

CONTRACT

BETWEEN

GENERAL ELECTRIC INTERNATIONAL, INC.

AND

GE PACKAGED POWER, INC.

AND

ENEABBA ENERGY (AUST) LTD

FOR SUPPLY OF GOODS AND DESIGN, PROCUREMENT, CONSTRUCTION AND  
COMMISSIONING OF A NOMINAL FOUR (4) UNIT 146000P GAS TURBINE  
BASED POWER GENERATION PLANT, CENTURION  
AT DONGARA, WESTERN AUSTRALIA

WAGER TO THE OFFER

PERSONS  
LIMITED

Annual Report 2006



ENEABBA GAS LIMITED

## Contents

	Corporate Directory
1	Mission Statement
2	Chairman's Letter
4	Managing Director's Report
6	Board of Directors
8	Responses to ASX Corporate Governance Recommendations
10	Directors' Report
15	Auditor's Independence Declaration
16	Financial Statements
37	Directors' Declaration
38	Independent Audit Report
39	Shareholder Information
	Tenement Summary

### Eneabba Gas Limited

ABN 69 107 385 884

### Annual General Meeting

The Annual General Meeting of Eneabba Gas Limited will be held at the Holiday Inn City Centre Perth, 778-788 Hay Street, Perth, Western Australia, Australia at 11.00am on Wednesday, 15 November 2006.

### Stock Exchange Listing

The Company's shares and options are listed under the codes ENB and ENBO on the Australian Stock Exchange Limited.

Reference in this report to 'year' or 'financial year' means the 12 months ended 30 June 2006. All units of currency are expressed in Australian dollars unless otherwise specified.

Eneabba Gas Limited is the parent company of the Eneabba Group of Companies. In this report, unless otherwise specified, references to "Eneabba Gas" and "the Group" refer to Eneabba Gas Limited and its controlled entities as a whole and reference to "the Company" refers to Eneabba Gas Limited. Unless otherwise specified, the text does not distinguish between the activities of the parent company and those of its controlled entities.

## Corporate Directory

### Directors

Reginald N Gillard - Chairman  
Mark H Babidge - Managing Director  
Christopher E Bennett  
Thomas L Goh  
Peter R Oates

### Company Secretary

Susmit M Shah

### Registered Office

Level 1, 30 Ord Street  
West Perth WA 6005  
Tel: +61 8 9321 0099  
Fax: +61 8 9321 0299

### Postal Address

PO Box 772  
West Perth WA 6872

### Visit our website

[www.eneabbagas.com.au](http://www.eneabbagas.com.au)

### Auditors and Taxation Advisers

PKF Chartered Accountants

### Environmental Consultants

Strategen Environmental

### Geological Consultants

Westby Consulting Pty Ltd

### Independent Energy Advisers

ACIL Tasman Pty Ltd

### Legal Advisers

Minter Ellison  
Hardy Bowen

### Power and Water Consultants

Burns and Roe Worley Pty Ltd

### Share Registry

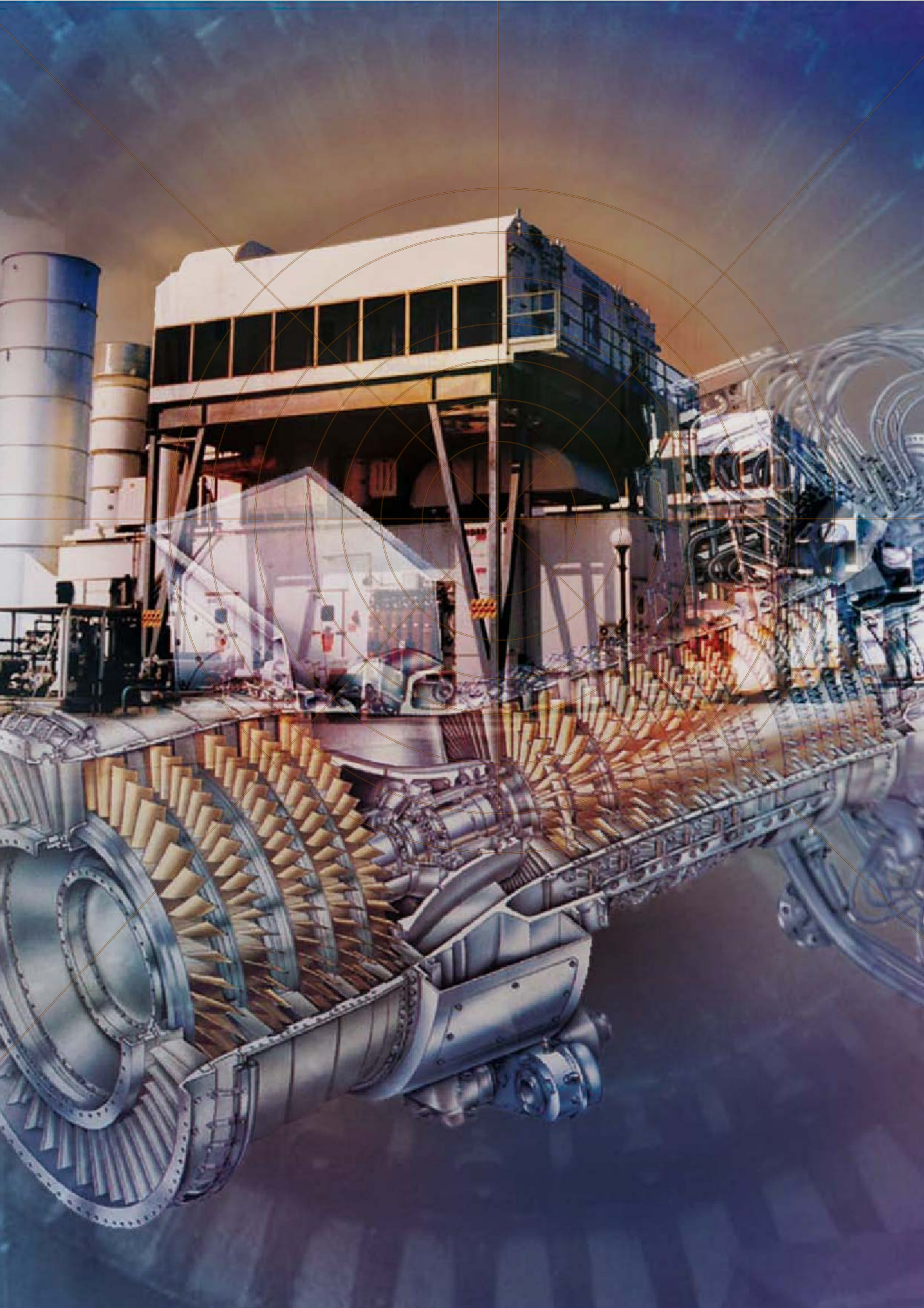
Security Transfer Registrars Pty Ltd  
PO Box 535  
Applecross WA 6953  
Tel: +61 8 9315 2333

# Mission Statement

Eneabba Gas Limited is focused on developing resources that generate

- **energy** for regional infrastructure,
- **benefits** to the local community, and
- **wealth** to its stakeholders.







Reg Gillard - Chairman

## Chairman's Letter

Dear Shareholder

I take pleasure in presenting to you the first Annual Report of Eneabba Gas Limited as a public listed company.

It is fair to say that the Company's debut on the Australian Stock Exchange was the culmination of a difficult period in the Company's life. After issuing its prospectus in December 2005, the Company had to overcome a number of hurdles prior to successfully completing the initial public offer of securities to raise \$8.3 million in April 2006.

Since then, however, the Company has made good progress in its quest to build and operate a power station in the booming Mid West region of Western Australia.

- The Company has acquired a strategically important site near Dongara (near the port city of Geraldton and approximately 380 km north of Perth), on which to locate the power station. The site is close to the APT Parmelia gas pipeline and to the regional electricity grid for the North Country region, which is of critical importance in ensuring gas supply for the operation of the turbines and then being able to sell the resultant power into the grid system.
- The Founding Shareholders made a magnificent gesture in agreeing to cancel 35,000,001 shares and 26,250,000 options for nil consideration. This cancellation became effective in August 2006, resulting in a 34% reduction in total issued shares. This will assist the Company greatly as it progresses its feasibility studies and continues its discussions with financiers and joint venture partners.
- A conditional contract has been secured with General Electric for the design, procurement, construction and commissioning of a power generation plant.

The development of new industry, particularly mining related, in the Mid West region of Western Australia continues at a rapid pace and the Board is confident that demand for electric power will match this pace. In recent weeks, the Company has engaged in discussions with industry players and I am pleased with the interest shown by these sectors in the Company's proposed power station.

The Company's management and directors continue to work closely with the various stakeholders in this whole process – the State Government, the Independent Market Operator (the new regulatory authority for the WA energy market), the local shire, Western Power and various external consultants. On behalf of the Board, I take this opportunity to thank these various parties for their professional and cooperative approach in making this infrastructure project possible. I do not shy away from claiming that the Company's proposed Centauri 1 power station is of some significance to the State of Western Australia.

I thank the executive team of Mark Babidge and Thomas Goh and the staff of the Company for their hard work over the past year. Finally, I thank you, the shareholders, for your loyal and continuing support.

A handwritten signature in black ink, appearing to read 'Reg Gillard', with a stylized flourish at the end.

Reg Gillard  
Chairman

28 September 2006



Mark Babidge - Managing Director

## Managing Director's Report

The year has been highlighted by the listing of the Company on the Australian Stock Exchange on 28 April 2006.

The Company has undertaken continuing feasibility studies in seeking the registration and eventual construction of the Centauri 1 power station some 8 km east of Dongara in the Mid West of Western Australia, some 380 km north of Perth.

The purchase of approximately 1,630 hectares (4,044 acres) of freehold land near Dongara in the Mid West region of Western Australia, was concluded in May 2006

The land will be used by Eneabba Gas as the site for the proposed 168 MW Centauri 1 power station. The land was purchased from Astrik Pty Ltd, pastoralists of Dongara, who will lease the unused portion of the land back from Eneabba Gas.

The parcel of land is 8 kilometres east of Dongara with access to both the Brand Highway and Midland Highway near Pell Bridge. The site was chosen following an extensive environmental feasibility study into the best location for the Centauri 1 power station and due to the fact that it is strategically located only 250 metres from the APT Parmelia gas pipe line.

The Company has been advised by the Environmental Protection Authority ("EPA") of its assessment of the Centauri 1 gas fired power station. The power station has been approved as "Not assessed – Managed under Part V of the EP Act (Works Approval)" and as such requires no formal assessment and setting of formal conditions by the Minister for the Environment.

This EPA approval was a principal condition precedent for lodgement of the Company's request to the IMO for the Reserve Capacity Certification process and as such, this precedent already having been given, greatly assists in the lodgement process. The Company engaged environmental consultants, Strategen, who assisted with the detailed study of the project and surrounds along with development of appropriate in-built design characteristics by the gas turbine supplier GE.

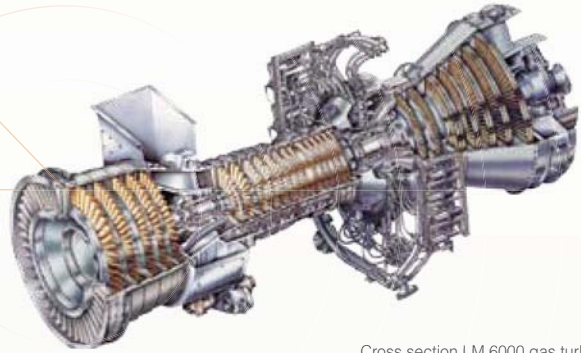
The Shire of Irwin has already given appropriate development approval for the site (17 May 2006), which was subject only to the above EPA approval and conditions being met.

