

REVIEW OF OPERATIONS



SUMMARY

The year ended 31 December 2010 was a tumultuous year for the energy sector, including Planet Gas Limited ('Planet Gas' or 'the Company'). The year saw a significant shift in global and national attitudes towards unconventional energy. In response to this changing environment, the Company broadened its focus by a diversification into conventional hydrocarbon and coal bed methane ('CBM') projects. The Company also commenced and continues its rationalisation of unconventional energy assets.

We were also saddened by the death of Sharif Oussa, the Company's Managing Director, during the financial year and express our sincere condolences to his family and friends.

During 2010 the Company:

- ⊙ Executed a farm-in agreement for a 50% equity interest in three CBM prospective Petroleum Exploration Licences (PELs 468, 469 and 470) in New South Wales, covering 5,579 km².
- ⊙ Progressed to Phase 2 of the farm-in agreement, and commenced planning for the acquisition of 80 line kilometres of seismic testing and the drilling of four exploration coreholes.
- ⊙ Commenced native title processes for Cooper Basin PELA 514 (CO2009-C) continuing technical evaluation of existing data and risk ranking of prospects.
- ⊙ Appointed a new Chief Executive Officer.
- ⊙ Was granted new Sydney Basin and Innot Springs geothermal licences and continued technical and commercial rationalisation of the geothermal project portfolio.
- ⊙ Commenced divestment efforts for the USA CBM assets.

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CORPORATE ACTIVITIES

Management Changes

Regretfully, in September 2010, the Company's incumbent Managing Director, Sharif Oussa, passed away. Sharif was one of the Company's founders and had rejoined as Managing Director and CEO during 2009.

Ian Halstead, who joined the Company initially as Chief Operating Officer in July 2010, was appointed as Chief Executive Officer in October 2010. With a long history in oil and gas management and with the Company poised to enter operational phases in both its CBM and conventional oil and gas projects, Ian Halstead was an obvious selection as CEO. Ian Halstead is a geologist with more than 27 years of oil and gas exploration, development and production experience, 16 years of which were in senior management roles.

Along with normal executive duties, his duties include:

- ⊙ Rationalisation of the Company's geothermal project portfolio.
- ⊙ Rationalisation of the Company's non-performing and already impaired CBM assets in the USA.

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PROJECTS

The Company holds rights to the following projects:

Australia

- Sydney and Gunnedah Basins - CBM projects, New South Wales.
- Cooper/Eromanga Basin - oil and gas project, South Australia.
- Gradient Energy - geothermal projects.

USA

- Powder River Basin - CBM projects, Wyoming.

Map highlights the Planet Gas Australian Projects



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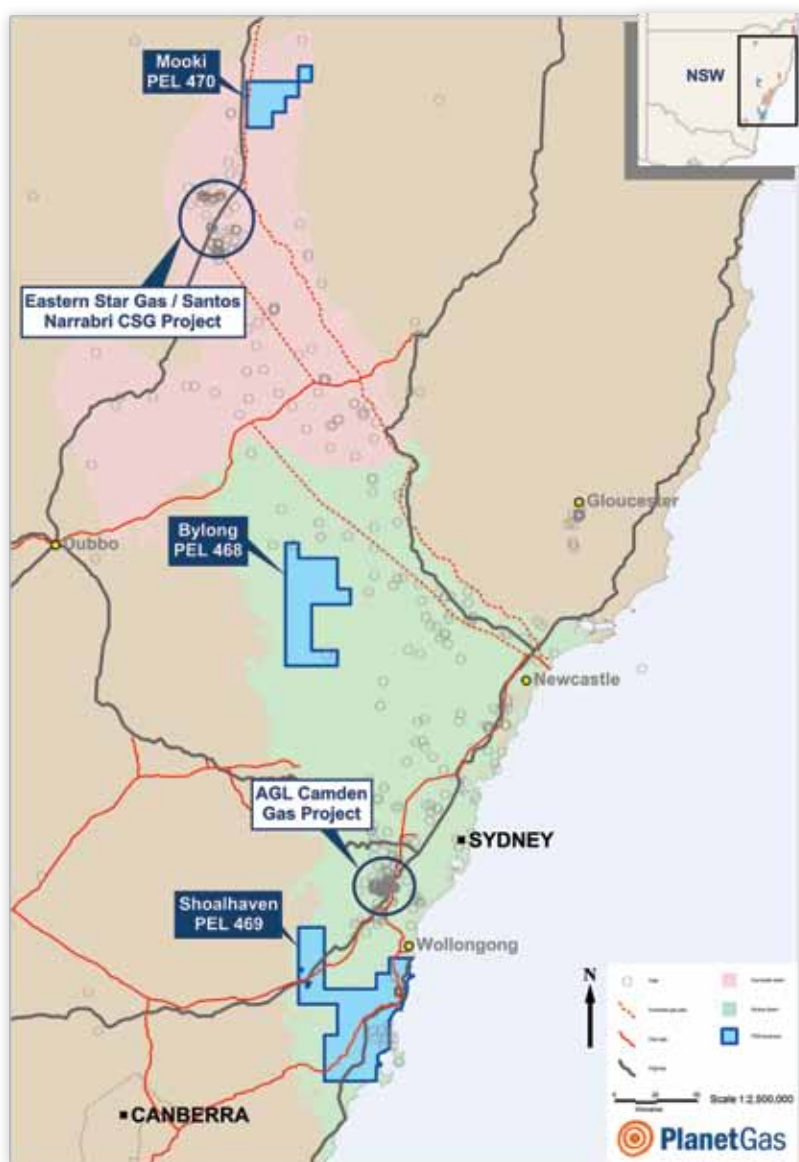
Sydney and Gunnedah Basins - CBM Projects

