NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. REPORTING ENTITY

Planet Gas Limited (the 'Company') is a company domiciled in Australia. The address of the Company's registered office is Level 2, 66 Hunter Street, Sydney, NSW, 2000. The consolidated financial report of the Company for the year ended 31 December 2010 comprises the Company and its subsidiaries (together referred to as the 'Group') and the Group's interest in associates. The Group is primarily engaged in the acquisition, exploration, development, production and operation of oil, gas, geothermal energy and CBM properties in Australia and USA.

2. BASIS OF PREPARATION

(a) Statement of compliance

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

The consolidated financial report was authorised for issue by the Directors on 30 March 2011.

(b) Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis except for the following material items in the Statement of Financial Position:

- Investments - Available-for-sale financial assets are measured at fair value.

(c) Functional and presentation currency

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

(d) Use of estimates and judgements

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

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

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

- Note 5 - Unrecognised deferred tax asset
- Note 7 - Investments
- Note 8 - Property, plant and equipment
- Note 9 - Exploration and evaluation expenditure
- Note 12 - Provisions
- Note 24 - Share based payments

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3. SIGNIFICANT ACCOUNTING POLICIES

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

Change in accounting policy

Presentation of transactions recognised in other comprehensive income

From 1 July 2010 the Group has applied amendments to AASB 101 *Presentation of Financial Statements* outlined in AASB 2010-4 *Further amendments to Australian Accounting Standards arising from the Annual Improvements Project*. The change in accounting policy only relates to disclosures and had no impact on consolidated earnings per share or net income. The changes have been applied retrospectively and allow the Group to disclose transactions recognised in other comprehensive income in the notes to the financial statements.

Removal of parent entity financial statements

The Group has applied amendments to the Corporations Act (2001) that remove the requirement for the Group to lodge parent entity financial statements. Parent entity financial statements have been replaced by the specific parent entity disclosures in Note 25.

Revenue recognition

Finance income and finance costs

Finance income comprises interest income on funds invested (including available-for-sale financial assets), dividend income and unwinding of the discount on certain assets. Interest income is recognised as it accrues in profit or loss, using the effective interest method. Dividend income is recognised in profit or loss on the date that the Group's right to receive payment is established, which in the case of quoted securities is the ex-dividend date.

Finance costs comprise interest expense on borrowings, unwinding of the discount on provisions and impairment losses recognised on financial assets. Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognised in profit or loss using the effective interest method.

Foreign currency gains and losses are reported on a net basis.

Sale of coal bed methane and oil and gas

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

Exploration expenditure

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3. SIGNIFICANT ACCOUNTING POLICIES (CONT.)

Property, plant and equipment

Developing mine properties

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

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

Producing mine properties

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

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

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

Depreciation

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

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

Plant and equipment is depreciated at a rate of 33.3% per annum.

Recognition and measurement

Items of property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses.

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the assets to a working condition for their intended use, the costs of dismantling and removing the items and restoring the site on which they are located, and capitalised borrowing costs. Cost also may include transfers from equity of any gain or loss on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

The gain or loss on disposal of an item of property, plant and equipment is determined by comparing the proceeds from disposal with the carrying amount of the property, plant and equipment, and is recognised net within other income/other expenses in profit or loss. When revalued assets are sold, any related amount included in the revaluation reserve is transferred to retained earnings.

Non-current assets held for sale

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

Rehabilitation costs

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3. SIGNIFICANT ACCOUNTING POLICIES (CONT.)

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

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

Financial instruments issued by the Company

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

Available-for-sale financial assets

The Group's investments in equity securities are classified as available-for-sale financial assets. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses, are recognised in other comprehensive income and presented within equity in the fair value reserve. When an investment is derecognised, the cumulative gain or loss in equity is transferred to profit or loss.

Basis of consolidation

Accounting for acquisitions of non-controlling interests

Acquisitions of non-controlling interests are accounted for as transactions with equity holders in their capacity as equity holders and therefore no goodwill is recognised as a result of such transactions.

Subsidiaries

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

Joint ventures

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

Jointly controlled operations

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

Associates and jointly controlled entities (equity accounted investees)

Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies. Significant influence is presumed to exist when the Group holds between 20 and 50 percent of the voting power of another entity. Jointly controlled entities are those entities over whose activities the Group has joint control, established by contractual agreement and requiring unanimous consent for strategic financial and operating decisions.

Associates and jointly controlled entities are accounted for using the equity method (equity accounted investees) and are initially recognised at cost. The Group's investment includes goodwill identified on acquisition, net of any accumulated impairment losses. The consolidated financial statements include the Group's share of the income and expenses and equity movements of equity accounted investees, after adjustments to align the accounting policies with those of the Group, from the date that significant influence or joint control commences until the date that significant influence or joint control ceases. When the Group's share of losses exceeds its interest in an equity accounted investee, the carrying amount of that interest (including any long-term investments) is reduced to nil and the recognition of further losses is discontinued except to the extent that the Group has an obligation or has made payments on behalf of the investee.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3. SIGNIFICANT ACCOUNTING POLICIES (CONT.)