On 14 July 2006, the Company and its wholly owned subsidiary Eneabba Energy Pty Ltd entered into a conditional agreement with GE Packaged Power, Inc. and General Electric International Inc, for the supply of a 'turnkey project' including the design, procurement, construction and commissioning of a four (4) unit LM 6000 PD gas turbine based power generation plant.

This GE agreement is conditional on the Company procuring all licences and approvals required by all applicable laws or otherwise necessary for it to construct, commission and operate Centauri 1, plus raising the finance for the project. The agreement anticipates that a Notice to Proceed under the agreement will see the construction begin in November 2006, with delivery of the main equipment in late 2007. This will hopefully have the Centauri 1 power station ready to deliver power to the Western Australian State power grid - South West Interconnect System ("SWIS") by 01 July 2008.

The Company lodged its documents with the IMO on 20 July 2006, which included a letter from Western Power Networks advising that due to the nature of the network infrastructure within the North Country Region (Mid West) of the SWIS, further system studies are required to determine the actions to be taken to improve damping (the stabilisation of energy delivery to the grid) in order for the proposed Centauri 1 power station to comply with Western Power Networks' Technical Code.

Western Power has agreed to continue to work with Eneabba Gas with the aim of being in a position to make a SWIS connection offer to Eneabba Gas as soon as practicable. This offer is a key condition to achieving reserve capacity supplier certification.



Cross section LM 6000 gas turbine

Eneabba Gas has recently approved funding for Western Power Networks and external power consultants to undertake detailed system studies to determine the generation requirements for the Centauri 1 power station to comply with the Technical Code. All arrangements for any new grid connection will need to comply with the Access Code (Access Arrangement, including the Technical Rules), the Wholesale Electricity Market Rules and other applicable codes, rules and laws.

Following this lodgement, the IMO advised the Company on 01 August 2006, that it is unable to grant Eneabba Gas Certified Reserve Capacity for the Centauri 1 Power Station for the 2008/2009 Reserve Capacity year. The IMO has advised that the reason for its decision is that the Company's application did not contain a letter of offer from the network operator (Western Power) to show that the Centauri 1 Power Station would have network access when required to deliver energy under its obligations.

This issue is peculiar to Eneabba Gas because we are proposing to connect into the SWIS grid from within the North Country Region ("NCR") where further studies are required to determine the necessary connection specifications. The NCR is a particularly 'fragile' network, since the capital upgrading required in transmission infrastructure has not been undertaken by Western Power to accommodate the new loads required for the development in the Mid West. Our requests for assistance to allow Eneabba Gas to work around the incompatible positions of the wholesale electricity market and the IMO's timetable have been passed between the Minister's Office, the IMO and the Office of Energy. Following detailed discussions and a meeting with the Minister of Energy, the matters are now being resolved. The Company has engaged B&RW Melbourne to undertake the required network system studies along with con-current studies to be undertaken by Western Power Networks.

While the allocation of capacity credits by the IMO did not occur, the Company has had other opportunities in energy delivery presented to it. The Company is also pleased to report that it has received definitive expressions of interest from companies in the Mid West region seeking up to 337.5 MW of direct supply energy from the Centauri 1 Power Station. As such the Company continues to believe that the outlook for the Centauri 1 Power Station is outstanding.

The Company is also pursuing options that include fund raising, farm-in arrangements, joint ventures and adjustments in its mining tenements that maximise the development of these assets that increase shareholder wealth. The Company has grouped the tenements in its wholly owned subsidiary, Eneabba Mining Pty Ltd under the combined status reporting under Section 115A (4) of the Mining Act 1978-1994 and is now known as the "Sargon Group". The Department of Industry & Resources Approval for this grouping is C 32/2006 M12550.

Due to the deferred arrival of drilling rigs in the field programme the Company has requested deferral of the timing of minimal expenditure to be completed during the tenement year. As such, there is no matter of significance to report with the geological studies, being ongoing and lodgements for exploration drilling have been made with the DoIR.

On other matters the Company has ensured that its company and subsidiary company names, domain names and logo have been secured under intellectual property registration.

Mark Babidge  
Managing Director

28 September 2006

## Board of Directors



Left to Right: Peter Oates, Thomas Goh, Reg Gillard, Mark Babidge, Chris Bennett, Susmit Shah

### Reginald N. Gillard

- Chairman and Non Executive Director

After practising as an accountant for over 31 years, during which time he formed and developed a number of service related businesses, Mr Gillard now focuses on corporate management, corporate governance and the evaluation and acquisition of resource projects. He is a director of Aspen Group Limited, Caspian Oil & Gas Limited, Elemental Minerals Limited, Lafayette Mining Limited, Pioneer Nickel Limited and Tiger Resources Limited. He is a former director of Moto Goldmines Ltd (ceased 17 August 2005) and Wentworth Mutual Limited. He has developed close working arrangements with a number of substantial Australian and international investment funds and has been responsible for and involved with the funding of several listed public companies.

He holds a Bachelor of Arts degree, is a Registered Company Auditor, Justice of the Peace, Fellow of the Certified Practising Accountants of Australia and a Fellow of the Australian Institute of Company Directors.

Mr Gillard is the Chairman of the Corporate Governance Committee, the Nominations and Remuneration Committee and a member of the Audit and Risk Committee.

### Mark H. Babidge

- Managing Director

In the past ten years Mr Babidge has actively run the corporate administration in the role Managing Director, General Manager or director of a number of public and private companies. He has managed utility companies in Australia and overseas, both major management roles have been with organisations whose turnover has exceeded \$1 billion per annum. He has held senior executive roles in many industries and undertaken "corporate doctor" management and mentoring of medium to large businesses. These have included being the President of the Board of Compania de Telfonos de Chile (Chile Telephone Company) residing in Chile for 3 years, CEO of Bond Chile, and assisting in the management of Minería San Jose / Minería El Indio gold and copper mine, CEO's Representative, General Manager Telecom WA and advising a number of small business mining related enterprises in Australia.

Mr Babidge has a science background and a Graduate Diploma in Business Administration from the South Australian Institute of Technology (awarded the Prize for Marketing), attended the Advanced Management Programme (SEP-1983) Stanford University California and is a Fellow of the Australian Institute of Management.



## Eneabba Gas Limited is focused on developing resources

### **Christopher E. Bennett**

- Non Executive Director

Mr Bennett was formerly General Manager Finance and Company Secretary of Foodland Associated Limited, an ASX top 100 company. He has held senior executive finance positions in listed public companies for over 20 years. He is a member of the Council of the Curtin University of Technology. Mr Bennett holds a Bachelor of Commerce degree and is a Chartered Accountant.

He is the Chairman of the Audit and Risk Committee.

### **Thomas L.C. Goh**

- Executive Director

Mr Goh has acquired years of extensive experience in the petroleum exploration industry through working with seismic contractor companies (in Singapore), a major international oil company and an Australian group of companies in Australia. Operating in Southeast Asia and Pacific-rim regions, he rose to position of manager at an early age with a US seismic company before migrating in 1978 to Australia, where he had direct technical involvement in the economic appraisals of both gas and oil discoveries. As director and general manager of a public listed oil and gas company he continued contributing much of his technical expertise directly to joint ventures to achieve successful exploration objectives. Furthermore, he initiated several vital corporate strategies, which included technical evaluations, commercial negotiations, sale and acquisition of petroleum interests.

Mr Goh holds a Bachelor of Science degree in Mathematics.

### **Peter R. Oates**

- Non Executive Director

Mr Oates has 24 years of working experience in the electricity industry in Western Australia. His understanding of the electricity industry and, in particular, issues relating to adding new generation capacity to the interconnected grid will greatly assist the Company.

In his previous role at Western Power, he was part of the executive management team and was responsible for finance and administration and later for business development. In those roles he was responsible for supervising the bidding process for the 240MW of additional peaking capacity contracted by Western Power.

Mr Oates holds a Bachelor of Economics and an MBA from the University of Western Australia and he is a Fellow of the Australian Society of Certified Practising Accountants.

Mr Oates is a member of the Audit and Risk Committee and Nominations and Remuneration Committee.

### **Susmit M. Shah**

- Company Secretary

Mr Shah is a Chartered Accountant and has been involved as a director and company secretary of various Australian public companies for a number of years. He consults to public companies on a variety of matters including stock exchange requirements, joint venture negotiations and corporate fundraising.

# Responses to ASX Corporate Governance Recommendations

## Adoption of ASX Principles Recommendations

A summary of the main provisions of the Code of Conduct for directors and key executives and the main provisions of the Securities Dealing Policy are available in the corporate governance section of Eneabba Gas Limited's website.

### Principle 1: Lay solid foundations for management and oversight

The Company has adopted Principle 1. The Board Charter describes the matters which are the reserve of the Board. Responsibility for other matters is delegated to the Chief Executive Officer / Managing Director. A summary of the Board Charter is available on the Company's website.

### Principle 2: Structure the Board to add value

The Board has established a Nominations and Remunerations Committee. The Committee Charter, which is available on the Company's website, specifies the Committee's composition, responsibilities and member qualifications.

The Board Charter provides that the Board is to be comprised of a majority of non-executive independent directors with a Chairman who is independent and non-executive.

The independence of directors is reviewed annually prior to the signing of the Companies Annual Report to shareholders. Independence is defined in accordance with the definitions contained within the ASX recommendations. Relevant disclosure is then made in the Annual Report.

Directors are entitled to obtain independent external advice on matters relating to accounting law or other relevant professional matters.

The procedures for selecting and nominating new candidates for the Board are more fully described in the Corporate Governance Statement and are available on the Company's website.

### Principle 3: Promote ethical and responsible decision-making

The Board has adopted a series of policies comprising a Code of Conduct for the Board which all Directors must sign prior to appointment to the Board.

The Code of Conduct addresses expectations for conduct in the following areas;

- Confidential information
- Rights of security holders
- Privacy
- Security trading
- Conflicts of interest
- Responsibility to suppliers and customers
- Employment policies and procedures

Copies of the main provisions of the Code of Conduct and Security Dealing Guidelines are available on the Company's website.

The Company has not adopted the so called "whistle blower" recommendations as this is considered unnecessary at this stage of the Company's operations.

### Principle 4: Safeguard integrity in financial reporting

The Board Charter provides for the formation of an Audit and Risk Committee the Charter of which is available on the Company's website.

The Committee reviews annually the Group's relationship with its external auditors including receipt of the audit independence statement on behalf of the Board.

The Chief Executive Officer / Managing Director and Company Secretary provide semi annually to the Board in writing a statement to the effect that the financial statements including the accompanying notes:

- are in accordance with the Corporation Act 2001 and the relevant accounting standards; and
- present a true and fair view, in all material respects, of the Group's financial position and performance.

#### **Principle 5: Make timely and balanced disclosure**

Eneabba has adopted policies concerning shareholder communication and continuous disclosure. The policies are designed to promote investor confidence by providing full and timely information to all security holders and market participants about the Group's activities, so as to comply with the requirements of the Corporations Act 2001 and the ASX Listing Rules.

Copies of the continuous disclosure and communications policies are available on the Company's website.

#### **Principle 6: Respect the rights of shareholders**

The Company has established a website listing all of the Company's announcements to the market. Shareholders and market participants registering their email addresses with the Company are provided with a copy of each announcement.

The Company's auditors are required to attend the Company's AGM to answer any questions put to them by shareholders.

#### **Principle 7: Recognise and manage risk**

The Board has adopted a detailed risk management policy a summary of which is available on the Company's website.

It is a policy of Companies in the Group to adopt a common sense approach to the management of risk. This approach involves a clear strategy defining the risks that the Company is in a business to take and those that it is not.