During the year, the Company entered into a farm-in agreement with Leichhardt Resources Pty Ltd with rights to earn a 50% equity interest in three highly prospective and well situated petroleum exploration licences in New South Wales. The farm-ins will be achieved by the Company, as operator, completing two exploration programs over each of the PELs.

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

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

The Gunnedah Basin tenement is adjacent to the Narrabri CBM development project, and the Company will target the Maules Creek coals in that PEL.



The farm-in agreement required no upfront payments by the Company. Each area is the subject of a three phase farm-in process, commencing with a 60 day due diligence period which has been satisfactorily completed. The estimated minimum expenditure for the technical works, or in ground costs, by the Company over the three year life of the farm-ins is \$15.9 million, including approximately \$4.2 million during Phase 2. The Company retains the option not to proceed on any, or all, of the farm-ins upon completion of the Phase 2 work program, or during the course of the Phase 3 work program.

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

Planning is well advanced for the execution of the Phase 2 work program. Community consultation is underway, seismic lines and preliminary wellsite locations have been selected contracts for the seismic testing and exploratory corehole drilling have been awarded in anticipation of the commencement of operations early in the second quarter of 2011.

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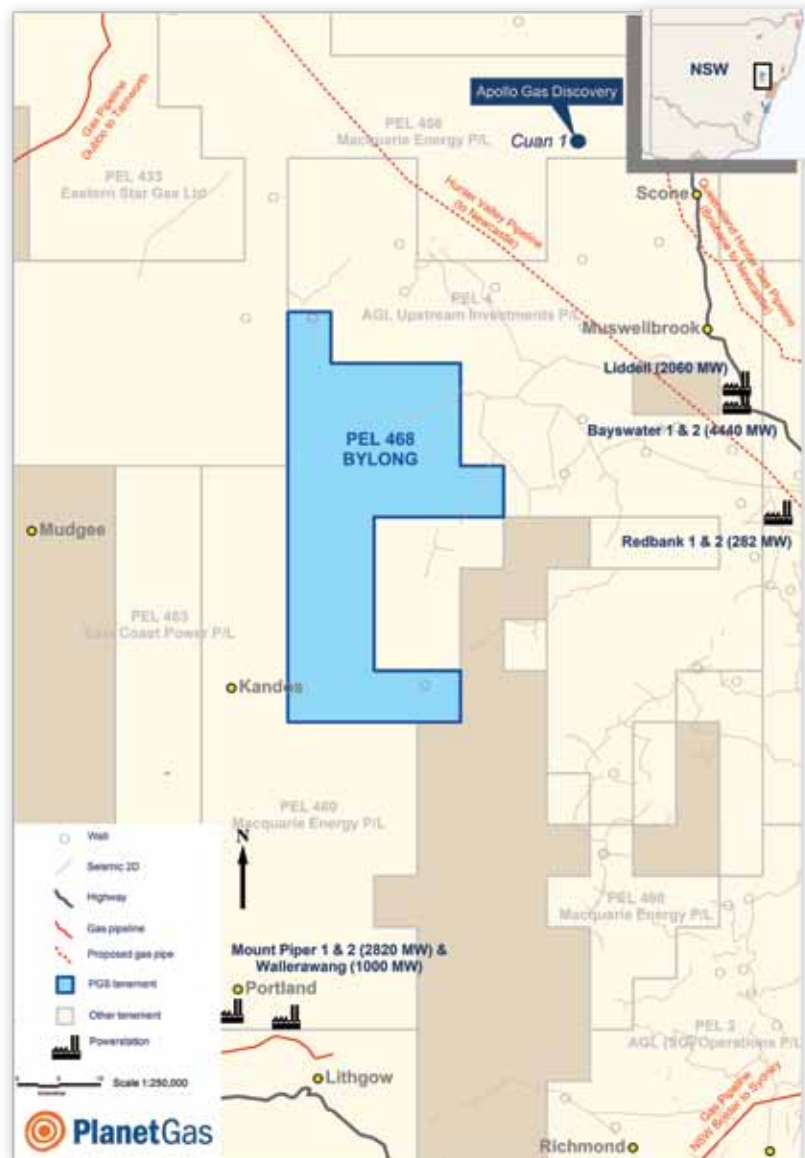
PEL 468 - Bylong