Transactions eliminated on consolidation

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

Unrealised gains arising from transactions with associates and jointly controlled entities are eliminated to the extent of the Group's interest in the entity with adjustments made to the 'Investment in associates' and 'Share of associates net profits' accounts. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

Trade and other receivables/payables

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

Impairment

Financial assets

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate. An impairment loss in respect of an available-for-sale financial asset is calculated by reference to its fair value.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

Non-financial assets

The carrying amounts of the Group's assets, other than exploration and evaluation expenditure, inventories and deferred tax assets, are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. For goodwill and intangible assets that have indefinite lives or that are not yet available for use, the recoverable amount is estimated each year at the same time.

An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the income statement, unless an asset has previously been revalued, in which case the impairment loss is recognised as a reversal to the extent of that previous revaluation with any excess recognised through profit or loss. Impairment losses recognised in respect of cash generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

Calculation of recoverable amount

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3. SIGNIFICANT ACCOUNTING POLICIES (CONT.)

Reversals of impairment

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

An impairment loss in respect of goodwill is not reversed.

In respect of other assets, an impairment loss is reversed if there has been a conclusive change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Foreign currency transactions

Transactions in foreign currencies are translated at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the reporting period. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising on retranslation are recognised in profit or loss, except for differences arising on the retranslation of available-for-sale equity instruments, a financial liability designated as a hedge of the net investment in a foreign operation, or qualifying cash flow hedges, which are recognised in other comprehensive income. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

Financial statements of foreign operations

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

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

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

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated to Australian dollars at exchange rates at the reporting date. The income and expenses of foreign operations are translated to Australian dollars at exchange rates at the dates of the transactions.

Foreign currency differences are recognised in other comprehensive income. Since 1 January 2004, the Group's date of transition to AASBs, such differences have been recognised in the foreign currency translation reserve (translation reserve, or FCTR). When a foreign operation is disposed of, in part or in full, the relevant amount in the FCTR is transferred to profit or loss as part of the profit or loss on disposal.

When the settlement of a monetary item receivable from or payable to a foreign operation is neither planned nor likely in the foreseeable future, foreign exchange gains and losses arising from such a monetary item are considered to form part of a net investment in a foreign operation and are recognised in other comprehensive income, and are presented within equity in the FCTR.

Income tax

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONT.)

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

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

Goods and services tax

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

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

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

Cash and cash equivalents

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

Business combinations

Business combinations are accounted for by applying the acquisition method. For every business combination, the Group identifies the acquirer, which is the combining entity that obtains control of the other combining entities or businesses. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, the Group takes into consideration potential voting rights that currently are exercisable. The acquisition date is the date on which control is transferred to the acquirer. Judgement is applied in determining the acquisition date and determining whether control is transferred from one party to another.

Measuring goodwill

The Group measures goodwill as the fair value of the consideration transferred including the recognised amount of any non-controlling interest in the acquiree, less the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed, all measured as of the acquisition date.

Consideration transferred includes the fair values of the assets transferred, liabilities incurred by the Group to the previous owners of the acquiree, and equity interests issued by the Group. Consideration transferred also includes the fair value of any contingent consideration and share-based payment awards of the acquiree that are replaced mandatorily in the business combination (see below). If a business combination results in the termination of pre-existing relationships between the Group and the acquiree, then the lower of the termination amount, as contained in the agreement, and the value of the off-market element is deducted from the consideration transferred and recognised in other expenses.

Share-based payment awards

When share-based payment awards exchanged (replacement awards) for awards held by the acquiree’s employees (acquiree’s awards) relate to past services, then a part of the market-based measure of the awards replaced is included in the consideration transferred. If they require future services, then the difference between the amount included in consideration transferred and the market-based measure of the replacement awards is treated as post-combination compensation cost.

Contingent liabilities

A contingent liability of the acquiree is assumed in a business combination only if such a liability represents a present obligation and arises from a past event, and its fair value can be measured reliably.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3. SIGNIFICANT ACCOUNTING POLICIES (CONT.)

Non-controlling interest

The Group measures any non-controlling interest at its proportionate interest in the identifiable net assets of the acquiree.

Transaction costs

Transaction costs that the Group incurs in connection with a business combination, such as finder's fees, legal fees, due diligence fees, and other professional and consulting fees, are expensed as incurred.

Accounting for acquisitions of non-controlling interests

Acquisitions of non-controlling interests are accounted for as transactions with equity holders in their capacity as equity holders and therefore no goodwill is recognised as a result of such transactions.

Segment reporting

Determination and presentation of operating segments

The Group determines and presents operating segments based on the information that internally is provided to the CEO, who is the Group's chief operating decision maker.

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. All operating segments' operating results are regularly reviewed by the Group's CEO to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

Segment results that are reported to the CEO include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly corporate assets (primarily the Company's headquarters), head office expenses, and income tax assets and liabilities.

Segment capital expenditure is the total cost incurred during the period to acquire property, plant and equipment, and intangible assets other than goodwill.

Determination of fair values

A number of the Group's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

Property, plant and equipment

The fair value of property, plant and equipment recognised as a result of a business combination is based on market values. The market value of property is the estimated amount for which a property could be exchanged on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, and willingly.

