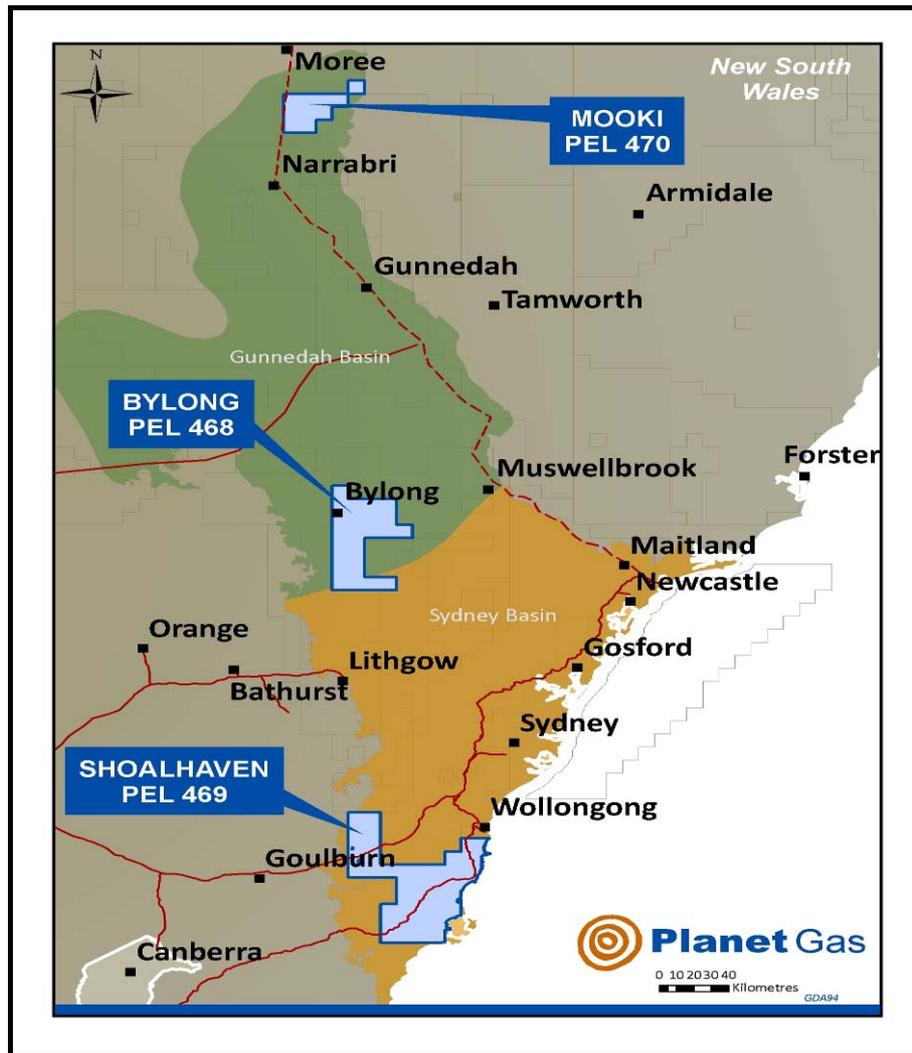
The Gunnedah Basin tenement is adjacent to the Eastern Star Gas CBM gas development project, and the Company will be targeting the Maules Creek coals.

The farm-in agreement requires no upfront payments by the Company. The estimated minimum expenditure for the technical works, or in ground costs, by the Company over the 3 year life of the farm-ins is \$15,880,000. Each area will be the subject of a three phase farm-in process, commencing with a 60 day due diligence period.

The Company retains the right during the course of Phase 1 due diligence period to elect not to proceed on any, or all of the farm-ins. Similarly the Company can elect not to proceed on any, or all of the farm-ins upon completion of Phase 2 or during the course of Phase 3.

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The three farm-ins, whilst separate, have been designed so that they can be run concurrently, in order to reduce overall overheads, management costs, and more importantly to manage rig and equipment availability and scheduling, plant and personnel, over the three petroleum licences during the course of the field activities.