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

To date, some 48 NSW Government commissioned drillholes, and a number of oil and gas exploration wells drilled within close proximity to the margins of the licence, have been reviewed. These holes intersected the Late Permian Black Jack Formation/Wittingham Coal Measures (Illawarra equivalent) at depths ranging from subcrop to 800 metres. Drilling of these coal seams in adjacent areas has indicated a coal thickness of up to 90 metres, with gas contents as high as 15m³ per tonne, as evidenced by a recent well, Cuan-1, drilled during 2010 in adjacent PEL 456.

The Phase 2 work program, which includes the completion of 30 line kilometres of seismic testing, drilling, logging and permeability testing of two exploration coreholes, will be undertaken during the first half of 2011.

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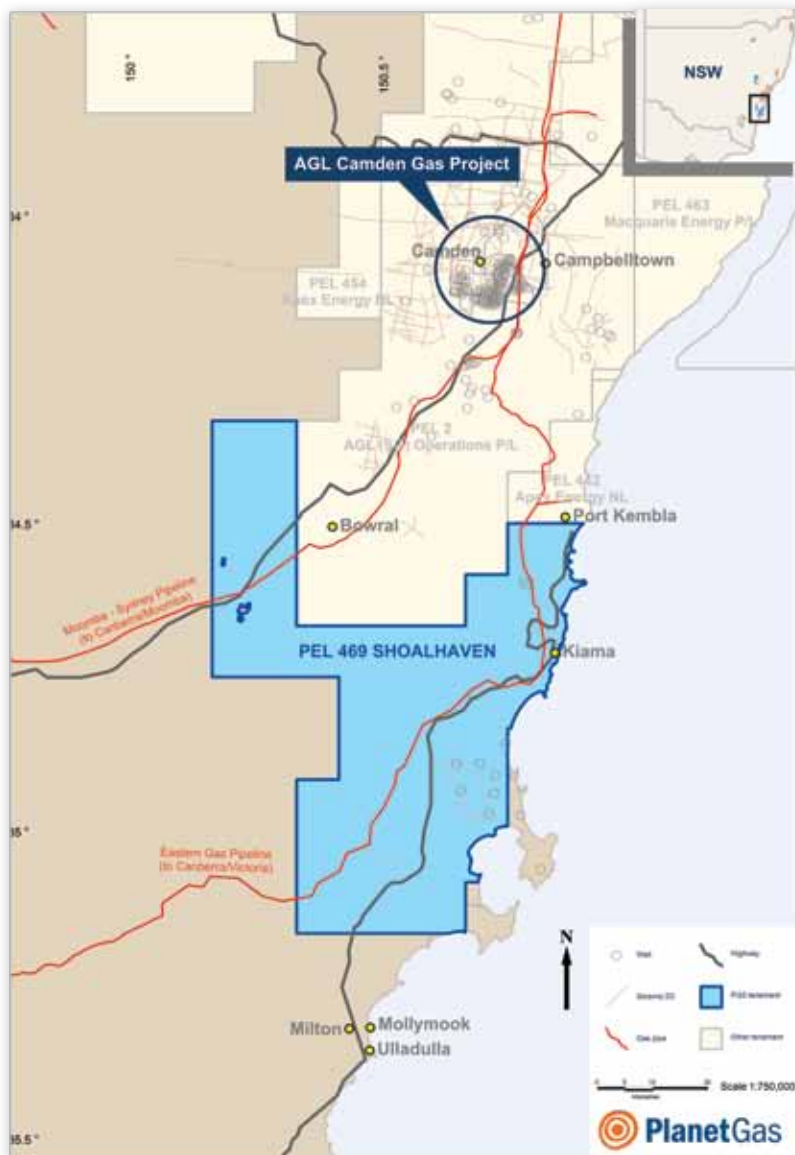
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PEL 469 - Shoalhaven