Investments in equity and debt securities

The fair value of financial assets at fair value through profit or loss, held-to-maturity investments and available-for-sale financial assets is determined by reference to their quoted closing price at the reporting date. The fair value of held-to-maturity investments is determined for disclosure purposes only.

Share-based payment transactions

The fair value of the employee share options is measured using the Black-Scholes formula. Measurement inputs include share price on measurement date, exercise price of the instrument, expected volatility (based on weighted average historic volatility), expected dividends, and the risk-free interest rate (based on government bonds).

3. SIGNIFICANT ACCOUNTING POLICIES (CONT.)

Share-based payment transactions

The grant-date fair value of share-based payment awards is recognised as an expense, with a corresponding increase in equity, over the period that the recipient unconditionally become entitled to the awards. The amount recognised as an expense is adjusted to reflect the number of awards for which the related service and non-market vesting conditions are expected to be met, such that the amount ultimately recognised as an expense is based on the number of awards that meet the related service and non-market performance conditions at the vesting date. For share-based payment awards with non-vesting conditions, the grant date fair value of the share-based payment is measured to reflect such conditions and there is no true-up for differences between expected and actual outcomes.

The fair value of the amount payable to employees in respect of share appreciation rights, which are settled in cash, is recognised as an expense with a corresponding increase in liabilities, over the period that the employees unconditionally become entitled to payment. The liability is remeasured at each reporting date and at settlement date. Any changes in the fair value of the liability are recognised as personnel expense in profit or loss.

Share-based payment arrangements in which the Group receives goods or services as consideration for its own equity instruments are accounted for as equity-settled share-based payment transactions, regardless of how the equity instruments are obtained by the Group.

New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 July 2010, and have not been applied in preparing these consolidated financial statements. None of these are expected to have a significant effect on the consolidated financial statements of the Group, except for IFRS 9 *Financial Instruments*, which becomes mandatory for the Group's 2013 consolidated financial statements and could change the classification and measurement of financial assets. The Group does not plan to adopt this standard early and the extent of the impact has not been determined.

4. LOSS FROM OPERATING ACTIVITIES

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

	2010 $	2009 $
Other Income		
Gain on disposal of investment	-	3,324,650
Reversal of liability	-	450,224
Financial income and expense		
Interest revenue	383,488	85,118
Interest expense	-	(191)
Unwind of fair value discount - income	229,923	25,577
Unwind of fair value discount - expense	(191,995)	-
Expenses		
Amortisation of producing mine properties	-	78,838
Auditors' remuneration		
- audit and review of financial reports	84,465	69,116
Non-statutory audit services		
- project review strategy	26,500	-
Depreciation of plant and equipment		
- office equipment	5,217	1,241
- software	1,912	-
- plant and equipment	1,017	1,719

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

5. INCOME TAX EXPENSE

	2010 $	2009 $
Current tax expense		
Current year	(1,052,826)	(1,595,784)
Adjustments for prior year	(2,049,246)	(714,019)
Losses not recognised	3,102,072	2,309,803
	-	-
Numerical reconciliation of income tax expense to prima facie tax payable:		
Loss before tax	(5,316,871)	(10,282,193)
Prima facie income tax benefit at the Australian tax rate of 30% (2008 - 30%)	(1,595,061)	(3,084,658)
Increase/(decrease) in income tax expense due to:		
- capital gain on disposals	-	-
- non-deductible expenses	71,176	639,575
- tax losses not recognised/(utilised)	1,052,826	1,595,784
- net loss of tax group	-	-
- effect of net deferred tax assets not brought to account	471,059	849,299
Income tax expense	-	-
Unrecognised deferred tax assets		
Deferred tax assets have not been recognised in respect of the following items:		
Tax losses	8,791,687	5,689,616
Net deductible temporary differences	1,272,483	2,768,240
Potential tax benefit at 30%	10,064,170	8,457,856

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

6. RECEIVABLES

	2010 $	2009 $
Other debtors	4,403	128
GST receivable	73,657	86,551
	78,060	86,679

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

	2010 $	2009 $
7. INVESTMENTS		
Investments - available-for-sale at fair value	1,956,195	3,889,795

Investments - available-for-sale

During the year ended 31 December 2010, the shareholders of Callabonna Uranium Limited ('Callabonna Uranium') passed a resolution at their annual general meeting for a 20 to 1 share consolidation. Prior to the consolidation, Planet Gas held 172,800,000 shares in Callabonna and after the consolidation the number of shares held in Callabonna was 8,640,000.

At 31 December 2010 the Directors compared the carrying value of the investment to market value and recorded an impairment loss of $1,296,100 (2009 - $1,555,200). This was based on a closing share price of 17 cents at 31 December 2010 (2009 - 1.6 cents per share based on 172,800,000 shares).

The Company holds 12,500,000 shares in Greenpower Energy Limited ('Greenpower'). At 31 December 2010 the Directors compared the carrying value of the investment to market value and recorded an impairment loss of $637,500 (2009 - $375,000). This was based on a closing share price of 3.9 cents at 31 December 2010 (2009 - 9 cents).