These farm-ins represent a significant next step in the Company's growth of a 'population/infrastructure advantaged' strategic portfolio of, natural gas, oil and CBM projects in eastern Australia.

PEL 468 Bylong

Bylong (PEL 468) covers some 1,736 km² and is located on the boundary of the Gunnedah Basin and Sydney (Hunter Coalfield) Basins and is 300 kilometres northwest of Sydney and approximately equidistance to the regional centres of Dubbo, Tamworth and Newcastle.

To date, some 48 drillholes, mostly NSW Government commissioned for open pit and shallow underground mining studies, have been identified in the public domain within the area, and a number of oil and gas exploration wells have been drilled within close proximity to the margins of this licence. These holes intersected the Late Permian Black Jack Formation/Wittingham Coal Measures (Illawarra equivalent) at depths ranging from subcrop to 800 metres. Drilling of these coal seams in adjacent areas has indicated a coal thickness of these coals of up to 90 metres, with gas contents ranging up to 8 m³/tonne.

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DIRECTORS' REPORT

PEL 469 Shoalhaven

Shoalhaven (PEL 469) covers some 3,173 km² in the Southern Coalfield of the Sydney Basin. The project is approximately 80 kilometres south of Sydney and adjacent to the operating AGL (PEL 2) tenement. A major regional pipeline linking Sydney Gas to Canberra and Victoria passes through the prospect and the proposed 40TJ/day Rosalind Park Gas Plant is less than 40 kilometres from the prospect.

Prospective for CBM gas resources are the Illawarra coals which range up to 15 metres thick for the Clyde Coal Measures and more than 25 metres thick for the Illawarra Coal Measures. The Illawarra Coal Measures contain 11 named coal seams including four main prospective target seams, those being the Bulli, Balgownie, Wongawilli and Tongarra Seams. Coal vitrinite reflectance data for these seams average 1.2 and historical mine gas data indicates gas contents of 10 to 16 m³/tonne. There are a number of existing drill holes and seismic lines within the licence.

PEL 470 Mooki

Mooki (PEL 470) covers some 670 km² and is located between the regional centres of Moree and Narrabri and less than 100 kilometres from the Wilga Park Gas Fired Power Station. The proposed Wullumbilla-Newcastle pipeline development from Roma Gas Fields to Newcastle runs through the area, providing numerous options for future gas offtake.

The project is located in the Northern Gunnedah Basin. The eastern boundary of the prospect is adjacent to the Hunter-Mooki Fault, a regional structure active throughout deposition of the coal measures and a depo-centre for thick accumulations of coal bearing sediments. Drilling in the area has intersected net coal thicknesses of between 15 to 20 metres from the early-mid Permian Black Jack/Maules Creek Formations, and CBM gas contents of up to 10 m³/tonne, which are highly prospective for CBM gas resources.

Issued of options

On 18 August 2010 the Company announced the issue of 8.5 million options granted in accordance with the Company's Planet Gas Executive Option Plan as follows:

- the exercise price is 13.2 cents;
- the options have an expiry date 20 August 2014;
- half of the options vest immediately and the other half vest on 6 September 2011 unless they are terminated earlier in accordance with the terms of the plan;
- the fair value of the options has not been determined as at the date of this report.

Appointment of Chief Operating Officer

Mr Ian Halstead formerly of Pan Orient Energy Corporation, and Cairn Energy PLC, was appointed as Chief Operating Officer of Planet Gas Ltd, effective 1 July 2010. Mr Halstead's oil and gas experience spans 28 years and includes the implementation of a number of significant international exploration and development projects both on and offshore.

Responsibility Statement

The information in this report that relates to Exploration Results is based on information compiled by Mr Ian Halstead, geologist, who is a Member of the American Association of Petroleum Geologists. Ian Halstead is a full-time employee of the Company who has sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity which he is undertaking 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'. Ian Halstead has consented to the inclusion in this report of the matters based on his information in the form and context in which they appear.