Shoalhaven (PEL 469) covers 3,173 km² and is located in the Southern Coalfield of the Sydney Basin. The PEL is located 80 kilometres south of Sydney and adjacent to PEL 2 (AGL Camden gas project). The Moomba to Sydney regional pipeline linking Sydney, Canberra and Victoria to Moomba gas field passes through PEL 469 and the proposed 40TJ/Day Rosalind Park gas plant is less than 40 kilometres away.

To date, 56 existing drillholes and two seismic lines to the north west of the PEL have been reviewed. The Clyde and Illawarra coals are prospective for CBM gas resources in this PEL. The Clyde Coal Measures are up to 15 metres thick and the Illawarra up to 25 metres thick. The Illawarra Coal Measures contain 11 named coal seams including four main prospective target seams, being the Bulli, Balgownie, Wongawilli and Tongarra Seams. Coal vitrinite reflectance data for these seams average 1.2 and historical mine gas data indicates gas contents of 10m³ to 16m³ per tonne.

The Phase 2 work program, which includes the completion of 20 line kilometres of seismic testing, drilling, logging and permeability testing of a single exploration corehole, will be undertaken during the first half of 2011.



Shoalhaven (PEL 469) covers 3,173 km² and is located in the Southern Coalfield of the Sydney Basin.

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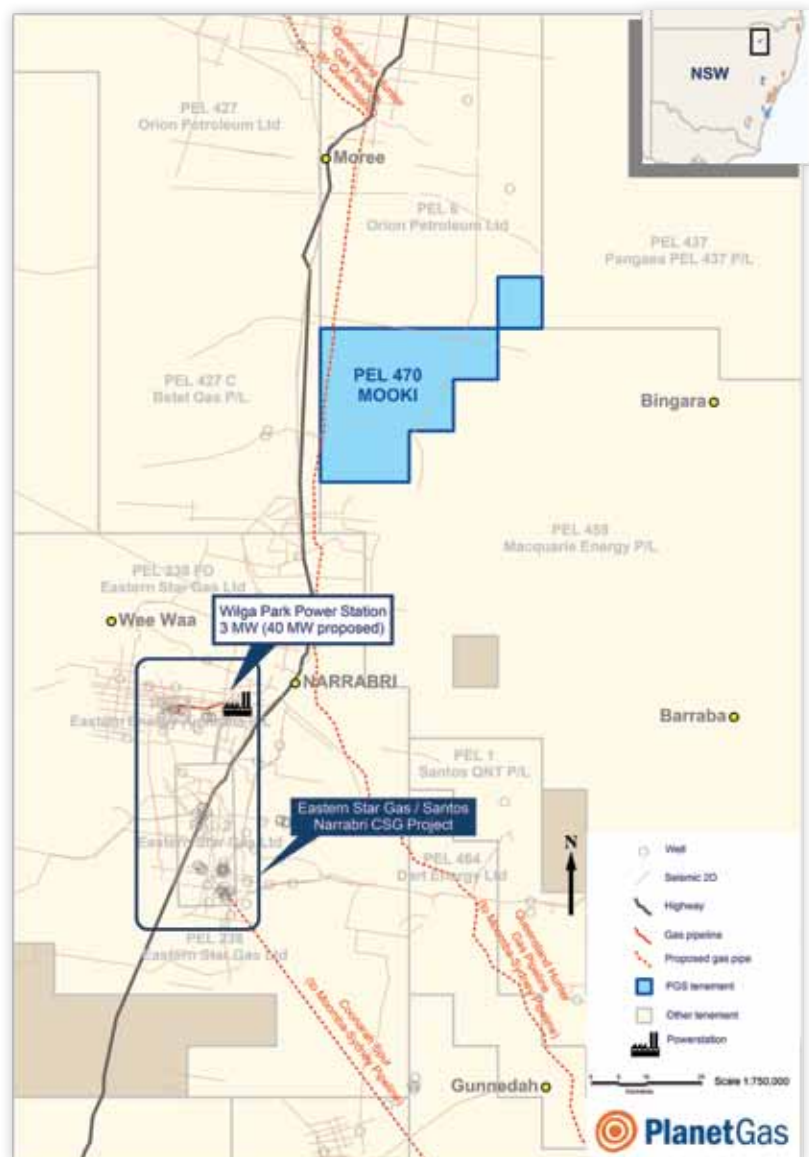
PEL 470 - Mooki