The basis of this policy is the obligation and desire to protect:

- a) the Company's people and customers;
- b) the environment in which the Group operates;
- c) the Company's position as a provider of the highest quality services and products.

The Company's policy in respect of these foundations attributes that its physical, financial and human resources will be applied to ensure that the Group's standards of products and services achieve and exceed expectations. To do this the entity must pursue opportunities that involve some degree of risk. Shareholders and stakeholders must expect that optimisation of such rewards are only gained from this degree of risk taking.

#### **Principle 8: Encourage enhanced performance**

The Board Charter provides the following:

Board policy is that the Board will constantly review and monitor its performance. As part of this process the Board may seek to appoint persons who, in the opinion of the Board, will provide specialist expertise required for the Board to adequately perform its role. Additionally, the Board will also review its composition and advise Board members where it is felt that a Director's skills are different from those required by the Company.

#### **Principle 9: Remunerate fairly and responsibly**

The Company has established a Nominations and Remuneration Committee the Charter of which is available on the Company's website. The Committee's Charter includes the following duties:

1. Reviewing the remuneration guidelines for senior management, including base salary, bonuses, share options, salary packaging and final contractual agreements.
2. Reviewing non-executive fees and costs by seeking external benchmarks.
3. Reviewing the Managing Director's remuneration, allowances and incentives and final package in consultation with both independent and external reference.

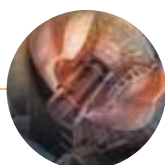
Equity components of remuneration, including the issue of options, are required to be approved by shareholders prior to award.

#### **Principle 10: Recognise the legitimate interests of stakeholders**

The Board has approved a Code of Conduct, a summary of which is available on the Company's website.

All Directors, executives and employees are required to comply with that Code.

Failure to comply will result in disciplinary action and may include reprimand, formal warning, demotion or, in extreme cases, termination of employment.



# Directors' Report

Your Directors present their report on the Company and its controlled entities for the financial year ended 30 June 2006.

## Directors

The names of directors in office at any time during or since the end of the year are:

R N Gillard,	Chairman, appointed 02 August 2005
J M Saunders,	former Chairman, resigned 02 August 2005
M H Babidge,	Managing Director
C E Bennett,	Non-executive Director, appointed 18 January 2006
T L C Goh,	Executive Director
P R Oates,	Non-executive Director, appointed 14 June 2006

Directors have been in office since the start of the financial year to the date of this report unless otherwise stated.

## Company Secretary

The following person held the position of Company Secretary at the end of the financial year:

Mr S M Shah has been the Company Secretary of Eneabba Gas Limited since 12 May 2006.

Mr P C Woods resigned as the Company Secretary on 12 May 2006.

## Principal activities

The principal continuing activity of the economic entity during the financial year was assessing the feasibility of constructing the proposed 168 MW Centauri 1 power station near Dongara, Western Australia.

## Operating results

The consolidated loss of the economic entity after providing for income tax amounted to \$729,757 (2005: \$196,316).

## Significant changes in the state of affairs

The net assets of the economic entity have increased by \$7,191,940 at 30 June 2005 to \$7,997,262. The increase has largely resulted from share issue raisings, including an initial public offer comprising 33,116,000 ordinary shares and 16,558,000 attaching options to raise \$8,279,000.

## Dividends paid or recommended

No dividend was paid or declared during the year and the directors do not recommend the payment of a dividend.

## After balance date events

### Contributed equity and options

On 17 July 2006 shareholders approved the cancellation of 35,000,001 shares issued to founding shareholders and was advised of the intention to cancel 26,250,000 options.

Shareholders also approved the issue of 7,500,000 executive options exercisable at 0.001 cents which will vest given the Company completed certain pre-agreed objectives. As a consequence the shares and options on issue have changed as follows:

	Shares	Options	Executive Options
On issue at 30 June 2006	104,576,004	72,888,000	-
Cancelled	(35,000,001)	(26,250,000)	-
Executive options	-	-	7,500,000
On issue at the date of this report	69,576,003	46,638,000	7,500,000

## Contract with General Electric

On 14 July 2006 the Company announced that Eneabba Gas Limited and its wholly owned subsidiary Eneabba Energy Pty Ltd had entered into a conditional agreement with GE Packaged Power, Inc. and General Electric International Inc, for the supply of a "turnkey project" including the design, procurement, construction and commissioning of a nominal four unit LM 6000 PD gas turbine based power generation plant. The proposed plant, named Centauri 1, is to be based near Dongara, Western Australia.

This agreement is conditional on the Company procuring all licences and approvals required by all applicable laws or otherwise necessary for it to construct, commission and operate Centauri 1, plus raising the finance for the project.

## EPA approval for Centauri 1 Power Station

On 17 July 2006 the Company announced that it had been advised by the Environmental Protection Authority of its assessment of the Company's proposed Centauri 1 gas fired power station, to be constructed on a site near Dongara, Western Australia.

The proposed power station was approved as "Not assessed – Managed under Part V of the EP Act (Works Approval)" and as such requires no formal assessment and setting of formal conditions by the Minister for the Environment.

## Future developments

The Company is continuing with its feasibility studies for the power station and the CSM (coal seam methane) project. Discussions with potential customers, in particular from the mining / iron ore development in the Mid West, plus with initial supplies of gas for establishment / construction phase of the Centauri 1 power station have been initiated and are continuing. The results of these discussions will be announced as and when commercial arrangements are concluded. The Company is also having discussions with the local Shire and the EPA in regard to matters relating to construction, which is scheduled to start before the end of this calendar year. Initial geophysical studies have already been undertaken on the Dongara site.

Lodgement of a coal resource drilling programme has been made to DoIR and the Company is awaiting the relevant approvals and Native Title / Environmental clearances from the Department. Mobilisation of the drilling rig will be activated as soon as these approvals have been given, most likely in October / November this year.

The Company has continuing dialogue with Western Power – Networks, who, along with Worley Parsons Melbourne office, are undertaking system studies (previously announced) to ensure that the interconnect point within the transmission network can be nominated.

## Environmental issues

The Group has received all environmental consents required as a prerequisite to the construction of the proposed Centauri 1 power station near Dongara in Western Australia. There is no other environmental issue requiring consideration apart from meeting the construction requirements under Part V of the EPA.

There has been no significant known breach of environmental legislation affecting the Company's activities.

## Information on directors

The qualifications and experience of Directors are shown on pages 6 and 7 of this Annual Report.

## Remuneration report

### Executives

Prior to the formation of the Nominations and Remuneration Committee, the remuneration of senior executives was negotiated between the Chairman and those executives and confirmed by letters of appointment, the details of which for executive directors were disclosed in the Company's Prospectus dated 16 December 2005 as updated by Supplementary Prospectuses dated 20 January 2006 and 27 February 2006.

With effect from 01 November 2005, the base salary and allowances of executive directors were as follows for the financial year:

	Base Salary \$	Superannuation \$	Allowances \$
M H Babidge	98,000	8,820	15,750
T L C Goh	78,000	7,020	15,750

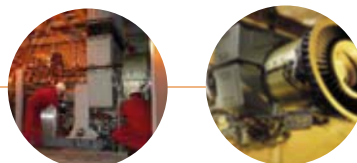
No part of this remuneration is performance based.

These executives are also entitled to 20 days annual leave and an entitlement to long service leave calculated in accordance with the provisions of the relevant legislation. Either party may elect to terminate the agreed arrangements by the giving of three (3) months notice.

Prior to the activation date (01 November 2005) the directors did not draw any salary or wages, except in special circumstances where a payment for all directors (being at the time Messrs Babidge, Gillard and Goh) was at the rate of \$185 per hour plus GST. All other pre-IPO (Initial Public Offering) work was ex gratia as agreed.

In the case of the Company terminating employment or redundancy, or where the employment is terminated within 4 months following a "change of control" as defined in section 50AA of the Corporations Act 2001 executives nominated will be entitled to receive a redundancy termination payment, which will be not less than 12 months "Base Salary Package" referred to above applying at the time of termination, but not ever being less than the IPO Base Salary Package at any time.

The letters of appointment provide that remuneration will be reviewed on 30 September each year based on performance and the scope of position responsibilities.





### Non-executive directors

At the 2005 Annual General Meeting shareholders approved a pool of \$200,000 per annum for non-executive director's fees. The Board has subsequently agreed that the Chairman will receive annual remuneration of \$50,000 plus superannuation at the statutory guarantee level and allowances of \$15,750 per annum and other non-executive directors will receive annual compensation of \$40,000 plus superannuation at the statutory guarantee level plus an allowance of \$750.

Also during the year Messrs Bennett, Gillard and Oates were allocated share options.

In addition non-executive directors providing services to the Company outside the scope of the duties as directors receive fees calculated at \$185 per hour.

Directors receive no additional compensation for membership of Board Committees.

### Nominations and Remuneration Committee

The Company has now formed a Nominations and Remuneration Committee the Charter for which includes responsibility for providing to the Board recommendations concerning the quantum and form of remuneration for directors and senior executives.

When reviewing remuneration the Committee will take into account company and executive performance, the scope of responsibilities, comparable information from other listed companies of similar size and scope and, where appropriate, independent advice from third parties.

In addition to salary and allowances executive and non-executive directors have been granted options by the Board to provide an incentive to join the Board or Company and to achieve the Company's objectives stated at the time of the Company's initial public offering and, as a consequence, to create improved value for shareholders.

Options are valued using the Black and Scholes method or at market value when this is applicable.

### Directors' remuneration

The remuneration for each director of the economic entity during the year was as follows:

2006	Base Salary	Special Fees	Allowances	Super-annuation	Non-Cash Options Value	Total
	\$	\$	\$	\$	\$	\$
<b>Executive directors:</b>						
Mr M H Babidge	65,336	-	10,500	5,880	-	81,716
Mr T L C Goh	52,000	-	10,500	4,680	-	67,180
<b>Total</b>	<b>117,336</b>	<b>-</b>	<b>21,000</b>	<b>10,560</b>	<b>-</b>	<b>148,896</b>
<b>Non-executive directors:</b>						
Mr C E Bennett	16,962	7,710	313	1,500	24,600	51,085
Mr R N Gillard	33,333	10,750	10,500	3,000	32,800	90,383
Mr P R Oates	1,667	-	37	150	35,000	36,854
Mr J M Saunders	-	-	-	-	-	-
<b>Total</b>	<b>51,962</b>	<b>18,460</b>	<b>10,850</b>	<b>4,650</b>	<b>92,400</b>	<b>178,322</b>
<b>Total</b>	<b>169,298</b>	<b>18,460</b>	<b>31,850</b>	<b>15,210</b>	<b>92,400</b>	<b>327,218</b>

Options issued to directors prior to the Company listing on the ASX have been independently valued at \$0.0082 each using the Black and Scholes method at the values disclosed in the Prospectus dated 16 December 2005. Options issued subsequent to the ASX listing and vesting immediately have been valued at the market price of the options on the day of issue.