	2010 $	2009 $
8. PROPERTY, PLANT AND EQUIPMENT		
Office equipment - at cost	72,053	47,325
Accumulated depreciation	(46,952)	(41,774)
Net book value	25,101	5,551
Software - at cost	53,324	-
Accumulated depreciation	(1,912)	-
Net book value	51,412	-
Plant and equipment - at cost	15,263	16,819
Accumulated depreciation	(13,377)	(13,692)
Net book value	1,886	3,127
Developing mine properties - at cost	14,059,288	14,918,789
Impairments	(14,059,288)	(14,918,789)
Net book value	-	-
Producing mine properties - at cost	2,878,277	3,176,208
Impairments	(2,002,322)	(2,179,418)
Accumulated amortisation	(875,955)	(996,790)
Net book value	-	-
Total property, plant and equipment	78,399	8,678

At 31 December 2010 and 2009, impairment testing was conducted on the developing mine properties (Esponda project). The Directors have determined that, given the ongoing nature of the dewatering process at the Esponda project and uncertainty regarding the financing necessary to progress the Esponda project from development into production, the full carrying value of the project be fully impaired at year end resulting in an impairment loss for the year of $562,650 (2009 loss $1,656,758).

At 31 December 2010 and 2009, impairment testing was conducted on the producing mine properties (Oriva project) and it was determined to fully impair the carrying value of the project, following the decision by the Company and its joint operating partner to shut the wells due to the low gas prices which resulted in an impairment loss for the year of $2,196 (2009 loss $2,456,383).

	2010 $	2009 $
8. PROPERTY, PLANT AND EQUIPMENT (CONT.)		
Reconciliations of the carrying amounts for each class of plant and equipment are set out below:		
Office equipment		
Carrying amount at beginning of year	5,551	3,019
Additions	24,727	3,773
Depreciation	(5,217)	(1,241)
Net foreign currency differences on translation	40	-
Net book value	25,101	5,551
Software		
Carrying amount at beginning of year	-	-
Additions	53,324	-
Depreciation	(1,912)	-
Net book value	51,412	-
Plant and equipment		
Carrying amount at beginning of year	3,127	5,774
Depreciation	(1,017)	(1,719)
Net foreign currency differences on translation	(224)	(928)
Net book value	1,886	3,127
Developing mine properties		
Carrying amount at beginning of year	-	1,175,728
Additions	507,549	547,336
Provision for rehabilitation	3,010	5,158
Impairments	(562,650)	(1,656,758)
Net foreign currency adjustment on translation	52,091	(71,464)
Net book value	-	-
Producing mine properties		
Carrying amount at beginning of year	-	2,903,064
Additions	-	-
Provision for rehabilitation	2,038	6,100
Impairments	(2,196)	(2,456,383)
Net foreign currency adjustment on translation	158	(373,943)
Amortisation	-	(78,838)
Net book value	-	-

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

	2010 $	2009 $
9. EXPLORATION AND EVALUATION EXPENDITURE		
Carrying amount at beginning of year	3,657,239	-
Additions	1,120,239	323,772
Acquired through acquisition of controlled entity	-	3,333,467
Net foreign currency adjustment on translation	-	-
Impairments	-	-
Net book value	4,777,478	3,657,239

During the year ended 31 December 2010, the Company completed the incorporation of Planet Gas & CBM Pty Ltd, a coal bed methane exploration and development company, with a right to earn 50% of three CBM prospective Petroleum Exploration Licences in New South Wales, covering 5,579km².

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

10. OTHER

	2010 $	2009 $
Current		
Prepayments	-	321,974
Non-current		
Security deposits	594,981	353,573

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

11. TRADE AND OTHER PAYABLES

	2010 $	2009 $
Current		
Creditors and accruals	433,887	938,854

12. PROVISIONS

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

	2010 $	2009 $
Rehabilitation provision		
Carrying amount at beginning of year	109,874	129,156
Additions	5,048	-
Net foreign currency adjustment on translation	(31,858)	(30,540)
Unwind of fair value discount	191,995	11,258
Net book value	275,059	109,874

	2010 $	2009 $
13. ISSUED CAPITAL		
493,853,305 (2009 - 493,853,305) fully paid ordinary shares	48,665,284	48,665,284

	2010		2009	
	No.	$	No.	$
Fully paid ordinary shares				
Balance at beginning of financial year	493,853,305	48,665,284	202,384,903	28,539,389
Issue of shares	-	-	291,468,402	20,489,859
Less costs of issue	-	-	-	(363,964)
Balance at end of financial year	493,853,305	48,665,284	493,853,305	48,665,284

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

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

No shares were issued during the year ended 31 December 2010.