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

The PEL is located in the Northern Gunnedah Basin. The eastern boundary of the prospect is adjacent to the Hunter-Mooki Fault, a regional feature active throughout deposition of the coal measures and a depocentre for thick accumulations of coal bearing sediments. Drilling in the area has intersected net coal thicknesses of between 15 to 20 metres from the early-mid Permian Black Jack/Maules Creek Formations and gas contents of up to 10m³ per tonne. A recent well drilled during 2010 at Edgeroi, about 12 kilometres south of the PEL 470 boundary, is reported to have contained between 33.5 metres and 42.5 metres of 'gas saturated' coal.

The Phase 2 work program, which includes the completion of 30 line kilometres of seismic testing, drilling, logging and permeability testing of a single exploration corehole, is expected to be undertaken during the first half of 2011.

Mooki (PEL 470) covers some 670 km² and is located between the regional centres of Moree and Narrabri.



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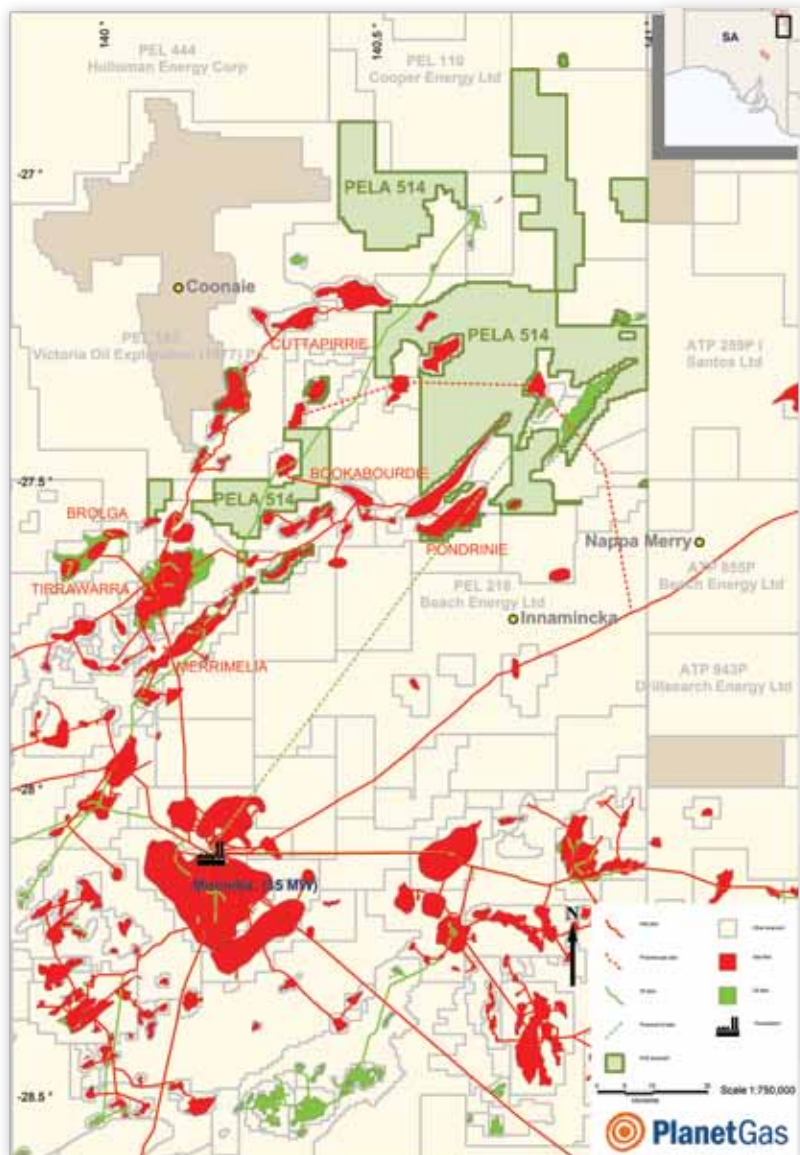
Cooper/Eromanga Basin - Oil and Gas Project, South Australia

PELA 514

The Company is in the final stages of completing native title processes on PELA 514 (C02009-C), which was the subject of a successful tender in late 2009.

