

CONCENTRATED CAPITAL LIMITED

ABN 34 087 730 667

Financial Report

for the year ended 30 June 2003

Corporate Information
ABN 34 087 730 667

Registered Office

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Melbourne Vic 3004
Phone: (03) 9820 2087

Solicitors

Menzies & Partners
Level 9
356 Collins Street
Melbourne Vic 3000
Phone: (03) 9602 1500

Bankers

National Australia Bank Limited
St George Bank Limited

Share Register

Computershare Investor Services Pty Limited
565 Bourke Street
Melbourne Vic 3000
Phone: 1300 850 505

Auditors

Ernst & Young

Website Address

www.concentratedcapital.com.au

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Directors' Report

Your directors submit their report for the year ended 30 June 2003.

Directors

The names and details of the company's directors in office during the financial year and until the date of this report are as follows. Directors were in office for this entire period unless otherwise stated.

Hamish M Giles (LLB, BEC) **Chairman of Directors**

Mr Giles is founder and a director of a Melbourne based consultancy firm. Salmon Giles Pty Ltd offers strategic consultancy services in areas including human resource management consulting, strategic industrial relations consulting, accounting and tax planning services, remuneration structuring, personal wealth and contingency services.

Mr Giles established Salmon Giles Pty Ltd 15 years ago after working with Arthur Andersen and McIntosh Securities. Mr Giles has qualifications in Law and Accounting and provides advice in relation to enterprise bargaining, innovative remuneration and incentive arrangements, business consulting and taxation planning. His clients include government, city councils, the health care industry and a wide range of private companies and high net worth individuals.

He is a founding director of HarvestRoad Limited and is Chairman of their Audit and Compliance Committee.

Mr Giles is Chairman of the Audit and Compliance Committee and Board Appointments Committee of the Company.

Christopher Kenneth George Rowe **B.A., M.A., (Economics and Law) Cambridge University** **Non Executive Director (Appointed 30 June 2003)**

Mr Rowe migrated to Western Australia in 1970 and began legal practice with the law firm, Downing and Downing, the same year. He became a Partner of the firm in 1972 where he practiced in the areas of corporate advisory, commercial mining and taxation law for clients predominantly associated with the mining and general resources sector.

In 1979, Mr Rowe left legal practice and became executive chairman of Cultus Petroleum N.L (ASX and Canadian listed) and other associated companies including Southern Ventures N.L (ASX). He remained in that position until 1990. Mr Rowe was responsible for the day to day activities of Cultus and was involved in Cultus completing a number of capital raisings during that time both in Australia, England and Canada. During this period the group was involved in exploration activities which resulted in oil and gas discoveries in the United States, Australia and New Zealand, and the discovery of the Gabanintha Gold Mine at Meekatharra.

In 1990, Mr Rowe left Cultus to take a position as Counsel assisting the Western Australian Royal Commission into the Commercial Activities of the Government and Other Matters, where he was in charge of the financial investigations of the Commission until its finalisation in late 1992.

Since 1993, Mr Rowe has been a principal of Thames Capital (Thames). Thames is a boutique private merchant bank which operates in Canada and Australia and provides corporate and business advice to its clients in a number of industries including emerging technologies and the resource sector.

Directors' Report continued

Recent projects in the oil and gas and associated resource services sector in which Mr Rowe has been involved have included arranging interim loan financing for NorthSun Energy Ltd, and capital fundraisings for Northern Star Resources Ltd, Osprey Energy Ltd and Wenzel Downhole Technologies Ltd. Current activities have also

include brokering several farm-ins by major companies into Powder River Basin coal-bed methane projects in Canada.

Mr Rowe is currently a director of Hawkesbridge Limited (Chairman), Northern Star Resources Ltd (Chairman), DHT Technologies Ltd, Unilink Data Systems Pty Ltd (Chairman) and is on the Advisory Board of Avalon Oil & Gas Group [Midland, Texas].

Mr Rowe has held the following public company positions, Chairman of Cultus Petroleum NL (ASX), International Oiltex Limited of Calgary [1985-1996], Deputy Chairman and Director of UTS Energy Corporation of Toronto, Director of Horizon Oil NL of New Zealand, Director and Chairman of Aerodata Holdings Ltd (ASX).

Mr Rowe is Chairman of the Strategic Review and Operations Committee of the Company and a member of the Board Appointments Committee.

Peter Reilly **Non Executive Director (Appointed 30 June 2003)**

Peter has 25 years experience and achievement in Senior Executive roles most recently as Managing Director/Chief Executive Officer of Ausdoc Group Limited.

Ausdoc was a publicly listed company with operations involved in couriers, express freight, processing and delivery of business mail, records management and logistics operating in Australia, New Zealand and Canada. Peter has successfully built high performance teams, developed an implemented financial and business plans, undertaken acquisitions and divestments and tapped into capital markets.

From a base in 1991 of A\$42m revenue and A\$6m EBITA under the stewardship of Peter, Ausdoc grew to a market capitalization in excess of A\$200m, an enterprise value of A\$350m and over 2,000 employees.