**PLANET GAS LIMITED
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DIRECTORS' REPORT

Lead Auditor's Independence Declaration

The lead auditor's independence declaration is set out on page 10 and forms part of the Directors' Report for the half year ended 30 June 2010.

Signed at Sydney this 10th day of September 2010
in accordance with a resolution of the Board of Directors:



Norman A. Seckold
Director



Peter J. Nightingale
Director



**LEAD AUDITOR'S INDEPENDENCE DECLARATION UNDER
SECTION 307C OF THE CORPORATIONS ACT 2001**

To the Directors of Planet Gas Limited:

I declare that, to the best of my knowledge and belief, in relation to the review for the six month period ended 30 June 2010, there have been:

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

A handwritten signature in black ink, appearing to read 'Simon Crane', written over the printed name.

KPMG

A handwritten signature in black ink, appearing to read 'Simon Crane', written over the printed name.

**Simon Crane
Partner**

Brisbane
10 September 2010

**PLANET GAS LIMITED
AND ITS CONTROLLED ENTITIES**

**CONSOLIDATED INTERIM STATEMENT OF COMPREHENSIVE INCOME
FOR THE HALF YEAR ENDED 30 JUNE 2010**

		Consolidated	
	Notes	Six Months Ended 30 June 2010 \$	Six Months Ended 30 June 2009 \$
Revenue from sale of coal bed methane		1,633	86,188
Revenue from the sale of oil and gas		-	2,502
Production and transport costs		(18,021)	(202,768)
Administration and consultants' expenses		(443,273)	(358,772)
Depreciation expense		(2,273)	(1,450)
Amortisation expense		-	(87,605)
Pre-licence costs - exploration expenditure		(662,597)	-
Travel expense		(41,087)	(23,583)
Write off development and production assets	7	(358,181)	(4,116,752)
Impairment loss	8	(1,647,200)	(250,000)
Share of loss of associate		-	(118,894)
Other expenses		(77,200)	(364)
		<u>456,098</u>	<u>4,546</u>
Financial income		456,098	4,546
Financial expenses		(204,615)	(40)
Net financing income		<u>251,483</u>	<u>4,506</u>
Loss before tax		<u>(2,996,716)</u>	<u>(5,066,992)</u>
Income tax expense		-	-
Loss for the period		<u>(2,996,716)</u>	<u>(5,066,992)</u>
Other comprehensive income:			
Net change in the fair value of available for sale financial assets		(1,647,200)	(250,000)
Net change in the fair value of available for sale financial assets transferred to profit and loss		1,647,200	250,000
Foreign exchange translation differences		18,997	(131,176)
Total comprehensive loss for the period		<u><u>(2,977,719)</u></u>	<u><u>(5,198,168)</u></u>
Basic loss per share	5	<u>(0.70) cents</u>	<u>(2.49) cents</u>
Diluted loss per share	5	<u>(0.70) cents</u>	<u>(2.49) cents</u>

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

**PLANET GAS LIMITED
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**CONSOLIDATED INTERIM STATEMENT OF
CHANGES IN EQUITY
FOR THE HALF YEAR ENDED 30 JUNE 2010**

Attributable to equity holders of the Company	Notes	Issued capital \$	Option premium reserve \$	Accumulated losses \$	Foreign currency translation reserve \$	Total equity \$
Balance at 1 January 2009		28,539,389		(22,073,111)	(2,188,902)	4,277,376
Total comprehensive income for the period						
Loss for the period			-	(5,066,992)	-	(5,066,992)
Other comprehensive income						
Foreign exchange translation differences			-	-	(131,177)	(131,177)
Transactions with owners, recorded directly in equity						
<i>Contribution by and distribution to owners</i>						
Issue of ordinary shares		1,517,886	-	-	-	1,517,886
Cost of issue		(17,500)	-	-	-	(17,500)
Balance at 30 June 2009		<u>30,039,775</u>	<u>-</u>	<u>(27,140,103)</u>	<u>(2,320,079)</u>	<u>579,593</u>
Balance at 1 January 2010		48,665,284	3,821,704	(32,355,304)	(2,713,014)	17,418,670
Total comprehensive income for the period						
Loss for the period			-	(2,996,716)	-	(2,996,716)
Other comprehensive income						
Foreign exchange translation differences			-	-	18,997	18,997
Transactions with owners, recorded directly in equity						
<i>Contribution by and distribution to owners</i>						
Issue of options			462,400	-	-	462,400
Balance at 30 June 2010		<u>48,665,284</u>	<u>4,284,104</u>	<u>(35,352,020)</u>	<u>(2,694,017)</u>	<u>14,903,351</u>