PELA 514 is in the northern part of the Cooper/Eromanga basins, and is strategically located close to existing producing oil and gas fields, and existing under-utilised infrastructure. Nearby discoveries include Reg Sprigg-3, Acrasia, Flax, and Arrow. The Moondie gas field and James oil discovery lie within the licence area.

The northern part of the licence is underexplored and surrounds a trend of Jurassic and Triassic oil discoveries. The southern part of the licence area lies within the Permian Gas province. To the east there have also been several Permian oil and gas discoveries. Hydrocarbons in the northern area are sourced from the Patchawarra Trough and the Araburru Trough to the east and partially from the Poolowanna Trough to the west.



Preliminary work indicates oil prospectivity within the Jurassic and Cretaceous Namur and Hutton sandstones, Murta Formation, and also the Triassic sands; Permian gas in the Toolachee and Patchawarra Formations; and liquids-rich gas in the Tirrawarra Formation.

Good quality coals and hydrocarbon rich shales are also present across the area as evidenced by wells drilled within, and proximal to the licence area. This adds an unconventional prospectivity dimension. Specifically, there is CBM potential in the coals of the Cretaceous Winton, Permian Toolachee, and Patchawarra horizons and also shale gas potential in the Daralingie and Murteree shales. The Company is particularly encouraged by the recent encounter of a 400 metre thick section of gas rich shales in a well drilled in the adjacent PEL 218, located immediately south of PELA 514.

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Gradient Energy - Geothermal Projects

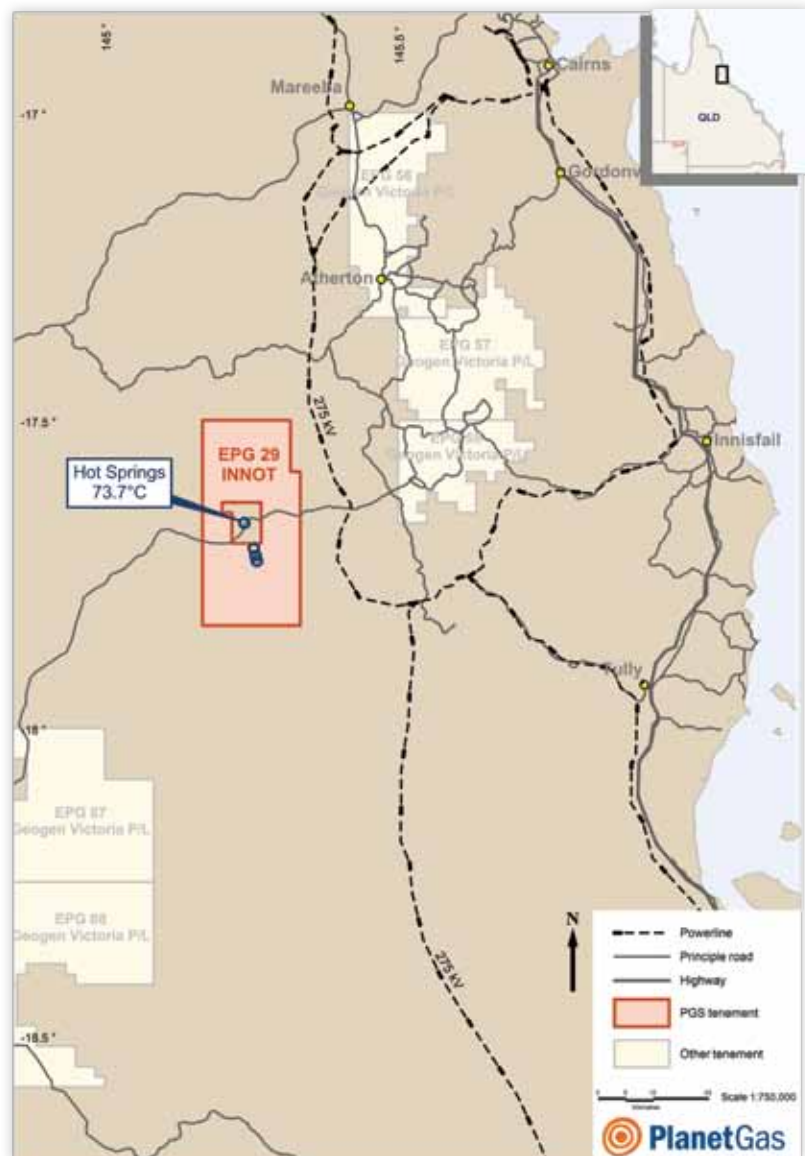
The Company operates several geothermal projects across Queensland, New South Wales and South Australia through its 100% owned subsidiary Gradient Energy Pty Limited. During 2010, the Company was awarded additional licences in the Sydney Basin in New South Wales and at Innot, near Cairns in Queensland.