Peter has undertaken a number of strategic acquisitions, divestments and business development within Ausdoc and brings to the Board of the Concentrated Capital, significant commercial experience as a Public Company Director.

Mr Reilly is Chairman of the Risk Management Committee of the Company and a member of the Audit and Compliance Committee and Strategic Review and Operations Committee.

Retired Directors

David Gibbs - retired 30 June 2003 as a Director of the Company.

David Rose - retired 30 June 2003 as a Director of the Company.

Andrew Grace – retired 30 June 2003 as a Director of the Company.

Company Secretary

Stephen Danne

Mr Danne is a founder and Director of several Melbourne based small businesses and has previous experience as a Company Secretary and Financial Controller of a large private company turning over A\$80 million per annum.

Mr Danne has a wealth of commercial experience particularly in Business Administration.

Mr Danne is a member of the Audit & Compliance Committee, Strategic Review & Operations Committee and Risk Management Committee.

Directors' Report continued

Interests in the shares and options of the company and related bodies corporate

As at the date of this report, the interests of the directors in the shares and options of Concentrated Capital Limited were:

| | Ordinary Shares Fully Paid | Options over Ordinary Shares |
|--------------------|-------------------------------|---------------------------------|
| | Number | Number |
| H.Giles | 126,666 | 375,000 |
| P.Reilly | 2,200,000 | 40,000 |
| C.Rowe | - | - |
| D.Gibbs (resigned) | 275,000 | 375,000 |
| A.Grace (resigned) | 125,000 | 375,000 |
| D.Rose (resigned) | 241,667 | 375,000 |
| | 2,968,333 | 1,540,000 |

The Company has 5 wholly owned subsidiaries as follows:

- Swearingen Gas Pty Ltd (ACN 100 609 998);
- Colorado Energy Pty Ltd (ACN 100 609 952);
- Concentrated Coal Pty Ltd (ACN 099 939 027);
- QMI Investments Pty Ltd (ACN 099 936 875); and
- Avalon Investments (Aus) Pty Ltd (ACN 103 074 102).

Each of those subsidiaries has been a wholly owned subsidiary from incorporation.

- QMI Investments Pty Ltd has farmed into the West Pine Ridge Project;
- Swearingen Gas Pty Ltd proposes to farm into the Swearingen Project;
- Colorado Energy Pty Ltd has farmed into the West Pine Ridge Project;
- Concentrated Coal Pty Ltd has made applications for the coal permits in the Surat in Queensland; and
- Avalon Investments (Aus) Pty Ltd has made investments into the Avalon Oil Company Partnership ("Avalon").

Employees

The consolidated entity employed four (4) employees as at 30 June 2003 (2002 : 4 employees).

Directors' Report continued

Nature of operations and principal activities

For the year ended 30 June 2003, the Company developed its Corporate Strategy and Business Plan which included:

- The issuance of a Prospectus dated 5 August 2002 in order to raise moneys to take advantage of highly prospective oil and gas opportunities in the United States of America and undertaking such investments;
- An additional placement completed in December 2002 which provided for working capital in the Company to assist in the investment in Avalon;
- The issuance of an Offer Information Statement dated 20 February 2003 for the raising of additional working capital;
- An investment of approximately A\$150,000 in the Avalon Oil Company Partnership which provided the Company with an approximate 3.3% interest in Avalon; and
- The granting of an application for oil and gas permits in the Surat Basin.

Investments for Future Performance

The Company has appointed quality project management who are drilling alongside the Company in the West Pine Ridge Project thereby relieving the Company of any requirement for full time staff in the United States. The West Pine Ridge appears to be significantly more prospective than originally thought as a result of revised geological assessment. In light of the reassessment, the original drilling program scheduled to commence in November 2002 was suspended and additional acreage to the south of the original lease holdings was sought. The aggregation of the total lease has now been completed and a new drilling site has been identified. The Company is now awaiting regulatory authority approval prior to drilling.

The Company undertook an investment in the Avalon Oil Company Partnership and has acquired approximately a 3.3% interest in this Partnership. Avalon is conducting an extensive drilling program on a series of projects and the investment in Avalon provides a spread of US oil and gas projects in the region including increased exposure of West Pine Ridge and other projects, both productive and yet to be drilled.

Avalon's revenues are applied to drilling and development programs to maximize long-term capital growth, rather than provide short-term dividends.

The Company's original investment was undertaken when revenues to the account of Avalon were approximately US\$42,000 per month. Revenues to the account of Avalon are now approximately US\$150,000 per month.

The other major project that the Company intends to drill is the Swearingen Project which has been stated by Schlumberger – one of the worlds largest engineering and geology companies, to contain probable reserves to 1.25 billion cubic feet (bcf) gas. Immediately underlying the highly probable reserves of gas is a known oil zone with a depth of approximately 20ft and below that a number of zones, which may contain multi stacked reservoirs. The level of the Company's commitment to this project is dependent on its working capital reserves and as such, the Company is seeking to farm out a portion of its current commitments.