During the year ended 31 December 2009:

- The Company issued 30,357,720 ordinary shares at $0.05 for cash totalling $1,517,886. There were no amounts unpaid on shares issued. Share issue costs amounted to $62,955.
- The Company issued 39,000,000 ordinary shares for $3,978,000 as part consideration of the acquisition of Gradient Energy Limited.
- The Company issued 44,718,390 ordinary shares at $0.05 totalling $2,235,920 to retire outstanding liabilities.
- The Company issued 86,409,751 ordinary shares at $0.095 for cash totalling $8,208,926. There were no amounts unpaid on shares issued. There were no share issue costs.
- The Company issued 90,982,541 ordinary shares at $0.05 for cash totalling $4,549,127. There were no amounts unpaid on shares issued. Share issue costs amounted to $301,009.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

	2010 $	2009 $
14. RESERVES		
Option premium reserve		
Opening balance	3,821,704	-
Issue of options	699,608	3,821,704
Closing balance	4,521,312	3,821,704

The issue of Company options results in a credit to the option premium reserve representing the fair value of the options granted. The exercise of Company options results in a debit to the option premium reserve.

During the year ended 31 December 2010, the Company granted 8,000,000 options exercisable at 13.2 cents each to acquire one fully paid ordinary share expiring on 20 August 2014. A further 8,500,000 options were granted exercisable at 13.2 cents each to acquire one fully paid ordinary shares expiring on 20 August 2014. During the year ended 31 December 2009. The Company granted 60,000,000 options exercisable at 13.2 cents each to acquire on fully paid ordinary share expiring on 20 August 2014. Refer Note 24.

Foreign currency translation reserve		
Opening balance	(2,713,014)	(2,188,902)
Translation adjustment on controlled foreign entities financial statements during the year	(46,918)	(524,112)
Closing balance	(2,759,932)	(2,713,014)

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

15. LOSS PER SHARE

Basic and diluted earnings per share have been calculated using:		
Net loss for the year attributable to equity holders of the parent	5,316,871	10,282,193
Weighted average number of ordinary shares		
Issued ordinary shares at beginning of year	493,853,305	202,384,903
Effect of shares issued	-	85,132,915
Weighted average ordinary shares at the end of the year	493,853,305	287,517,818
Weighted average number of ordinary shares (diluted)		
Weighted average ordinary shares at the end of the year	493,853,305	287,517,818
Effect of share options on issue	-	-
Weighted average number of ordinary shares (diluted) at year end	493,853,305	287,517,818

16. RELATED PARTY DISCLOSURES

During the year ended 31 December 2010, Norman A. Seckold and Peter J. Nightingale had an interest in an entity, Mining Services Trust, which provided full administrative services, including rental accommodation, administrative staff, services and supplies, to the Group. Fees paid to Mining Services Trust during the year, which were in the ordinary course of business and on normal terms and conditions, amounted to $205,000 (2009 - $181,108). There were no amounts outstanding as at year end (2009 - nil).

During the year ended 31 December 2010, Anthony J. McClure provided consulting services to the Group. Fees paid to Anthony J. McClure during the year, which were in the ordinary course of business and on normal terms and conditions, amounted to $55,750 (2009 - nil). There were no amounts outstanding as at year end.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

17. STATEMENTS OF CASH FLOWS

	2010 $	2009 $
Reconciliation of net loss from operating activities after tax to net cash used in operating activities		
Loss from operating activities after tax	(5,316,871)	(10,282,193)
Items classified as investing/financing activities		
Borrowing costs	-	191
Non-cash items		
Gain on disposal of investment	-	(3,324,650)
Unwind of fair value discount - income	(229,923)	(450,224)
(Profit)/loss of associate equity accounted	-	92,859
Unwind of fair value discount - expense	191,995	(25,577)
Depreciation of plant and equipment	8,146	2,960
Amortisation of areas in production	-	78,838
Foreign exchange loss on cash	(488)	89,667
Impairment losses	2,498,446	8,071,341
Loss on disposal of controlled entity	-	-
Share based payments	237,254	3,821,704
Changes in assets and liabilities		
Trade and other receivables	8,619	36,170
Other assets	80,566	47,658
Trade and other payables	251,592	(45,765)
Provisions	165,185	11,258
Net cash used in operating activities	(2,105,479)	(1,875,763)

Reconciliation of cash

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

	2010 $	2009 $
Cash	5,978,322	10,149,455

18. KEY MANAGEMENT PERSONNEL DISCLOSURES

The CEO is the only key management personnel of the Group that is not a Director. Information regarding individual key management personnel's compensation and some equity instruments disclosures as permitted by Corporations Regulations 2M.3.03 are provided in the Remuneration Report Section of the Director's Report on pages 21 to 22.

The Board reviews remuneration arrangements annually based on services provided.

Movement in Shares

Key management personnel	Held at 31 December 2008	Purchased shares	Sales	Held at 31 December 2009
Norman A. Seckold	23,250,003	48,264,306	-	71,514,309
Sharif A. Oussa	1,890,000	1,972,500	-	3,862,500
Peter J. Nightingale	3,625,001	7,575,000	-	11,200,001
Anthony J. McClure	3,000,000	2,154,181	-	5,154,181
Anthony J. McDonald	3,000,000	4,275,000	-	7,275,000
Robert M. Bell	200,000	1,050,000	-	1,250,000
Robert C. Neale	-	-	-	-
Executives				
Ian G. Halstead	-	-	-	-