## Share based remuneration

2006	Granted No	Options Granted as part of Remuneration \$	Total Remuneration Represented by Options %	Options Exercised No	Options Lapsed No	Total No
<b>Executive directors:</b>						
Mr M H Babidge	-	-	-	-	-	-
Mr T L C Goh	-	-	-	-	-	-
<b>Total</b>	-	-	-	-	-	-
<b>Non-executive directors:</b>						
Mr C E Bennett	3,000,000	24,600	48.15	-	-	3,000,000
Mr R N Gillard	4,000,000	32,800	36.29	-	-	4,000,000
Mr P R Oates	500,000	35,000	94.97	-	-	500,000
<b>Total</b>	<b>7,500,000</b>	<b>92,400</b>	<b>51.82</b>	-	-	<b>7,500,000</b>
<b>Total</b>	<b>7,500,000</b>	<b>92,400</b>	<b>28.24</b>	-	-	<b>7,500,000</b>

## Meetings of directors

During the financial year, 19 meetings of directors were held, with the following attendances:

Director	Directors' Meetings	
	Meetings Eligible to Attend	Meetings Attended
M H Babidge	19	19
C E Bennett	7	7
R N Gillard	17	17
T L C Goh	19	19
P R Oates	1	1
J M Saunders	2	2

## Indemnifying officers and auditors

No indemnities have been given or agreed to be given during or since the end of the financial year, to any person who is or has been an officer or auditor of any company in the Group.

The parent entity has paid premiums with respect to a contract insuring the directors and officers of the Group against liabilities incurred while acting as directors and officers. The insurance contract prohibits the disclosure of the amount of premium paid in respect of the contract. No part of the premium has been included in directors' emoluments.

The parent entity has also paid premiums with respect to a contract insuring the Company for any liability which may arise to pay retirement benefits to a director's estate following the death of a director.

## Shares under option

For details of options issued during the year, see note 11 (ii) in the financial statements.

There are 54,138,000 unissued ordinary shares for which options are outstanding at the date of this report.

30 cent options expiring 30 June 2009 (a) (b)	27,988,000
<b>Escrowed options</b>	
30 cent options expiring 30 June 2009 (c)	18,650,000
<b>Executive options</b>	
0.001 cent options expiring 30 June 2008	7,500,000
<b>Total</b>	<b>54,138,000</b>

(a) Includes 850,000 options subject to voluntary escrow until 28 April 2008.

(b) These options are listed on the ASX.

(c) The escrow period concludes on 28 April 2008.

No person entitled to exercise an option had or has any right by virtue of the option to participate in any share issue of any other body corporate.

## Shares issued on the exercise of options

There have been no shares issued as a consequence of the exercise of options for the period 01 July 2005 to the date of this report.

## Executive shares and options

The Prospectus disclosed Messrs Babidge and Goh had the following direct and indirect interests in shares and options all of which were issued prior to 30 June 2005:

	Shares		Options	
	Direct	Indirect	Direct	Indirect
M H Babidge	5,000,001	30,000,001	3,750,000	22,500,000
T L C Goh	10,000,000	-	7,500,000	-

Mr Babidge's indirect holdings relate to the shares held by a company Woden Pty Ltd in which he held a 50% beneficial interest.

On 15 May 2006 the Company announced that:

Woden Pty Ltd had agreed to the cancellation of the 30,000,001 shares and 22,500,000 options owned by it; and

Mr Goh had agreed to the cancellation of 5,000,000 shares and 3,750,000 options owned by him.

The share cancellation was agreed by a general meeting of shareholders held on 17 July 2006. The cancellation of options did not require shareholder approval but occurred on 2 August 2006.

The meeting also approved the issue of further executive options to Messrs Babidge and Goh as follows:

M H Babidge	5,000,000
T L C Goh	2,500,000

The executive options have a strike price of 0.001 cents, are exercisable provided pre-agreed targets are met, and will lapse on the earlier of the holder resigning as an employee of the Company or 30 June 2008.

### Directors' interests in shares in the Company at the date of this report

	Held	Held	Total
	Directly	Indirectly	
M H Babidge	5,000,001	-	5,000,001
C E Bennett	-	200,000	200,000
R N Gillard	1,000,000	1,600,000	2,600,000
T L C Goh	5,000,001	-	5,000,001
P R Oates	-	-	-

### Directors' interests in options over shares in the Company at the date of this report

	Held	Held	Total
	Directly	Indirectly	
M H Babidge	8,750,000	-	8,750,000
C E Bennett	3,000,000	100,000	3,100,000
R N Gillard	4,500,000	800,000	5,300,000
T L C Goh	6,250,000	-	6,250,000
P R Oates	500,000	-	500,000

### Non-audit services

The Board of Directors, in accordance with advice from the Audit and Risk Committee is satisfied that the provision of non-audit services by the entity's auditor, PKF, during the year is compatible with the general standard of independence of auditors imposed by the Corporations Act 2001. The directors are satisfied that the provision of those non-audit services disclosed below did not compromise the auditor independence requirements of the Corporations Act 2001 for the following reasons:

- All non-audit services have been reviewed and approved by the Board prior to commencement to ensure they do not adversely affect the integrity and objectivity of the auditor;
- The nature of the services provided do not compromise the general principles relating to auditor independence as set out in the Institute of Chartered Accountants in Australia and CPA Australia's Professional Statement F1: Professional Independence.

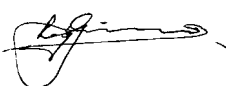
During the year the following fees were paid or payable to PKF and its related practices for the provision of non audit services:

	\$
Taxation advice	7,470
Investigating accountants report and other work in connection with the initial public offering	23,569

### Auditor's Independence Declaration

The auditor's independence declaration for the year ended 30 June 2006 has been received and can be found on page 15.

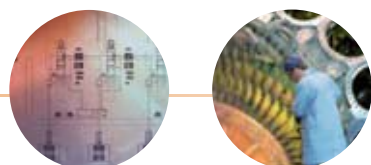
Signed in accordance with a resolution of the Board of Directors.



R N Gillard  
Chairman  
28 September 2006



M H Babidge  
Director  
28 September 2006



# Auditor's Independence Declaration



Auditor's Independence Declaration  
To The Directors Of Eneabba Gas Limited  
And Its Controlled Entities

As lead engagement partner for the audit of Eneabba Gas Limited and its Controlled Entities for the year ended 30 June 2006, I declare that, to the best of my knowledge and belief, there have been:

- (i) no contraventions of the independence requirements of 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.

A stylized, handwritten-style logo for PKF, consisting of the letters 'PKF' in a bold, black, sans-serif font.

PKF  
Chartered Accountants

A handwritten signature in black ink, appearing to read 'Ian Olson'. The signature is fluid and cursive, with a long horizontal stroke at the end.

Ian Olson  
Partner

Dated at Perth, Western Australia this 28th day of September 2006.

# income statements

for year ended 30 June 2006

	Notes	Consolidated		Parent	
		2006 \$	2005 \$	2006 \$	2005 \$
<b>Revenue from operations</b>					
Finance revenue		<b>130,630</b>	9,713	<b>129,552</b>	9,713
Total revenue from operations		<b>130,630</b>	9,713	<b>129,552</b>	9,713
<b>Expenses</b>					
Amortisation and depreciation		<b>(10,595)</b>	(3,079)	<b>(10,595)</b>	(2,097)
Employee benefits		<b>(15,350)</b>	(32)	<b>(15,350)</b>	(32)
Provision for loans to subsidiaries		-	-	<b>(56,123)</b>	-
Finance expense		<b>(1,044)</b>	(48)	<b>(1,044)</b>	(48)
Loss on disposal of exploration licenses		-	-	<b>(7,205)</b>	-
Other expenses		<b>(833,398)</b>	(202,870)	<b>(776,923)</b>	(202,870)
Total expenses		<b>(860,387)</b>	(206,029)	<b>(867,240)</b>	(205,047)
<b>Loss before income tax</b>	3	<b>(729,757)</b>	(196,316)	<b>(737,688)</b>	(195,334)
Income tax expense	4	-	-	-	-
<b>Loss from operations</b>		<b>(729,757)</b>	(196,316)	<b>(737,688)</b>	(195,334)
<b>Loss attributable to members of Eneabba Gas Limited</b>					
		<b>(729,757)</b>	(196,316)	<b>(737,688)</b>	(195,334)
		<b>Cents</b>	Cents		
Basic earnings (loss) per share		<b>(0.94)</b>	(0.35)		
Diluted earnings (loss) per share		<b>(0.94)</b>	(0.35)		

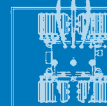
The above income statements should be read in conjunction with the attached notes.

# balance sheets

as at 30 June 2006

	Notes	Consolidated		Parent	
		2006 \$	2005 \$	2006 \$	2005 \$
<b>ASSETS</b>					
<b>Current assets</b>					
Cash and cash equivalents		6,574,026	768,142	6,540,780	768,042
Receivables		10,652	6,709	10,509	6,709
Prepayments		10,570	-	10,570	-
<b>Total current assets</b>		<b>6,595,248</b>	<b>774,851</b>	<b>6,561,859</b>	<b>774,751</b>
<b>Non-current assets</b>					
Receivables	5	-	-	1,036,557	982
Other financial assets	6	-	-	400	100
Property, plant and equipment	7	1,026,438	19,925	24,526	19,925
Exploration and evaluation assets	8	407,366	-	407,366	-
Intangible assets	9	8,305	10,546	-	10,546
<b>Total non-current assets</b>		<b>1,442,109</b>	<b>30,471</b>	<b>1,468,849</b>	<b>31,553</b>
<b>Total assets</b>		<b>8,037,357</b>	<b>805,322</b>	<b>8,030,708</b>	<b>806,304</b>
<b>LIABILITIES</b>					
<b>Current liabilities</b>					
Payables		24,745	-	25,045	-
Provisions	10	15,350	-	15,350	-
Total current liabilities		40,095	-	40,395	-
<b>Net assets</b>		<b>7,997,262</b>	<b>805,322</b>	<b>7,990,313</b>	<b>806,304</b>
<b>EQUITY</b>					
Contributed equity	11	8,796,326	1,005,529	8,796,326	1,005,529
Option reserve	12	130,900	-	130,900	-
Accumulated losses	13	(929,964)	(200,207)	(936,913)	(199,225)
<b>Total equity</b>		<b>7,997,262</b>	<b>805,322</b>	<b>7,990,313</b>	<b>806,304</b>

The above balance sheets should be read in conjunction with the attached notes



## statements of changes in equity

for the year ended 30 June 2006

	Issued capital \$	Reserves \$	Accumulated losses \$	Total Equity \$
<b>Consolidated</b>				
Shareholders' equity at 30 June 2004	5,029	-	(2,734)	2,295
Calculation correction for Intangible assets	-	-	74	74
Formation expenses amortised	-	-	(1,231)	(1,231)
Amounts recognised directly in equity	-	-	(1,157)	(1,157)
Issue of shares	1,000,500	-	-	1,000,500
Loss for the year	-	-	(196,316)	(196,316)
Shareholders' equity at 30 June 2005	1,005,529	-	(200,207)	805,322
Option reserve	-	130,900	-	130,900
Issue of shares	7,790,797	-	-	7,790,797
Loss for the year	-	-	(729,757)	(729,757)
<b>Shareholders' equity at 30 June 2006</b>	<b>8,796,326</b>	<b>130,900</b>	<b>(929,964)</b>	<b>7,997,262</b>
<b>Parent</b>				
Shareholders' equity at 30 June 2004	5,029	-	(2,734)	2,295
Calculation correction for Intangible assets	-	-	74	74
Formation expenses amortised	-	-	(1,231)	(1,231)
Amounts recognised directly in equity	-	-	(1,157)	(1,157)
Issue of shares	1,000,500	-	-	1,000,500
Loss for the year	-	-	(195,334)	(195,334)
Shareholders' equity at 30 June 2005	1,005,529	-	(199,225)	806,304
Option reserve	-	130,900	-	130,900
Issue of shares	7,790,797	-	-	7,790,797
Loss for the year	-	-	(737,688)	(737,688)
<b>Shareholders' equity at 30 June 2006</b>	<b>8,796,326</b>	<b>130,900</b>	<b>(936,913)</b>	<b>7,990,313</b>

*The above statements of changes in equity should be read in conjunction with the attached notes.*