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

**PLANET GAS LIMITED
AND ITS CONTROLLED ENTITIES**

**CONSOLIDATED INTERIM STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2010**

		Consolidated	
	Notes	30 June 2010 \$	31 December 2009 \$
Current assets			
Cash and cash equivalents		8,293,534	10,149,455
Trade and other receivables		101,088	86,679
Other	9	675,314	321,974
Total current assets		9,069,936	10,558,108
Non current assets			
Investments	8	2,242,596	3,889,800
Property, plant and equipment		20,223	8,678
Exploration and evaluation expenditure	6	3,959,654	3,657,239
Other	9	165,121	353,573
Total non current assets		6,387,594	7,909,290
Total assets		15,457,530	18,467,398
Current liabilities			
Trade and other payables		227,878	938,854
Total current liabilities		227,878	938,854
Non current liabilities			
Provisions		326,301	109,874
Total non-current liabilities		326,301	109,874
Total liabilities		554,179	1,048,728
Net assets		14,903,351	17,418,670
Equity			
Issued capital	10	48,665,284	48,665,284
Option premium reserve		4,284,104	3,821,704
Accumulated losses		(35,352,020)	(32,355,304)
Foreign currency translation reserve		(2,694,017)	(2,713,014)
Total equity		14,903,351	17,418,670

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

**PLANET GAS LIMITED
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**CONSOLIDATED INTERIM STATEMENT OF CASH FLOWS
FOR THE HALF YEAR ENDED 30 JUNE 2010**

	Consolidated	
	Six Months Ended 30 June 2010 \$	Six Months Ended 30 June 2009 \$
Cash flows from operating activities		
Cash receipts from customers	1,766	117,517
Cash paid to suppliers	(339,592)	(169,834)
Payments for production	(18,021)	(329,028)
	(355,847)	(381,345)
Cash used in operations		
Interest received	211,062	4,546
	(144,785)	(376,799)
Net cash used in operating activities		
Cash flows from investing activities		
Payments for exploration and evaluation expenditure	(1,252,320)	-
Payments for development expenditure	(388,901)	(356,450)
Payment for fixed assets	(11,469)	-
Receipts from equity investments	-	19,447
Payments for other assets - deposit	(59,237)	(50,000)
	(1,711,927)	(387,003)
Net cash used in investing activities		
Cash flows from financing activities		
Proceeds from issue of shares	-	1,517,886
Costs of share issue	-	(17,500)
Interest paid	-	(40)
Proceeds from borrowings	-	350,000
	-	1,850,346
Net cash from financing activities		
Net increase/(decrease) in cash and cash equivalents	(1,856,712)	1,086,544
Cash and cash equivalents at the beginning of the financial period	10,149,455	31,971
Effect of exchange rate fluctuations on cash held	791	(366)
	8,293,534	1,118,149
Cash and cash equivalents at the end of the financial period		

The above statement of cash flows should be read in conjunction with the accompanying notes

**PLANET GAS LIMITED
AND ITS CONTROLLED ENTITIES**

**NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS
FOR THE HALF YEAR ENDED 30 JUNE 2010**

NOTE 1 - REPORTING ENTITY

Planet Gas Limited (the 'Company') is a company domiciled in Australia. The consolidated interim financial report of the Company as at and for the half year ended 30 June 2010 comprises the Company and its subsidiaries (together referred to as the 'Group') and the Group's interest in associates.