Key management personnel	Held at 31 December 2009	Purchased shares	Sales	Held at 31 December 2010
Norman A. Seckold	71,514,309	-	-	71,514,309
Sharif A. Oussa*	3,862,500	-	(1,500,000)	2,362,500
Peter J. Nightingale	11,200,001	351,563	-	11,551,564
Anthony J. McClure	5,154,181	-	-	5,154,181
Anthony J. McDonald	7,275,000	-	-	7,275,000
Robert M. Bell	1,250,000	-	-	1,250,000
Robert C. Neale	-	-	-	-
Executives				
Ian G. Halstead	-	-	-	-

* Ceased to be a Director during the year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

18. KEY MANAGEMENT PERSONNEL DISCLOSURES (CONT.)

Movement in Options

Key management personnel	Held at 31 December 2009	Granted as remuneration	Exercised	Held at 31 December 2010
Norman A. Seckold	-	-	-	-
Sharif A. Oussa*	40,000,000	-	-	40,000,000
Peter J. Nightingale	8,000,000	-	-	8,000,000
Robert M. Bell	2,000,000	-	-	2,000,000
Anthony J. McClure	2,000,000	-	-	2,000,000
Anthony J. McDonald	8,000,000	-	-	8,000,000
Robert C. Neale	-	-	-	-
Executives				
Ian Halstead	-	4,000,000	-	4,000,000

* Ceased to be a Director during the year.

Key management personnel	Held at 31 December 2008	Granted as remuneration	Exercised	Held at 31 December 2009
Norman A. Seckold	-	-	-	-
Sharif A. Oussa	-	40,000,000	-	40,000,000
Peter J. Nightingale	-	8,000,000	-	8,000,000
Robert M. Bell	-	2,000,000	-	2,000,000
Anthony J. McClure	-	2,000,000	-	2,000,000
Anthony J. McDonald	-	8,000,000	-	8,000,000
Robert C. Neale	-	-	-	-

	2010 $	2009 $
Key management personnel compensation		
Primary fees/salary	508,089	421,380
Superannuation	21,068	13,315
Share based remuneration	76,621	3,821,704
	605,778	4,256,399

Apart from the details disclosed in this note and Note 16, no Director has entered into a contract with the Company during the year and there were no contracts involving Directors’ interests subsisting at year end.

19. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS DISCLOSURE

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

- Credit risk.
- Liquidity risk.
- Market risk.

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

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

Credit risk

Exposure to credit risk

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

Trade and other receivables

The majority of the Group's exposure to credit risk for trade receivables relates to GST due from the ATO.

The carrying amount of the Group's financial assets represents the maximum credit exposure. The Group's maximum exposure to credit risk at the reporting date as a result of cash and cash equivalents, trade and other receivables and security deposits was $6,651,363 (2009 - $10,589,707).

Impairment losses

None of the Company's receivables are past due (2009 - nil). No impairment has been taken up against other receivables.

Liquidity risk

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

The following are the contractual maturities of financial liabilities:

	2010 $	2009 $
Less than one year	433,888	938,854

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

Market risk

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

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

Currency risk

The Group is exposed to currency risk on sales, security deposits, purchases, borrowings and rehabilitation provision that are denominated in United States currency. The Group has not entered into derivative financial instruments to hedge purchases and sales denominated in foreign currencies.

The Group's exposure to foreign currency risk at balance date was as follows, based on notional amounts:

	2010 $	2009 $
Cash and cash equivalents	93,599	397,978
Trade and other receivables	-	128
Property, plant and equipment	2,963	2,470
Other non-current assets	452,139	249,686
Trade and other payables	-	(47,551)
Provisions	(275,059)	(109,875)
Gross financial position exposure	273,642	492,836

Sensitivity analysis

A 10% strengthening of the Australian dollar against the United States dollar at 31 December 2010 would have decreased in net assets of the Group by $24,877 (2009 - $54,760). A 10% weakening of the Australian dollar against the United States dollar at 31 December 2010 would have had the equal but opposite effect to the Group's net assets, on the basis that all other variables remain constant. The analysis is performed on the same basis for the comparative period.

The following significant exchange rates applied during the year:

	Average rate		Reporting date spot rate	
	2010	2009	2010	2009
AUD/USD	0.99154	0.7924	1.0163	0.8931

Interest rate risk

The Group's income statement is affected by changes in interest rates due to the impact of such changes on interest income and expenses from cash and cash equivalents.

With the exception of cash and cash equivalents, all the Group's financial assets and liabilities are non-interest bearing. At balance date, the Group's cash and cash equivalents exposed to variable interest rate risk that are not designated as cash flow hedges were:

	2010 $	2009 $
Cash and cash equivalents	5,978,322	10,149,455

Sensitivity analysis

A change of 100 basis points in interest rates at the current and prior reporting date would have increased/(decreased) equity and loss for the period by an immaterial amount.

Other market price risk

Equity price risk arises from available-for-sale equity securities. As at 31 December 2010, the Group investments in available-for-sale assets consists of investment in Greenpower Energy Limited and in Callabonna Uranium Limited (refer Note 7). A 10% increase/decrease in these investments would result in a $195,620 (2009 - $388,980) increase/decrease in equity.