Queensland - Innot

The Innot geothermal licence, covering 596 km², was awarded to the Company during 2010. The licence is located 10 kilometres from 275 KVa powerlines of the main east coast grid and is 100 kilometres from Cairns. The Innot project is distinct from most other geothermal projects in Australia, with a known geothermal spring system expressed at the surface with a temperature of 73.7°C. The main target at Innot is a Hot Fractured Aquifer ('HFA') system where the reservoir is a naturally permeable high flow rate structural zone.

Activities during 2010 included extensive geological and geophysical studies.

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New South Wales - Clarence Moreton/Gloucester and Sydney Basin

During the year, the Company was awarded three Sydney Basin geothermal exploration licences which cover approximately 5,077 km² of prospective ground in the Camden, Richmond and Ourimbah areas.

The Company plans to target exploration in these areas for large scale Hot Sedimentary Aquifer ('HSA') geothermal resources hosted by the Illawarra Coal Measures and the Shoalhaven Group. Exploration activities during the year included extensive geological and geophysical investigations, historic core sample collection and testing, and existing seismic data acquisition and reprocessing.

South Australia - Cooper/Eromanga Basin

These licences cover 6,101 km² in the Cooper/Eromanga geothermal province and are considered prospective for both HSA and HFA resources. Due to weather conditions, the Company applied for, and was granted, a six month suspension of the Eromanga licences. Exploration activities during 2010 focused on quantifying the heat-flow and thermal gradients of the licences. Thermal conductivity measurements were obtained from archived rock samples of underlying formations. Thermal heat-flow modelling indicates reasonably high temperature gradients and vertical conductive heat flow, probably due to the presence of the Big Lake Suite granites at the base of the Eromanga sequence. This is corroborated by gravity and magnetic data and is currently being targeted by another operator near Innamincka.

South Australia - Leigh Creek

The Leigh Creek licences cover 6,590 km² and are situated at the head of the NEM power lines that connect the Leigh Creek coal mine to Adelaide and Port Augusta. The Leigh Creek project is located within the South Australian heat flow anomaly. The primary target is a regional fault system known to host hot spring systems in the area, there may also be Hot Fractured Rock resources in a gravity low thought to represent buried radiogenic granites. During the year the Company was awarded a PACE grant from the South Australian Government to support project exploration activities. Through the use of mineral and thermal ASTER imaging (Advanced Spaceborne Thermal Emission and Reflectance Radiometer) it is hoped to identify and map the surface expression of HFA systems. ASTER has been acquired through Geoscience Australia and the Earth Remote Sensing Data Analysis Centre in Japan.

USA Operations

Pauper's Dream Company, the Company's 100% owned USA subsidiary, was renamed Planet Gas USA, Inc., and a management team was put in place, during the course of the year.

Two well workovers were undertaken on West Esponda state lease wells, #16-1 and #16-5. The water enhancement treatments were unsuccessful and resultant water production rates were lower than anticipated in the low permeability coals.

Given the very poor economic environment in the Powder River Basin of Eastern Wyoming, with wellhead gas prices below US\$2.00/MCF, many operators, including at the Company's Oriva and East Esponda projects, shut-in wells, rather than operate at a loss.

As a result of the unsuccessful re-stimulation and poor economics, work on all projects was suspended, pending abandonment. The Esponda and Oriva projects had been written off (impaired) by the Company at the end of 2008.

The USA team continued to evaluate opportunities in the Company's areas of interest, namely the Williston, Denver/Julesberg and Raton Basins of the Rocky Mountain Region, and the Anadarko and Permian Basins of the Mid-Continent Region, but none of the opportunities reviewed were deemed to have the requisite balance of risk and reward.