The consolidated annual financial report of the Group as at and for the year ended 31 December 2009 is available upon request from the Company's registered office at Level 2, 66 Hunter Street, Sydney, NSW, 2000 or at www.planetgas.com.

NOTE 2 - STATEMENT OF COMPLIANCE

The consolidated interim financial report has been prepared in accordance with AASB 134 *Interim Financial Reporting*.

The consolidated interim financial report does not include all of the information required for a full annual financial report, and should be read in conjunction with the consolidated annual financial report of the Group as at and for the year ended 31 December 2009.

This consolidated interim financial report was approved by the Board of Directors on 10 September 2010.

NOTE 3 - SIGNIFICANT ACCOUNTING POLICIES

The accounting policies applied by the Group in this consolidated interim financial report are the same as those applied by the Group in its consolidated financial report as at and for the year ended 31 December 2009.

NOTE 4 - ESTIMATES

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

Except as described below, in preparing this consolidated interim financial report, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial report as at and for the year ended 31 December 2009.

During the six months ended 30 June 2010 management reassessed its estimates in respect of:

- the recoverable amount of production and development assets – refer note 7.
- the recoverable amount of investment assets – refer note 8.
- the recoverable amount of exploration and evaluation expenditure assets – refer note 6.

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**NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS
FOR THE HALF YEAR ENDED 30 JUNE 2010**

	Consolidated	
	30 June 2010	30 June 2009
	\$	\$
NOTE 5 - LOSS PER SHARE		
Basic loss per share has been calculated using:		
Loss for the period	<u>2,996,716</u>	<u>5,066,992</u>
Weighted average number of ordinary shares	<u>429,093,192</u>	<u>203,539,815</u>

There are no dilutive potential ordinary shares.

	Consolidated	
	30 June 2010	31 December 2009
	\$	\$
NOTE 6 - EXPLORATION AND EVALUATION EXPENDITURE		
Gradient Energy	3,943,478	3,655,259
Other	<u>16,176</u>	<u>1,980</u>
	<u>3,959,654</u>	<u>3,657,239</u>

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

NOTE 7 - WRITE OFF - DEVELOPMENT AND PRODUCTION ASSETS

At 30 June 2010 the directors assessed the recoverability of development and production assets in the USA. Due to inherent uncertainty over the ultimate recovery of development and production assets in respect to the Esponda project, Oriva Federal project and Oriva Throne project, the Group as in prior periods has impaired all development and production assets, until such time as there is conclusive evidence the impairment has reversed.

During the half year the directors have written off \$358,181 (30 June 2009 \$4,116,752) of additional expenditure on these projects.

	Consolidated	
	30 June 2010	31 December 2009
	\$	\$
NOTE 8 - INVESTMENTS - AVAILABLE FOR SALE ASSETS		
Investment in Greenpower Energy Limited	687,500	1,125,000
Investment in Callabonna Uranium Ltd	<u>1,555,096</u>	<u>2,764,800</u>
	<u>2,242,596</u>	<u>3,889,800</u>

The Company holds 12,500,000 shares in Greenpower Energy Limited. At 30 June 2010 the Directors compared the carrying value of the investment to market value and recorded an impairment loss of \$437,500 (30 June 2009 - \$250,000). This was based on a closing share price of 5.5 cents for Greenpower Energy Limited shares at 30 June 2010. (The closing share price for Greenpower Energy Limited shares was 10 cents at 30 June 2009).

The Company holds 172,800,000 shares in Callabonna Uranium Ltd (Callabonna). At 30 June 2010 the Directors compared the carrying value of the investment in Callabonna to market value and recorded an impairment loss of \$1,209,700. This was based on a closing share price of \$0.009 for Callabonna shares at 30 June 2010.