Capital management

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

Net fair values of financial assets and liabilities

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

Fair value hierarchy

The table below analyses financial instruments carried at fair value, by valuation method.

The different levels have been defined as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices)
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	Level 1 $	Level 2 $	Level 3 $	Total $
31 December 2010				
Investments available for sale at fair value	1,956,195	-	-	1,956,195
31 December 2009				
Investments available for sale at fair value	3,889,795	-	-	3,889,795

20. JOINT VENTURE OPERATIONS

	Area	Output interest	
		2010 %	2009 %
East Esponda - Sections 9, 10, 11 and 15 (Western Gas)	USA	0^	0^
East Esponda - Section 2 (Western Gas)	USA	0^	0^
Oriva Federal	USA	4.5*	4.5*
Oriva Throne	USA	61	61
Bylong	NSW	0	0
Shoalhaven	NSW	0	0
Mooki	NSW	0	0

^The Group's interest in East Esponda reverts to a 40% revenue interest for Sections 9, 10, 11 and 15 and a 20% revenue interest for Section 2 after all drilling, completion and production costs of the operating partner have been 300% repaid from production.

*The Group's interest in Oriva Federal reverts to a 23.625% revenue interest after all drilling, completion and production costs of the operating partner have been repaid from production.

The Group's interest in assets employed in the above joint venture operations includes capitalised exploration, evaluation and development expenditure totalling nil (2009 - nil), following the underlying USA projects being fully impaired and current accounts receivable totalling $nil (2009 - $128). All joint venture operations are engaged in the evaluation, exploration, development and production of coal bed methane or oil and gas properties.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

21. CONTROLLED ENTITIES

Parent entity

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

Wholly owned controlled entities	Country of incorporation	Ownership Interest	
		2010	2009
		%	%
Gradient Energy Limited	Australia	100	100
Planet Cooper Basin Pty Limited	Australia	100	100
Planet Gas & CBM Pty Limited	Australia	100	-
Planet Unconventional Energy Pty Limited	Australia	100	-
Planet Gas USA	USA	100	100
Planet Gas Properties LLC	USA	100	100
Planet Gas Resources LLC	USA	100	100

The functional currency for Planet Gas USA, Planet Gas Properties LLC and Planet Gas Resources LLC is United States Dollars. The functional currency for Gradient Energy Limited, Planet Cooper Basin Pty Limited, Planet Gas & CBM Pty Limited and Planet Unconventional Energy Pty Limited is Australian Dollars.

22. COMMITMENTS AND CONTIGENCIES

	2011	2012	2013	2014
	$	$	$	$
Commitment with respect to tenements:				
Oil and gas	4,200,000	15,581,750	6,652,250	3,500,000
Geothermal	4,776,833	17,982,417	11,509,833	9,083,333
Total commitment	8,976,833	33,564,167	18,162,083	12,583,333

The Group is currently negotiating a reduction in its commitments in relation to its geothermal exploration and evaluation assets.

The group does not have any contingent liabilities or contingent assets as at 31 December 2010.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

23. SEGMENT REPORTING

Segment information is presented in respect of the Group's management and internal reporting structure.

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

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

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

Geographical segments

The operating segment of oil and gas operates solely within the USA geographical segment and the operating segment of exploration and evaluation operates solely within the Australia geographical segment.

Segment reporting

The group has two reportable segments, as described below:

- Oil and gas - production and sale.
- Exploration and evaluation activities.

	Oil and gas		Exploration and evaluation		Unallocated		Consolidated total	
	2010 $	2009 $	2010 $	2009 $	2010 $	2009 $	2010 $	2009 $
External revenue	3,638	73,666	-	-	-	-	3,638	73,666
Interest income	-		14,044	-	369,444	85,118	383,488	85,118
Interest expense	-	(175)	-		-	(16)	-	(191)
Depreciation and amortisation	(1,216)	(80,228)	-	-	(6,930)	(1,570)	(8,146)	(81,798)
Segment loss before income tax	(1,221,102)	(3,911,903)	(486,377)	(364,428)	(3,609,392)	(6,005,862)	(5,316,871)	(10,282,193)
Other material non-cash items	-	-	-	-	-	-	-	-
Impairment of investments	-	-	-	-	(1,933,600)	(1,930,200)	(1,933,600)	(1,930,200)
Impairment of production and development expenditure	(564,846)	(4,113,141)	-	-	-	-	(564,846)	(4,113,141)
Segment assets	3,639,705	3,718,677	1,972,482	1,065,897	7,851,248	13,682,824	13,463,435	18,467,398
Segment liabilities	(279,542)	(157,426)	(157,319)	(22,901)	(272,085)	(868,401)	(708,946)	(1,048,728)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

23. SEGMENT REPORTING (CONT.)

Reconciliations of reportable segment revenue, profit or loss, assets and non-current assets and other material items.