# cash flow statements

for the year ended 30 June 2006

	Notes	Consolidated		Parent	
		2006 \$	2005 \$	2006 \$	2005 \$
<b>Cash flows from operating activities</b>					
Payments to suppliers and employees inclusive of GST		(690,329)	(209,627)	(632,729)	(208,645)
Interest received		130,630	9,713	129,552	9,713
Interest paid		(1,044)	(48)	(1,044)	(48)
<b>Net cash flows from (used in) operating activities</b>	23	<b>(560,743)</b>	(199,962)	<b>(504,221)</b>	(198,980)
<b>Cash flows from investing activities</b>					
Payments for property, plant and equipment		(966,804)	(21,428)	(14,892)	(21,428)
Payments for exploration and evaluation activities		(407,366)	-	(407,366)	-
Payments for intangible assets		-	(11,140)	-	(11,140)
Loans to controlled entities		-	-	(1,041,580)	(982)
<b>Net cash flows from (used in) investing activities</b>		<b>(1,374,170)</b>	(32,568)	<b>(1,463,838)</b>	(33,550)
<b>Cash flows from financing activities</b>					
Net proceeds from share issues		7,740,797	1,000,600	7,740,797	1,000,500
<b>Net cash flows from financing activities</b>		<b>7,740,797</b>	1,000,600	<b>7,740,797</b>	1,000,500
<b>Net increase (decrease) in cash for the year</b>		<b>5,805,884</b>	768,070	<b>5,772,738</b>	767,970
<b>Cash at the beginning of the period</b>		<b>768,142</b>	72	<b>768,042</b>	72
<b>Cash at the end of the period</b>		<b>6,574,026</b>	768,142	<b>6,540,780</b>	768,042

The above cash flow statements should be read in conjunction with the attached notes.

# notes to the financial statements

for the year ended 30 June 2006

## Note 1 – Summary of Significant Accounting Policies

### a) Financial reporting framework

The financial information has been prepared in accordance with Australian Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board, Urgent Issue Group Consensus Views and the Corporations Act 2001.

The financial statements are prepared on an accruals basis and are based on historical cost and do not take into account changing money values, or except where stated, current valuations of non-current assets.

### b) Statement of compliance

The financial report complies with Australian Accounting Standards, which include Australian equivalents to International Financial Reporting Standards ('AIFRS'). Compliance with AIFRS ensures that the financial report, comprising the financial statements and notes thereto, complies with International Financial Reporting Standards ('IFRS').

This is the first financial report prepared based on AIFRS and comparatives for the year ended 30 June 2005 have been restated accordingly. Reconciliations of AIFRS equity and profit for 30 June 2005 to the balances reported in 30 June 2005 financial report are detailed in Note 21.

### c) Changes in accounting policies

The accounting policies adopted are consistent with those of the previous year.

### d) Basis of consolidation

The consolidated financial statements comprise the financial statements of Eneabba Gas Limited and its subsidiaries as at 30 June each year ('the Group').

The financial statements of subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies.

Adjustments are made to bring into line any dissimilar accounting policies that may exist.

All inter-company balances and transactions, including unrealised profits arising from intra-group transactions, have been eliminated in full. Unrealised losses are eliminated unless costs cannot be recovered.

Subsidiaries are consolidated from the date on which control is transferred to the Group and cease to be consolidated from the date on which control is transferred out of the Group.

Where there is loss of control of a subsidiary, the consolidated financial statements include the results for the part of the reporting period during which Eneabba Gas has control.

### e) Property, plant and equipment

Each class of property, plant and equipment is carried at cost or fair value less, where applicable, any accumulated depreciation.

#### Plant and equipment

Plant and equipment is measured on the cost basis.

The carrying amount of plant and equipment is reviewed annually by directors to ensure it is not in excess of the recoverable amount from those assets. The recoverable amount is assessed on the basis of the expected net cash flows which will be received from the assets employment and subsequent disposal. The expected net cash flows are not discounted to present values in determining the recoverable amount.

#### Depreciation

The depreciable amount of all fixed assets including buildings and capitalised leased assets, but excluding freehold land, are depreciated on a reducing balance basis over their estimated useful lives to the economic entity commencing from the time the asset is held ready for use. Leasehold improvements are depreciated over the shorter of either the unexpired period of the lease or the estimated useful lives of the improvements.

Depreciation rates applied are: Furniture and fittings 7.5% to 37.5%.

# notes to the financial statements

for the year ended 30 June 2006

## Note 1 – Summary of Significant Accounting Policies (continued)

### f) Cash and cash equivalents

Cash on hand, at banks and in short-term deposits is stated at the lower of cost and net realisable value.

For the purposes of the Cash Flow Statements, cash includes deposits at call with financial institutions and other highly liquid investments with maturity within less than three months which are readily convertible to cash on hand and cash at bank.

### g) Revenue

Interest revenue is recognised on a proportional basis taking into account the interest rates applicable to the financial assets. All revenue is stated net of the amount of goods and services tax (GST).

### h) Intangible assets

Exploration licences are required to be amortised over an appropriate period of time i.e. the period of time that the licence is valid. Given that exploration licences have valid life of five years, they are being amortised over their effective life of five years.

### i) Income tax

The Company adopts the liability method of tax-effect accounting whereby the income tax expense is based on the profit from ordinary activities adjusted for any permanent differences. However the Group has not recognised future income benefits until the feasibility study for the Group's proposed Centauri 1 Power Station has demonstrated the financial viability of the proposed project. To the extent they are offset by unrecognised future income benefits, as to the timing and amount, deferred tax liabilities are not recorded.

### j) Recoverable amount of non-current assets

The recoverable amount of an asset is the net amount expected to be recovered through the net cash flows arising from its continued use and subsequent disposal.

Where the carrying amount of a non-current asset is greater than the recoverable amount, the asset is written down to its recoverable amount. Where the net cash inflows are derived from a group of assets working together the recoverable amount is determined on the basis of the relevant group of assets. The decrement in the carrying amount is recognised as an expense in the Income Statements in the reporting period in which the recoverable amount write-down occurs.

### k) Exploration and evaluation expenditure

#### (i) Feasibility study expenditure:

The Company is completing a study into the feasibility of constructing and operating the proposed Centauri 1 Power Station near Dongara, Western Australia. Expenditure incurred in connection with the study has been deferred pending the outcome of that study.

#### (ii) Exploration and evaluation expenditure:

Exploration and evaluation expenditure incurred is accumulated separately for each area of interest. Such expenditure comprises costs which can be directly attributed to the exploration and evaluation process.

Exploration expenditure for each area of interest is carried forward as an asset provided that one of the following conditions is met:

- Such costs are expected to be recouped through successful development and exploration of the area of interest or, alternatively, by its sale; or
- Exploration activities in the area of interest have not yet reached a stage which permits a reasonable assessment of the existence or otherwise of recoverable reserves, and active and significant operations in relation to the area are continuing.

Exploration expenditure which fails to meet at least one of the conditions outlined above is written off.

Evaluation expenditure of each area of interest is carried forward, but only to the extent to which recoupment out of revenue to be derived from the relevant area of interest, or from the sale of the area of interest, is reasonably assured.

# notes to the financial statements

for the year ended 30 June 2006

## Note 1 – Summary of Significant Accounting Policies (continued)

### l) Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

Where discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

### m) Employee leave benefits

Wages, salaries, annual leave and sick leave:

Liabilities for wages and salaries, including non-monetary benefits and annual leave expected to be settled within 12 months of the reporting date are recognised in other payables in respect of employees' services up to the reporting date. They are measured at the amounts expected to be paid when the liabilities are settled. Liabilities for sick leave are recognised when the leave is taken and are measured at the rates paid or payable.

### n) Earnings per share

Basic earnings per share is calculated as net profit attributable to members of the parent, adjusted to exclude any costs of servicing equity (other than dividends) and preference share dividends, divided by the weighted average number of ordinary shares, adjusted for any bonus element.

Diluted earnings per share is calculated as net profit attributable to members of the parent, adjusted for:

- costs of servicing equity (other than dividends) and preference share dividends;
- the after tax effect of dividends and interest associated with dilutive potential ordinary shares that have been recognised as expenses; and
- other non-discretionary changes in revenues or expenses during the period that would result from the dilution of potential ordinary shares, divided by the weighted average number of ordinary shares and dilutive potential ordinary shares, adjusted for any bonus element.

### o) Share based payments

The cost of equity settled transactions is measured by reference to the fair value of the equity instruments at the date at which they are granted. Values may be determined by reference to a binomial model, the market value of similar options or other appropriate methodologies.

# notes to the financial statements

for the year ended 30 June 2006

## Note 2 – Segment Reporting

The economic entity conducts operations in two primary segments, electricity generation and mineral exploration, and one geographic segment, Australia. At the date of this report electricity generation operations are still subject to the outcome of feasibility studies.

	Electricity Generation		Mineral Exploration		Consolidated	
	2006 \$	2005 \$	2006 \$	2005 \$	2006 \$	2005 \$
Segment expenses	-	-	-	-	-	-
Net other costs	-	-	-	-	833,398	202,870
Loss before amortisation and depreciation	-	-	-	-	719,162	193,237
Amortisation and depreciation					10,595	3,079
Loss before income tax benefits					729,757	196,316

	Electricity Generation		Mineral Exploration		Unallocated		Total	
	2006 \$	2005 \$	2006 \$	2005 \$	2006 \$	2005 \$	2006 \$	2005 \$
Segment assets								
Assets	1,238,563	-	179,022	-	6,619,772	805,322	8,037,357	805,322
Liabilities	-	-	-	-	(40,095)	-	(40,095)	-
	1,238,563	-	179,022	-	6,579,677	805,322	7,997,262	805,322

	Consolidated		Parent	
	2006 \$	2005 \$	2006 \$	2005 \$

## Note 3 – Loss Before Income Tax

Loss before income tax is after crediting (charging) the following items:

Finance revenue - banks	130,630	9,713	129,552	9,713
Amortisation of licences	(2,241)	(594)	(2,241)	(594)
Depreciation of plant and equipment	(8,354)	(1,503)	(8,354)	(1,503)
Finance costs - banks	(1,044)	(48)	(1,044)	(48)
Land option premium relinquished	(45,634)	-	-	-
Employee entitlements:				
Provision for employee entitlements	(15,350)	-	(15,350)	-
Share based payments	(130,900)	-	(130,900)	-
Provision for loans to subsidiaries	-	-	(56,123)	-
Loss on disposal of tenements	-	-	(7,205)	-

# notes to the financial statements

for the year ended 30 June 2006

	Consolidated		Parent	
	2006	2005	2006	2005
	\$	\$	\$	\$

## Note 4 – Income Tax

Major components of income tax expense for the years ended 30 June 2006 and 2005 are:

### Income statement

#### Current income

Current income tax charge	-	-	-	-
Adjustments in respect of current income tax of previous years	-	-	-	-

#### Deferred income tax

Relating to origination and reversal of temporary differences	-	-	-	-
---	---	---	---	---

Income tax expense (benefit) reported in income statement	-	-	-	-
---	---	---	---	---

A reconciliation of income tax expense (benefit) applicable to accounting profit before income tax at the statutory income tax rate to income tax expense at the Company's effective income tax rate for the years ended 30 June 2006 and 2005 is as follows:

Accounting profit (loss) before tax from continuing operations	<b>(729,757)</b>	(196,316)	<b>(737,688)</b>	(195,334)
Tax at the statutory rate of 30% (2005: 30%)	<b>(218,927)</b>	(58,895)	<b>(221,306)</b>	(58,600)
Adjustments in respect of current income tax of previous years	-	-	-	-
Non-deductible expenses	<b>41,047</b>	-	<b>39,306</b>	-
Temporary differences not brought to account as deferred tax assets	<b>(153,253)</b>	-	<b>(136,137)</b>	-
Tax losses not brought to account as deferred tax assets	<b>331,132</b>	58,895	<b>318,137</b>	58,600
Tax at the effective rate of 0% (Parent: 0%) (2005: 0%, Parent: 0%)	-	-	-	-
Income tax expense reported in income statement	-	-	-	-

# notes to the financial statements

for the year ended 30 June 2006

	Balance Sheet		Income Statement	
	2006	2005	2006	2005
	\$	\$	\$	\$

## Note 4 – Income Tax (continued)

### Deferred income tax

Deferred income tax at balance date relates to the following:

#### Consolidated

##### Deferred income tax liabilities

Capitalised expenditure deductible for tax purposes

<b>122,210</b>	-	<b>122,210</b>	-
----------------	---	----------------	---

##### Deferred income tax assets

Expenses not yet deductible for taxation purposes

<b>122,210</b>	-	<b>(122,210)</b>	-
----------------	---	------------------	---

Net deferred tax asset (liability)

-	-
---	---

Deferred income tax expense (benefit)

-	-
---	---

#### Parent

##### Deferred income tax liabilities

Capitalised expenditure deductible for tax purposes

<b>122,210</b>	-	<b>122,210</b>	-
----------------	---	----------------	---

##### Deferred income tax assets

Expenses not yet deductible for taxation purposes

<b>122,210</b>	-	<b>(122,210)</b>	-
----------------	---	------------------	---

Net deferred tax asset (liability)

-	-
---	---

Deferred income tax expense (benefit)

-	-
---	---

	Consolidated		Parent	
	2006	2005	2006	2005
	\$	\$	\$	\$

### Unrecognised deferred tax assets

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

Capital raising costs	<b>83,270</b>	-	<b>135,677</b>	-
Tax losses	<b>1,311,187</b>	198,068	<b>1,258,525</b>	198,068
	<b>1,394,457</b>	198,068	<b>1,394,202</b>	198,068

The tax losses do not expire under current tax legislation. Deferred tax assets have not been recognised in respect of these items because, until the outcome of the Centauri 1 Power Station feasibility study is known, it is not certain that future taxable profit will be available against which the Group and the Company can utilise the benefits.

# notes to the financial statements

for the year ended 30 June 2006

	Consolidated		Parent	
	2006 \$	2005 \$	2006 \$	2005 \$
<b>Note 5 – Receivables</b>				
Loans to controlled entities	-	-	<b>1,092,680</b>	982
Provision for loans to controlled entities	-	-	<b>(56,123)</b>	-
<b>Total</b>	-	-	<b>1,036,557</b>	982

## Note 6 – Other Financial Assets

Shares in controlled entities – unlisted at cost	-	-	<b>400</b>	100
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## Note 7 – Property, Plant and Equipment

Freehold land at cost	<b>1,001,912</b>	-	-	-
Furniture and fittings at cost	<b>32,490</b>	21,428	<b>32,490</b>	21,428
Less accumulated depreciation	<b>(7,964)</b>	(1,503)	<b>(7,964)</b>	(1,503)
<b>Total</b>	<b>1,026,438</b>	19,925	<b>24,526</b>	19,925

### (a) Reconciliations

Reconciliations of the carrying amounts for each class of property, plant and equipment are as follows:

#### Freehold land

Carrying amount at beginning of year	-	-	-	-
Additions	<b>1,001,912</b>	-	-	-
Carrying amount at end of year	<b>1,001,912</b>	-	-	-

#### Furniture and fittings

Carrying amount at beginning of year	<b>19,925</b>	-	<b>19,925</b>	-
Additions	<b>14,892</b>	21,428	<b>14,892</b>	21,428
Disposals	<b>(1,937)</b>	-	<b>(1,937)</b>	-
Depreciation expense	<b>(8,354)</b>	(1,503)	<b>(8,354)</b>	(1,503)
Carrying amount at end of year	<b>24,526</b>	19,925	<b>24,526</b>	19,925

# notes to the financial statements

for the year ended 30 June 2006

	Consolidated		Parent	
	2006	2005	2006	2005
	\$	\$	\$	\$

## Note 8 – Exploration and Evaluation Assets

Feasibility study expenditure at cost	236,650	-	236,650	-
Exploration and evaluation expenditure at cost	170,716	-	170,716	-
<b>Total</b>	<b>407,366</b>	<b>-</b>	<b>407,366</b>	<b>-</b>

### (a) Reconciliations

#### Feasibility study expenditure

Carrying amount at beginning of year	-	-	-	-
Additions	236,650	-	236,650	-
Amortisation	-	-	-	-
<b>Carrying amount at end of year</b>	<b>236,650</b>	<b>-</b>	<b>236,650</b>	<b>-</b>

#### Exploration and evaluation expenditure

Carrying amount at beginning of year	-	-	-	-
Additions	170,716	-	170,716	-
Amortisation	-	-	-	-
<b>Carrying amount at end of year</b>	<b>170,716</b>	<b>-</b>	<b>170,716</b>	<b>-</b>

## Note 9 – Intangible Assets

Exploration licences at cost	11,140	11,140	-	11,140
Less accumulated amortisation	(2,835)	(594)	-	(594)
<b>Total</b>	<b>8,305</b>	<b>10,546</b>	<b>-</b>	<b>10,546</b>

### (a) Reconciliations

#### Exploration licences

Carrying amount at beginning of year	10,546	910	10,546	910
Additions	-	10,230	-	10,230
Amortisation	(2,241)	(594)	(2,241)	(594)
Disposal	-	-	(8,305)	-
<b>Carrying amount at end of year</b>	<b>8,305</b>	<b>10,546</b>	<b>-</b>	<b>10,546</b>

## Note 10 – Provisions

Provision for employee entitlements	15,350	-	15,350	-
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### (a) Reconciliations

#### Provision for employee entitlements

Carrying amount at beginning of year	-	-	-	-
Additions	15,350	-	15,350	-
Reductions	-	-	-	-
<b>Carrying amount at end of year</b>	<b>15,350</b>	<b>-</b>	<b>15,350</b>	<b>-</b>

# notes to the financial statements

for the year ended 30 June 2006

	Consolidated		Parent	
	2006	2005	2006	2005
	\$	\$	\$	\$

## Note 11 – Contributed Equity

### (i) Issued capital

104,576,004 (2005 - 70,260,004) ordinary shares each fully paid	<b>8,796,326</b>	1,005,529	<b>8,796,326</b>	1,005,529
Balance at beginning of year	<b>1,005,529</b>	5,029	<b>1,005,529</b>	5,029
Shares issued during the year				
- 20,010,000 issued to foundation shareholders at \$0.05	-	1,000,500	-	1,000,500
- 1,000,000 issued at \$0.05	<b>50,000</b>	-	<b>50,000</b>	-
- 200,000 issued at \$0.25 for land purchase	<b>50,000</b>	-	<b>50,000</b>	-
- 33,116,000 issued under initial public offering at \$0.25	<b>8,279,000</b>	-	<b>8,279,000</b>	-
- transaction costs of equity raising	<b>(588,203)</b>	-	<b>(588,203)</b>	-
Balance at end of year	<b>8,796,326</b>	1,005,529	<b>8,796,326</b>	1,005,529

		Consolidated	
	\$	2006	2005
	\$	\$	\$
(ii) Share options (a)			
	Strike price	2006	2005
Options on issue at start of year	0.30	<b>47,980,000</b>	37,625,000
Options issued during the year			
Date of issue			
02 August 2005	0.30	<b>4,000,000</b>	
08 August 2005	0.30	<b>500,000</b>	
18 January 2006	0.30	<b>3,000,000</b>	
28 April 2006	0.30	<b>16,558,000</b>	
18 May 2006	0.30	<b>350,000</b>	
9 June 2006	0.30	<b>500,000</b>	
9 February 2005	0.30		5,000
17 February 2005	0.30		3,350,000
25 February 2005	0.30		3,000,000
3 March 2005	0.30		1,200,000
11 March 2005	0.30		1,000,000
15 April 2005	0.30		800,000
18 May 2005	0.30		1,000,000
Options on issue at end of year		<b>72,888,000</b>	47,980,000

(a) All options are vested and expire on 30 June 2009.

# notes to the financial statements

for the year ended 30 June 2006

	Consolidated		Parent	
	2006 \$	2005 \$	2006 \$	2005 \$
Balance at start of year	-	-	-	-
Movements attributable to options issued during the year	<b>130,900</b>	-	<b>130,900</b>	-
Balance at end of year	<b>130,900</b>	-	<b>130,900</b>	-

The option reserve records the cost of share based payments.

## Note 13 – Accumulated Losses

Balance at start of year	<b>(200,207)</b>	(3,891)	<b>(199,225)</b>	(3,891)
Loss from operations	<b>(729,757)</b>	(196,316)	<b>(737,688)</b>	(195,334)
Balance at end of year	<b>(929,964)</b>	(200,207)	<b>(936,913)</b>	(199,225)

## Note 14 – Share Based Payments

At balance date, the Company had on issue 7,850,000 options issued in connection with share based payments (2005 nil).

All options are vested, have a strike price of 30 cents, are escrowed (voluntarily or otherwise) until 28 April 2008 and expire on 30 June 2009.

7,000,000 options issued prior to the Company's listing on the ASX were valued at \$0.0082 each in accordance with an independent expert valuation using the Black and Scholes method. Options issued subsequently have been valued at the market value of similar options at the date of issue.

## Note 15 – Financial Instruments

The economic entity's exposure to interest rate risks and the effective interest rates of financial assets and financial liabilities, both recognised and unrecognised, at balance date was as follows:

	Floating interest rates		Non-interest bearing		Total		Weighted average effective interest rate	
	2006 \$	2005 \$	2006 \$	2005 \$	2006 \$	2005 \$	2006 %	2005 %
<b>Financial assets</b>								
Cash	<b>6,573,826</b>	767,942	<b>200</b>	200	<b>6,574,026</b>	768,142	<b>5.63</b>	5.13
Receivables	-	-	<b>10,652</b>	6,709	<b>10,652</b>	6,709	-	-
Payables	-	-	<b>(24,745)</b>	-	<b>(24,745)</b>	-	-	-
Total	<b>6,573,826</b>	767,942	<b>(13,893)</b>	6,909	<b>6,559,933</b>	774,851		

The parent entity's exposure to interest rate risks and the effective interest rates of financial assets and financial liabilities, both recognised and unrecognised, at balance date was as follows:

<b>Financial assets</b>								
Cash	<b>6,573,826</b>	767,942	<b>200</b>	200	<b>6,574,026</b>	768,142	<b>5.63</b>	5.13
Receivables	-	-	<b>10,652</b>	6,709	<b>10,652</b>	6,709	-	-
Payables	-	-	<b>(24,745)</b>	-	<b>(24,745)</b>	-	-	-
Total	<b>6,573,826</b>	767,942	<b>(13,893)</b>	6,909	<b>6,559,933</b>	774,851		

The following methods and assumptions are used to determine the net fair values of financial assets and financial liabilities; cash deposits bear interest at normal commercial rates.

Receivables and payables: The carrying amounts are approximately equal to fair value because of the short term to maturity.