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	Consolidated	
	30 June 2010	31 December 2009
	\$	\$
NOTE 9 - OTHER ASSETS		
Other current assets		
Prepayments	168,179	321,974
Security deposits	507,135	-
	675,314	321,974
Other non current assets		
Deposit paid	165,121	353,573
	165,121	353,573

	Consolidated	
	30 June 2010	31 December 2009
	\$	\$
NOTE 10 - ISSUED CAPITAL		
Fully paid ordinary shares		
493,853,305 (31 December 2009 – 493,853,305) fully paid ordinary shares	48,665,284	48,665,284
	48,665,284	48,665,284

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

No shares were issued during the half year ended 30 June 2010.

NOTE 11 - FINANCIAL REPORTING BY SEGMENTS

The Group has two reportable segments, as described below.

- Oil and Gas – production and sale.
- Exploration and evaluation – exploration and evaluation activities of the Group.

Operating segments have been determined based on the analysis provided in the reports reviewed by the senior management team in assessing performance and determining strategy.

**PLANET GAS LIMITED
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NOTE 11 - FINANCIAL REPORTING BY SEGMENTS (continued)

Operating Segments	Oil and Gas	Exploration and evaluation	Reconciling balances	Total
	\$	\$	\$	\$
30 June 2010				
Revenue – external	1,633	-	-	1,633
Finance income	245,036	-	211,062	456,098
	246,669	-	211,062	457,731
Segment expenses	592,425	641,033	2,220,989	3,454,447
Segment result	(345,756)	(641,033)	(2,009,927)	(2,996,716)
Segment assets	607,025	4,368,012	10,482,493	15,457,530
Segment liabilities	338,050	37,312	178,817	554,179
Other material items in 2010				
Write down/impairment losses	358,181	-	1,647,200	2,005,381
Finance expense	204,615	-	-	204,615
Operating Segments				
	\$	\$	\$	\$
30 June 2009				
Revenue – external	88,690	-	-	88,690
Share of loss in associate	-	-	(118,894)	(118,894)
Finance income	-	-	4,546	4,546
	88,690	-	(114,348)	(25,658)
Segment expenses	4,420,547	-	620,787	5,041,334
Segment result	(4,331,857)	-	(735,135)	(5,066,992)
Segment assets	341,083	-	3,365,138	3,706,221
Segment liabilities	211,423	-	2,915,205	3,126,628
Other material items in 2009				
Write down/impairment losses	4,116,752	-	250,000	4,366,752
Amortisation	87,605	-	-	87,605

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FOR THE HALF YEAR ENDED 30 JUNE 2010**

NOTE 12 - CONTROLLED ENTITIES

Parent Entity

Planet Gas Limited, a listed public company, incorporated in Australia.

Wholly-Owned Controlled Entities

Planet Gas USA, Inc, incorporated in the United States of America.

Planet Gas Properties LLC, incorporated in the United States of America.

Planet Gas Resources LLC, incorporated in the United States of America.

Gradient Energy Ltd, incorporated in Australia.

Planet Cooper Basin Pty Ltd, incorporated in Australia.

Planet Gas and CBM Pty Ltd, incorporated in Australia in August 2010.

NOTE 13 - SHARE BASED PAYMENTS

During the six months ended 30 June 2010, the Company issued 8,000,000 options with a fair value of \$462,400 as part remuneration for consultancy services rendered to the Company. As at 30 June 2010, \$306,741 of this value has being capitalised in exploration and evaluation expenditure.

The fair value of the options at grant date was determined based on the Black-Scholes formula. The model inputs for those options issued during the period, were the Company's share price of \$0.132 at the grant date, a volatility factor of 79.94% based on historic share price performance and a risk free interest rate of 5.28% based on the 10 year government bond rate.

NOTE 14 - SUBSEQUENT EVENTS

NSW CBM Projects

Subsequent to the end of the half year, the Company has agreed to a 50% farm-in and operatorship of three highly prospective and well situated NSW petroleum exploration licences.