	2010 $	2009 $
Revenues		
Total revenue for reportable segments	3,638	73,666
Other revenue	-	-
Consolidated Revenue	3,638	73,666
Loss before tax		
Loss before tax for reportable segments	(1,707,479)	(4,276,331)
Other loss before tax	(3,609,392)	(6,005,862)
Consolidated loss before tax	(5,316,871)	(10,282,193)
Assets		
Total assets for reportable segments	5,612,187	4,784,574
Intercompany eliminations	(28,184,062)	(25,854,204)
Other assets	36,035,310	39,537,028
Consolidated assets	13,463,435	18,467,398
Liabilities		
Total liabilities for reportable segments	436,861	180,327
Intercompany eliminations	(28,184,062)	(25,854,204)
Other liabilities	28,456,147	26,722,605
Consolidated liabilities	708,946	1,048,728

Other material items 2010	Reportable segment totals	Adjustments	Consolidated totals
Interest revenue	14,044	369,444	383,488
Interest expense	-	-	-
Depreciation and amortisation	(1,216)	(6,930)	(8,146)
Impairment expense	(564,846)	(1,933,600)	(2,498,446)
Other material items 2009			
Interest revenue	-	85,118	85,118
Interest expense	(175)	(16)	(191)
Depreciation and amortisation	(80,228)	(1,570)	(81,798)
Impairment expense	(4,113,141)	(1,930,200)	(6,043,341)

24. SHARE BASED PAYMENTS

The Company has a share option program that entitles key management personnel, senior employees and consultants to purchase shares in the entity.

The terms and conditions of the grants made up to 31 December 2010 are as follows:

Grant date	Expiry date	Exercise price	Granted during the year	Balance at start of the year	Exercised during the year	Cancelled during the year	Balance at end of the year	Exercisable at end of the year
		$	Number	Number	Number	Number	Number	Number
20 August 2009	20 August 2014	0.132	-	60,000,000	-	-	60,000,000	60,000,000
28 May 2010	20 August 2014	0.132	8,000,000	-	-	-	8,000,000	4,000,000
17 August 2010	20 August 2014	0.132	8,500,000	-	-	-	8,500,000	4,250,000
			16,500,000	60,000,000	-	-	76,500,000	68,250,000

The options granted during the year ended 31 December 2009 vested immediately and were provided at no cost to the recipients.

Half of the options granted during May 2010 vested immediately and the other half on 6 September 2011, the options were provided at no cost to the recipients.

Half of the options granted during August 2010 vested immediately and the other half on 6 September 2011, the options were provided at no cost to the recipients.

The contractual life of the options at 31 December 2010 was approximately 3 years and 8 months.

Fair value of options

The fair value of options granted is measured at grant date and recognised as an expense over the period during which the key management and senior employees become unconditionally entitled to the options. The fair value of the options granted is measured using Black-Scholes formulas, taking into account the terms and conditions upon which the options were granted. The amount recognised as an expense is adjusted to reflect the actual number of options that vest.

The fair value of options granted during the year ended 31 December 2009 was $3,821,704. The Black-Scholes formula model inputs were the Company's share price of $0.102 at the grant date, a volatility factor of 79.94% based on historic share price performance and a risk free interest rate of 5.28% based on the 10 year government bond rate.

The fair value of options granted in May 2010 was $462,400. The Black-Scholes formula model inputs were the Company's share price of $0.10 at the grant date, a volatility factor of 79.94% based on historic share price performance and a risk free interest rate of 5.28% based on the 10 year government bond rate.

The fair value of options granted in August 2010 was $325,638. The Black-Scholes formula model inputs were the Company's share price of $0.09 at the grant date, a volatility factor of 55.68% based on historic share price performance and a risk free interest rate of 5.29% based on the 10 year government bond rate.

Expenses arising from share-based payment transactions

Total expenses arising from share based payment transactions recognised during the year ended 31 December 2010 as part of share based remuneration expense was $237,254 (2009 - $3,821,704).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

25. PARENT ENTITY DISCLOSURES

As at 31 December 2010 the parent entity of the Group was Planet Gas Limited.

	Company	
	2010	**2009**
	$	**$**
Result of the parent entity		
Net loss	(6,478,930)	(15,300,783)
Other comprehensive Income	-	-
Total comprehensive loss	**(6,478,930)**	**(15,300,783**
Financial position of the parent entity at year end		
Current assets	5,819,663	9,786,814
Non - current assets	1,874,417	4,278,373
Total assets	**7,694,080**	**14,065,187**
Current liabilities		
Non - current liabilities	276,571	868,402
Total liabilities	**-**	**-**
	276,571	**868,402**
Net assets	**7,417,509**	**13,196,785**
Equity		
Share capital	48,665,284	48,665,284
Option premium reserve	4,521,358	3,821,704
Accumulated losses	(45,769,133)	(39,290,203)
Total equity	**7,417,509**	**13,196,785**

26. SUBSEQUENT EVENTS

On 8 March 2011, the Group issued 1,000,000 options to Thomas G. Evans pursuant to the executive share option plan, the options are exercisable at 13.2 cents with an expiry date on 20 August 2014. Half of the options can be exercised immediately and half between 6 September 2011 and 20 August 2014.

Other than the matter outlined above, there has not arisen in the interval between the end of the financial year and the date of this report any other matters, transaction or event of a material or unusual nature likely, in the opinion of the Directors of the Company, to affect significantly the operations of the Group, the results of those operations, or the state of affairs of the Group, in future financial years.