# notes to the financial statements

for the year ended 30 June 2006

	Consolidated		Parent	
	2006 \$	2005 \$	2006 \$	2005 \$
<b>Note 16 – Commitments</b>				
<b>(a) Operating lease commitments</b>				
Expenditure contracted for but not provided at balance date and payable:				
Not later than one year	<b>72,185</b>	40,000	<b>72,185</b>	40,000
Later than one year but not later than five years	<b>144,370</b>	-	<b>144,370</b>	-
Later than five years	-	-	-	-
<b>Total</b>	<b>216,555</b>	40,000	<b>216,555</b>	40,000

## (b) Exploration commitments

Due to deferred arrival of drilling rigs in the programme the Company has requested deferral of the timing of minimal expenditure to be completed during the tenement year.

## Note 17 – Auditor's Remuneration

During the year the auditor of the parent entity and its related practices earned the following remuneration.

Audit or review of Group entities	<b>7,730</b>	900	<b>7,730</b>	900
Taxation advice	<b>7,470</b>	-	<b>7,470</b>	-
Investigating accountant's report and other work in connection with the initial public offering	<b>23,569</b>	-	<b>23,569</b>	-
<b>Total</b>	<b>38,769</b>	900	<b>38,769</b>	900

## Note 18 – Director and Executive Information

### (a) Details of specified directors

R N Gillard - Chairman (non-executive) - appointed Chairman 02 August 2005

M H Babidge - Chief Executive Officer and Managing Director

C E Bennett - (non-executive) - appointed 18 January 2006

T L C Goh - (executive)

P R Oates - (non-executive) - appointed 14 June 2006

J M Saunders - former Chairman - resigned 02 August 2005

### (b) Remuneration policy for specified directors

The Nomination and Remuneration Committee is responsible for determining and reviewing compensation arrangements for the Chief Executive Officer, the executive team and external directors. The Remuneration Committee assesses the appropriateness of the nature and amount of emoluments of such officers on a periodic basis by reference to relevant employment market conditions with the overall objective of ensuring maximum shareholder benefit from the retention of a high quality board and executive team.

To assist in achieving these directives the Nomination and Remuneration Committee has sought shareholder approval to provide compensation to non-executive directors as an incentive to join the board and to executives in the form of share options which are convertible to shares given the achievement of pre-specified objectives. Details of options provided to directors during the year are shown in note 18 (i).

# notes to the financial statements

for the year ended 30 June 2006

## Note 18 – Director and Executive Information (continued)

### (c) Executive directors

The current remuneration arrangements for executive directors include the following salary and superannuation compensation:

M H Babidge     Salary \$98,000 plus  
                         9% superannuation per annum

T L C Goh         Salary \$78,000 plus  
                         9% superannuation per annum

Mr Babidge and Mr Goh have contracts of employment.

They are entitled to 20 days annual leave and an entitlement to long service leave calculated in accordance with the provisions of the relevant legislation. Either party may elect to terminate the agreed arrangements by the giving of three (3) months notice.

In the case of the Company terminating employment of redundancy, or where the employment is terminated within four (4) months following a “change of control” as defined in section 50AA of the Corporations Act 2001 executives nominated will be entitled to receive a redundancy termination payment, which will be not less than 12 months “Base Salary Package” referred to above applying at the time of termination, but not ever being less than the IPO Base Salary Package at any time.

The letters of appointment provide that remuneration will be reviewed on 30 September each year based on performance and the scope of position responsibilities.

### (d) Non-executive directors

Shareholders have approved a total limit of \$200,000 for non-executive director compensation which has been partially allocated as follows:

Chairman         \$50,000 plus  
                         9% superannuation per annum

Other directors   \$40,000 plus  
                         9% superannuation per annum

No additional remuneration is payable as compensation for membership of Board Committees. Additional fees are payable to Directors providing services to the Company other than within the scope of the normal duties of non-executive directors including, for example, the provision of detailed accounting and financial advice including discussions and negotiations with third parties.

Remuneration includes amounts payable to director controlled entities for services provided by directors.

### (e) Equity compensation

The value of equity compensation has been determined using the Black and Scholes option valuation model to assess an approximate intrinsic value of options issued to directors during the relevant years.

The values assigned to options are as follows:

Options issued prior to listing at \$0.0082.

Options issued subsequent to listing at market value.

# notes to the financial statements

for the year ended 30 June 2006

## Note 18 – Director and Executive Information (continued)

### (f) Remuneration details

	Base remuneration \$	Special fees (d) \$	Allowances \$	Superannuation \$	Options \$	Total \$
M H Babidge	65,336	-	10,500	5,880	-	81,716
C E Bennett (a)	16,962	7,710	313	1,500	24,600	51,085
R N Gillard (b)	33,333	10,750	10,500	3,000	32,800	90,383
T L C Goh	52,000	-	10,500	4,680	-	67,180
P R Oates (c)	1,667	-	37	150	35,000	36,854
<b>Total</b>	<b>169,298</b>	<b>18,460</b>	<b>31,850</b>	<b>15,210</b>	<b>92,400</b>	<b>327,218</b>

(a) Mr Bennett was appointed on 18 January 2006

(b) Mr Gillard was appointed on 2 August 2005

(c) Mr Oates was appointed on 14 June 2006

(d) Special fees are paid for services provided of external directors outside the scope of their normal responsibilities as directors of the Company. No fees are paid to directors for membership of Board Committees

### (g) Other matters

No part of this remuneration was performance based.

Apart from executive directors no executives are employed by the Group. No remuneration was paid to any director or executive in the prior financial year.

### (h) Shareholdings

The numbers of shares in the Company held during the financial year by directors, including shares held by entities they control, are set out below:

	Balance at 1 July 2005	Received as Remuneration	Options Exercised	Other Movements	Balance at 30 June 2006
<b>Parent entity directors</b>					
M H Babidge	35,000,002	-	-	-	35,000,002
C E Bennett	-	-	-	200,000	200,000
R N Gillard	-	-	-	2,600,000	2,600,000
T L C Goh	10,000,001	-	-	-	10,000,001
P R Oates	-	-	-	-	-

### (i) Option holdings

The numbers of options in the Company held during the financial year by directors, including shares held by entities they control, are set out below.

	Balance at 1 July 2005	Received as Remuneration	Options Exercised	Other Movements	Balance at 30 June 2006	Vested and exercisable at year end
<b>Parent entity directors</b>						
M H Babidge	26,250,000	-	-	-	26,250,000	26,250,000
C E Bennett	-	3,000,000	-	100,000	3,100,000	3,100,000
R N Gillard	-	4,000,000	-	1,300,000	5,300,000	5,300,000
T L C Goh	7,500,000	-	-	-	7,500,000	7,500,000
P R Oates	-	500,000	-	-	500,000	500,000

Options received as remuneration were issued to directors as incentives to join the Board.

The shares and options referred to in the "Other Movements" column were subscribed for by the directors pursuant to offers made by the Company. No movements during the year were attributable to on-market trading.

# notes to the financial statements

for the year ended 30 June 2006

## Note 19 – Related Party Transactions

### Controlled Entities

Investments in controlled entities comprise:

Name	Principal activities	Beneficial percentage held by economic entity	
		2006 %	2005 %
Eneabba Gas Limited	Chief entity		
Wholly owned controlled entities:			
Eneabba Energy Pty Ltd	Power generation	100	100
Eneabba Holdings Pty Ltd (a)	Investments & asset management	100	
Eneabba Mining Pty Ltd (a)	Mineral exploration	100	
Eneabba Power Pty Ltd (a)	Operations & infrastructure	100	

(a) Incorporated during the year.

All controlled entities are incorporated in Australia.

### Loans from directors

Prior to the initial public offering of the Company, directors or their related entities provided interest free loans to the Company for:

salaries and allowances accruing from 1 November 2005;

board fees, special fees and allowances due from the date of incorporation, 1 November 2005 or the date of the director's appointment as the case may be.

The amounts of the loans repaid by the Company on 28 April 2006 were as follows:

M H Babidge	\$46,272
C E Bennett	\$19,533
T L C Goh	\$42,244
R N Gillard	\$50,394

During the period prior to his resignation the Company paid fees to a company in which the former Company Secretary, Mr P C Woods, had a substantial financial interest of \$80,798. The Company has paid fees of \$7,050 to Corporate Consultants Pty Ltd, a Company in which the Company Secretary Mr S M Shah has a substantial financial interest. The fees were for accounting and secretarial services based on an hourly rate commensurate with the service provided. Mr Shah was also allocated 250,000 options which are subject to voluntary escrow having a market value on the day of issue of \$27,500.

### Shares issued to directors

During the year directors of the Company or their related entities subscribed for shares and options issued pursuant to the Company's initial public offering:

	Shares		Attaching Options	
	No.	\$	No.	\$
C E Bennett	200,000	50,000	100,000	-
R N Gillard	1,600,000	400,000	800,000	-

### Royalty agreement with Woden Pty Ltd

The Company has a royalty agreement with Woden Pty Ltd (a company 50% owned by M H Babidge) under which, for one tenement only – E70/2676 – which represents less than 4.5% of the Company's total tenement area. The Company agreed (15 September 2004) to pay Woden Pty Ltd a 3% royalty on gross production from this tenement should production occur. No fees or royalty by any Group Company was paid in the prior years or during the year as a consequence of this agreement.

# notes to the financial statements

for the year ended 30 June 2006

## Note 19 – Related Party Transactions (continued)

### Loans to controlled entities

At balance date the parent entity had provided unsecured loans to its controlled entities as follows:

	\$
Eneabba Energy Pty Ltd	1,084,075
Eneabba Holdings Pty Ltd	1,130
Eneabba Mining Pty Ltd	4,322
Eneabba Power Pty Ltd	3,154

The loans are for an indefinite term and carry interest at 150 basis points above the Westpac 90 day bill rate at the end of each quarter with interest compounding quarterly.

### Transfer of mining tenements

During the year as part of a corporate reorganisation the parent entity transferred certain mining tenements to controlled entities for a consideration of \$1,100. The valuation of the tenements was confirmed by the Office of State Revenue.

### Accounting and secretarial services

The parent entity provides accounting and secretarial services to its controlled entities without charge.

## Note 20 – Earnings Per Share

	Consolidated	
	2006 Cents	2005 Cents
Basic earnings (loss) per share	(0.94)	(0.35)
Diluted earnings (loss) per share	(0.94)	(0.35)
	Number	Number
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	77,632,157	55,327,319
Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted earnings per share	77,632,157	55,327,319

## Note 21 – Impacts of Adopting AIFRS

The impacts of adopting AIFRS on the total equity and profit after tax as reported under previous Australian Generally Accepted Accounting Principles ("AGAAP") are illustrated below:

### (a) Reconciliation of total equity as presented under previous AGAAP to that under AIFRS:

	Consolidated		Parent	
	30 June 2005 \$	1 July 2004 \$	30 June 2005 \$	1 July 2004 \$
Total equity under AGAAP	807,461	2,295	807,461	2,295
Adjustments to retained earnings (net of tax):				
Formation expenses (a)	(2,213)	(1,231)	(1,231)	(1,231)
Calculation correction (b)	74	-	74	-
Total equity under AIFRS	805,322	1,064	806,304	1,064

(a) Formation expenses do not qualify for recognition as an intangible asset under AIFRS.

(b) Intangible assets value corrected from the financial report for year ending 2005

# notes to the financial statements

for the year ended 30 June 2006

## Note 21 – Impacts of Adopting AIFRS (continued)

	Consolidated	Parent
	30 June 2005	30 June 2005
	\$	\$
Prior year loss before tax as previously reported	195,334	195,334
Share-based payment expense		
Write off of formation expenses (a)	982	-
Prior year profit before tax under AIFRS	196,316	195,334

(a) Formation expenses do not qualify for recognition as an intangible asset under AIFRS.

## Note 22 – Subsequent Events

### Contributed equity and options

On 17 July 2006 shareholders approved the cancellation of 35,000,001 shares issued to founding shareholders and was advised of the intention to cancel 26,250,000 options.