The agreement with Leichhardt Resources Pty Ltd covers a tenement portfolio of 5,579 km² at Bylong (PEL 468) and Shoalhaven (PEL 469) in the Sydney Basin, and at Mooki (PEL 470) in the Gunnedah Basin.

All three licences are regarded as highly prospective for CBM and natural gas resources, as well as having potential for conventional and shale gas resources.

The Company, through its wholly owned subsidiary Planet Gas & CBM Pty Ltd will earn up to 50% in each project, via an agreed work program, and immediately assumes the role of operator of the PELs.

In the Sydney Basin tenements, the Company plans to target any CBM resources hosted by the geological sequences of the Illawarra Coal Measures (or equivalent) and the Shoalhaven Groups. Such resources could potentially deliver natural gas production for electrical power generation and gas reticulation to serve Sydney's rapidly expanding electrical and energy demands.

The Gunnedah Basin tenement is adjacent to the Eastern Star Gas CBM gas development project, and the Company will be targeting the Maules Creek coals.

The farm-in agreement requires no upfront payments by the Company. The estimated minimum expenditure for the technical works, or in ground costs, by the Company over the 3 year life of the farm-ins is \$15,880,000. Each area will be the subject of a three phase farm-in process, commencing with a 60 day due diligence period.

The Company retains the right during the course of Phase 1 due diligence period to elect not to proceed on any, or all of the farm-ins. Similarly the Company can elect not to proceed on any, or all of the farm-ins upon completion of Phase 2 or during the course of Phase 3.

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The three farm-ins, whilst separate, have been designed so that they can be run concurrently, in order to reduce overall overheads, management costs, and more importantly to manage rig and equipment availability and scheduling, plant and personnel, over the three petroleum licences during the course of the field activities.

These farm-ins represent a significant next step in the Company's growth of a 'population/infrastructure advantaged' strategic portfolio of, natural gas, oil and CBM projects in eastern Australia.

PEL 468 Bylong

Bylong (PEL 468) covers some 1,736 km² and is located on the boundary of the Gunnedah Basin and Sydney (Hunter Coalfield) Basins and is 300 kilometres northwest of Sydney and approximately equidistance to the regional centres of Dubbo, Tamworth and Newcastle.

To date, some 48 drillholes, mostly NSW Government commissioned for open pit and shallow underground mining studies, have been identified in the public domain within the area, and a number of oil and gas exploration wells have been drilled within close proximity to the margins of this licence. These holes intersected the Late Permian Black Jack Formation/Wittingham Coal Measures (Illawarra equivalent) at depths ranging from subcrop to 800 metres. Drilling of these coal seams in adjacent areas has indicated a coal thickness of these coals of up to 90 metres, with gas contents ranging up to 8 m³/tonne.

PEL 469 Shoalhaven

Shoalhaven (PEL 469) covers some 3,173 km² in the Southern Coalfield of the Sydney Basin. The project is approximately 80 kilometres south of Sydney and adjacent to the operating AGL (PEL 2) tenement. A major regional pipeline linking Sydney Gas to Canberra and Victoria passes through the prospect and the proposed 40TJ/day Rosalind Park Gas Plant is less than 40 kilometres from the prospect.

Prospective for CBM gas resources are the Illawarra coals which range up to 15 metres thick for the Clyde Coal Measures and more than 25 metres thick for the Illawarra Coal Measures. The Illawarra Coal Measures contain 11 named coal seams including four main prospective target seams, those being the Bulli, Balgownie, Wongawilli and Tongarra Seams. Coal vitrinite reflectance data for these seams average 1.2 and historical mine gas data indicates gas contents of 10 to 16 m³/tonne. There are a number of existing drill holes and seismic lines within the licence.

PEL 470 Mooki

Mooki (PEL 470) covers some 670 km² and is located between the regional centres of Moree and Narrabri and less than 100 kilometres from the Wilga Park Gas Fired Power Station. The proposed Wullumbilla-Newcastle pipeline development from Roma Gas Fields to Newcastle runs through the area, providing numerous options for future gas offtake.