Shareholders also approved the issue of 7,500,000 executive options exercisable at 0.001 cents given the Company completed certain pre-agreed objectives. As a consequence the shares and options on issue have changed as follows:

	Shares	Options	Executive Options
On issue at 30 June 2006	104,576,004	72,888,000	-
Cancelled	(35,000,001)	(26,250,000)	-
Executive options	-	-	7,500,000
On issue at the date of this report	69,576,003	46,638,000	7,500,000

### Contract with General Electric

On 14 July 2006 the Company announced that Eneabba Gas Limited and its wholly owned subsidiary Eneabba Energy Pty Ltd had entered into a conditional agreement with GE Packaged Power, Inc. and General Electric International Inc, for the supply of a “turnkey project” including the design, procurement, construction and commissioning of a nominal four unit LM 6000 PD gas turbine based power generation plant. The proposed plant, named, Centauri 1, is to be based near Dongara, Western Australia.

This agreement is conditional on the Company procuring all licences and approvals required by all applicable laws or otherwise necessary for it to construct, commission and operate Centauri 1, plus raising the finance for the project.

### EPA approval for Centauri 1 Power Station

On 17 July 2006 the Company announced that it had been advised by the Environmental Protection Authority of its assessment of the Company's proposed Centauri 1 gas fired power station, to be constructed on a site near Dongara, Western Australia.

The proposed power station was approved as “Not assessed – Managed under Part V of the Environmental Protection Act (Works Approval)” and as such requires no formal assessment and setting of formal conditions by the Minister for the Environment.

## notes to the financial statements

for the year ended 30 June 2006

### Note 23 - Reconciliation of Loss from Operations to Net Cash Flows used in Operations

	Consolidated		Parent	
	2006 \$	2005 \$	2006 \$	2005 \$
Loss from operations	<b>(729,757)</b>	(196,316)	<b>(737,688)</b>	(195,334)
Adjustments for:				
Depreciation	<b>8,354</b>	1,503	<b>8,354</b>	1,503
Amortisation	<b>2,241</b>	594	<b>2,241</b>	594
Net loss on disposal of property, plant and equipment	<b>1,937</b>	-	<b>1,937</b>	-
Loss on sale of exploration licenses	-	-	<b>7,205</b>	-
Share option expense	<b>130,900</b>	-	<b>130,900</b>	-
Changes in assets and liabilities:				
Increase in provision for loans to controlled entities	-	-	<b>56,123</b>	-
Increase in trade and other receivables	<b>(3,943)</b>	(6,554)	<b>(3,943)</b>	(6,554)
Increase in prepayments	<b>(10,570)</b>	-	<b>(10,570)</b>	-
Increase in trade and other payables	<b>24,745</b>	-	<b>25,045</b>	-
Increase in provision for employee benefits	<b>15,350</b>	-	<b>15,350</b>	-
Other amounts	-	811	<b>825</b>	811
Net cash flows used in operations	<b>(560,743)</b>	(199,962)	<b>(504,221)</b>	(198,980)

## directors' declaration

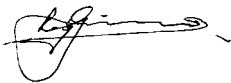
In accordance with a resolution of the directors of Eneabba Gas Limited we state that:

In the opinion of the directors:

- (a) the financial statements and notes of the Company and of the consolidated entity are in accordance with the Corporations Act 2001, including:
  - (i) giving a true and fair view of the Company's and consolidated entity's financial position as at 30 June 2006 and of their performance for the year ended on that date; and
  - (ii) complying with Accounting Standards and 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.

This declaration has been made after receiving the declarations required to be made to the directors in accordance with section 295A of the Corporations Act 2001 for the financial year ended 30 June 2006.

On behalf of the Board



R N Gillard  
Chairman

28 September 2006



M H Babidge  
Managing Director

28 September 2006

# independent audit report

## to members of Eneabba Gas Limited



### Scope

#### The financial report and directors' responsibility

The financial report comprises the balance sheets, income statements, statement of changes in equity, cash flow statements, notes to the financial statements, and the directors' declaration for both Eneabba Gas Limited (the Company) and the consolidated entity, for the year ended 30 June 2006. The consolidated entity comprises both the Company and the entities it controlled during that year.

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

#### Audit approach

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

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

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

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

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

#### Independence

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

#### Audit opinion

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

- (a) the Corporations Act 2001, including:
  - (i) giving a true and fair view of Eneabba Gas Limited and the consolidated entity's financial position as at 30 June 2006 and of their performance for the year ended on that date; and
  - (ii) complying with Accounting Standards in Australia and the Corporations Regulations 2001; and
- (b) other mandatory financial reporting requirements in Australia.

PKF  
Chartered Accountants

Ian Olson  
Partner

Dated at Perth, Western Australia this 28th day of September 2006.

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PO Box Z5066 | St Georges Terrace | Perth | Western Australia 6831

## shareholder information

The shareholder information set out below was applicable as at 12 September 2006.

### Substantial shareholders

Holdings of substantial shareholders as advised to the Company are set out below.

Name of Interest Holder	Number of Ordinary Shares
Koo Sing Kuang	9,440,000
Mark Hansford Babidge	5,000,001
Thomas Lik Cheng Goh	5,000,001

### Distribution of holders of equity securities

Size of Holding	Ordinary Shares	Options
1 to 1,000	3	0
1,001 to 5,000	46	148
5,001 to 10,000	172	108
10,001 to 100,000	339	185
100,001 and over	63	43
	623	484

The number of shareholdings comprising less than a marketable parcel was 15.

### Voting rights

The voting rights attaching to ordinary shares are governed by the Constitution. On a show of hands every person present who is a Member or representative of a Member shall have one vote and on a poll, every Member present in person or by proxy or by attorney or duly authorised representative shall have one vote for each share held. None of the options have any voting rights.

### Twenty largest shareholders as at 12 September 2006

	Number of Shares	% Held
Mark Hansford Babidge	5,000,001	7.19
Thomas Lik Cheng Goh	5,000,001	7.19
John Milton Saunders	4,000,001	5.75
Lewis Lick-Wei Wu	4,000,000	5.75
Lakemba Pty Ltd	3,040,000	4.37
Lakemba Pty Ltd <Super Fund>	3,000,000	4.31
Kar Chan Wan	2,000,000	2.87
Clara Lin-K'un Lee	2,000,000	2.87
Michael Kwek <Michael Kwek Super Fund>	1,872,690	2.69
Balcatta Boys Pty Ltd	1,600,000	2.30
Eng Sun Lim	1,525,000	2.19
Koo Sing Kuang	1,400,000	2.01
Fui Howe Lee	1,400,000	2.01
Augustine Chew Teck Teo	1,300,000	1.87
Chieh Fei Wu	1,300,000	1.87
Ecsel Pty Ltd <Chai Lim Dental SE A/c>	1,248,400	1.79
John Milton Saunders <JM Saunders Family A/c>	1,000,000	1.44
Reginald Norman Gillard	1,000,000	1.44
Michelle Lourdes Soares	1,000,000	1.44
Erriate Pty Ltd	1,000,000	1.44
	43,686,093	62.79

## shareholder information (continued)

### Restricted securities

A total of 15,800,000 ordinary shares are subject to ASX escrow conditions up to 28 April 2008.

### Twenty largest optionholders as at 12 September 2006

Options exercisable at 30 cents expiring 30 June 2009	Number of Options	% Held
Reginald Norman Gillard	4,500,000	9.65
John Milton Saunders	3,750,000	8.04
Mark Hansford Babidge	3,750,000	8.04
Thomas Lik Cheng Goh	3,750,000	8.04
Christopher Edward Bennett	3,000,000	6.43
Lewis Lick-Wei Wu	2,000,000	4.29
Lakemba Pty Ltd	1,520,000	3.26
Kar Chan Wan	1,000,000	2.14
Clara Lin-K'un Lee	1,000,000	2.14
Balcatta Boys Pty Ltd	800,000	1.72
Lakemba Pty Ltd <Kuang Koo Sing Super Fund>	800,000	1.72
Eng Sun Lim	750,000	1.61
Ecsel Pty Ltd <Chai Lim Dental SE A/c>	750,000	1.61
Koo Sing Kuang	700,000	1.50
Lakemba Pty Ltd <Super Fund A/c>	700,000	1.50
Fui Howe Lee	700,000	1.50
Michael Kwek <Michael Kwek Super Fund>	677,000	1.45
Augustine Chew Teck Teo	650,000	1.39
Chieh Fei Wu	650,000	1.39
Michelle Lourdes Soares	500,000	1.07
	31,947,000	68.49

### Restricted securities

A total of 18,650,000 options are subject to ASX escrow conditions up to 28 April 2008.

A further 850,000 options are subject to voluntary escrow up to 28 April 2008.

### Other options

A total of 7,500,000 "Executive" options are on issue. They are exercisable at \$0.00001 each up to 30 June 2008, subject to occurrence of one of the following:

- unconditional approval for the construction of the Centauri 1 Power Station near Dongara, Western Australia;
- the sale of the Company's major assets and undertakings for consideration amounting to not less than \$50,000,000; or
- a takeover offer for the Company's securities.

The Executive Options are held by Mr Mark Babidge (5,000,000) and Mr Thomas Goh (2,500,000).

### Use of cash and cash equivalent assets

The use of cash funds held by the Company from the commencement of ASX quotation (28 April 2006) up to 30 June 2006 has been consistent with the Company's business objective of assessing the feasibility of constructing the proposed 168 MW Centauri 1 Power Station near Dongara, Western Australia.

## tenement summary

Tenement Particulars	Registered holder	Shares	Initial Term Commenced	Initial Term Expires	Blocks	Annual Rent (\$)
EL 70/2676	EMPL	100	13/10/2004	12/10/2009	26	2,226.95
EL 70/2758	EMPL	100	15/11/2005	14/11/2010	70	6,930.00
EL 70/2759	EHPL	100	15/11/2005	14/11/2010	61	6,039.00
EL 70/2761	EMPL	100	15/11/2005	14/11/2010	61	6,039.00
EL 70/2762	EMPL	100	15/11/2005	14/11/2010	70	6,930.00
EL 70/2763	EMPL	100	15/11/2005	14/11/2010	50	4,950.00
EL 70/2764	EMPL	100	15/11/2005	14/11/2010	50	4,950.00
EL 70/2765	EMPL	100	15/11/2005	14/11/2010	59	5,841.00
EL 70/2785	EMPL	100	15/11/2005	14/11/2010	65	5,940.00
EL 70/2786	EMPL	100	15/11/2005	14/11/2010	41	4,692.00
EL 70/2798	EMPL	100	15/11/2005	14/11/2010	37	3,663.00

On 23 June 2006 Eneabba Gas Limited transferred by deed the following tenements to 100% owned subsidiaries:

Eneabba Mining Pty Ltd (EMPL):

E 70 / 2676	E 70 / 2758	E 70 / 2761	E 70 / 2762	E 70 / 2763
E 70 / 2764	E 70 / 2765	E 70 / 2785	E 70 / 2786	E 70 / 2798

Eneabba Holdings Pty Ltd (EHPL):

E 70 / 2759

Tenement E 70 / 2760 was surrendered on 23 June 2006, since further investigation by the Company's consulting geologist recommended no further action be taken with this tenement.

The Company has grouped the tenements in Eneabba Mining Pty Ltd under combined status reporting under Section 115A (4) of the Mining Act 1978-1994 and is now known as the "Sargon Group". The Department of Industry & Resources Approval for this grouping is C 32/2006 M 12550.

Due to deferred arrival of drilling rigs in the programme the Company has requested deferral of the timing of minimal expenditure to be completed during the tenement year.