The project is located in the Northern Gunnedah Basin. The eastern boundary of the prospect is adjacent to the Hunter-Mooki Fault, a regional structure active throughout deposition of the coal measures and a depo-centre for thick accumulations of coal bearing sediments. Drilling in the area has intersected net coal thicknesses of between 15 to 20 metres from the early-mid Permian Black Jack/Maules Creek Formations, and CBM gas contents of up to 10 m³/tonne, which are highly prospective for CBM gas resources.

Issue of options

On 18 August 2010 the Company announced the issue of 8.5 million options granted in accordance with the Company's Planet Gas Executive Option Plan as follows:

- the exercise price is 13.2 cents;
- the options have an expiry date 20 August 2014;
- half of the options vest immediately and the other half vest on 6 September 2011 unless they are terminated earlier in accordance with the terms of the plan;
- the fair value of the options has not been determined as at the date of this report.

**PLANET GAS LIMITED
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**NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS
FOR THE HALF YEAR ENDED 30 JUNE 2010**

Appointment of Chief Operating Officer

Mr Ian Halstead formerly of Pan Orient Energy Corporation, and Cairn Energy PLC, was appointed as Chief Operating Officer of Planet Gas Limited, effective 1 July 2010. Mr Halstead's oil and gas experience spans 28 years and includes the implementation of a number of significant international exploration and development projects both on and offshore.

**PLANET GAS LIMITED
AND ITS CONTROLLED ENTITIES**

DIRECTORS' DECLARATION

In the opinion of the directors of Planet Gas Limited:

- (a) the financial statements and notes set out on pages 11 to 21, are in accordance with the Corporations Act 2001, including:
 - (i) giving a true and fair view of the Group's financial position as at 30 June 2010 and of its performance for the six month period ended on that date; and
 - (ii) complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the Corporations Regulations 2001; and
- (b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Signed at Sydney this 10th day of September 2010
in accordance with a resolution of the Board of Directors:



Norman A. Seckold
Director



Peter J. Nightingale
Director



Independent auditor's review report to the members of Planet Gas Limited

We have reviewed the accompanying interim financial report of Planet Gas Limited, which comprises the consolidated interim statement of financial position as at 30 June 2010, consolidated interim statement of comprehensive income, consolidated interim statement of changes in equity and consolidated interim statement of cash flows for the half year ended on that date, notes 1 to 14 comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the Group comprising the Company and the entities it controlled at the half year's end or from time to time during the half year.

Directors' responsibility for the interim financial report

The directors of the company are responsible for the preparation of the interim financial report that gives a true and fair view in accordance with Australian Accounting Standards and the Corporations Act 2001 and for such control as the directors determine is necessary to enable the preparation of the interim financial report that is free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express a conclusion on the interim financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the interim financial report is not in accordance with the Corporations Act 2001 including: giving a true and fair view of the Group's financial position as at 30 June 2010 and its performance for the half year ended on that date; and complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the Corporations Regulations 2001. As auditor of Planet Gas Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of an interim financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

In conducting our review, we have complied with the independence requirements of the Corporation Act 2001.

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the interim financial report of Planet Gas Limited is not in accordance with the Corporations Act 2001, including:

- a) giving a true and fair view of the Group's financial position as at 30 June 2010 and of its performance for the half year ended on that date; and
- b) complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the Corporations Regulations 2001.

KPMG

Simon Crane
Partner

Brisbane
10 September 2010

**PLANET GAS LIMITED
AND ITS CONTROLLED ENTITIES**

CORPORATE DIRECTORY

Directors:

Mr Norman A. Seckold (Chairman)
Mr Sharif Oussa (Managing Director and CEO)
Mr Peter J. Nightingale (CFO)
Mr Robert M. Bell
Mr Anthony J. McClure
Mr Anthony J. McDonald
Mr Robert C. Neale

Company Secretary:

Mr Peter J. Nightingale

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Share Registrar:

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