Review of Financial Condition

The Company's financial position as at 30 June 2003 reflects expenditure incurred in issuing various capital raising documents and in incurring expenses to allow the Company to participate in the West Pine Ridge Project, the Avalon Partnership, the granting of an oil and gas application in the Surat Basin and participation in the Swearingen Project.

In light of the underwritten Prospectus issued 5 August 2002 supplemented by a placement in December 2002 and the Offer Information Statement in February 2003, the Company is in a financial position to undertake its obligations pursuant to the drilling programs and operating agreements that the Company proposes to enter into.

Directors' Report continued

Capital Structure

The Company's capital presently comprises 10,171,333 ordinary shares as at 30 June 2003.

The capital may increase by up to a further 390,000 shares if the coal applications are granted and oil and gas permits are applied for and granted.

Risk Management

The Company takes a proactive approach to Risk Management. The Board is responsible for ensuring that risks and also opportunities are identified on a timely basis and that the Company's objectives and activities are aligned with the risks and opportunities identified by the Board.

The Company has established the following Committees in order to manage its risk:

- Audit & Compliance Committee;
- Strategic Review & Operations Committee;
- Board Appointments Committee; and
- Risk Management Committee.

In addition, all directors have signed letters of appointment which reflect their personal obligations to deliver services to the Board of the Company.

One of the key objectives to the Board is to ensure timely, transparent and accurate communication with all Shareholders and compliance with all regulatory requirements. To this effect, Board has established the abovementioned Committees and these Committees are fully operational during the financial reporting year ending 30 June 2003.

Significant changes in the State of Affairs

On 4 July 2002, the Company converted to a public company limited by shares.

The Company entered into an underwriting agreement for A\$600,000 on 8 July 2002 to enable it to list on the Newcastle Stock Exchange.

D.Rose was appointed as a director of the Company on 19 July 2002 and was issued with options on the same basis as other directors.

The Company issued a Prospectus dated 5 August 2002 and raised A\$689,000 through the issuance of 6,890,000 shares.

The Company listed on the Newcastle Stock Exchange on 24 October 2002.

The Company raised A\$85,000 through the placement of 850,000 shares at A\$0.10c with an attaching 1:5 free option exercisable at A\$0.09c on or before 21 November 2003, on 10 December 2002.

The Company raised A\$179,000 through the placement of 358,000 shares at A\$0.50c pursuant to an Offer Information Statement that closed 30 May 2003.

D.Rose, D.Gibbs and A.Grace, Directors of the Company, resigned 30 June 2003.

C.Rowe and P.Reilly were appointed Directors of the Company on 30 June 2003.

Directors' Report continued

Likely Developments and Expected Results

The Directors foresee that the 2004 financial year will bring to fruition as a result of investments made in the 2003, drilling results in West Pine Ridge. The other key significant areas which the Directors foresee activity in are:

- The development of the Avalon drilling program and results thereon;
- A strategy to develop greater liquidity in the shares on offer in the Company;
- A review and assessment of the Swearingen Project and the undertaking of investments in respect to this Project having regard to that review; and
- The assessment of other drilling programs provided to the Company by Avalon by virtue of the Company being a Partner in Avalon.

Environmental Regulation and Performance

The Company is not aware of any breaches of any relevant environmental protection legislation in relation to licenses issued to the Company or its subsidiaries and in respect to the activities of Avalon in which the Company is a Partner.

Indemnification and Insurance of Directors and Officers

During the financial year, the Company did not undertake to insure Directors of the Company.

Emoluments of Directors of Concentrated Capital Limited

Details of the nature and amount of each element of the emolument of each director of the Company for the financial year are as follows:

| Name | Number of Shares | \$ | Long Term Emoluments Options Granted ^ | | | Base Fee (\$) | Estimated Value (\$) |
|--|------------------|-----------------|--|------------------|-------------------|-----------------|----------------------|
| | | | Number | \$ | % of Remuneration | | |
| Hamish Giles | *1,666 | 833 | | | | 12,500 | 13,333 |
| Andrew Grace (resigned 30 June 2003) | - | - | - | - | - | 11,041 | 11,041 |
| David Gibbs (resigned 30 June 2003) | - | - | - | - | - | 11,041 | 11,041 |
| David Rose (appointed 19/7/02 and resigned 30 June 2003) | **41,667 | 12,500 | **375,000 | 125,000 | 84.15 | 11,041 | 148,541 |
| Chris Rowe (appointed 30 June 2003) | - | - | - | - | - | - | - |
| Peter Reilly (appointed 30 June 2003) | - | - | - | - | - | - | - |
| | 43,333 | \$13,333 | 375,000 | \$125,000 | 84.15% | \$45,623 | \$183,956 |

Options granted as part of remuneration have been valued on the difference between the exercise price of the options and the current value of the consolidated entity's shares (\$0.50). This is a conservative approach in light of the various performance hurdles attaching to these options. This valuation method was adopted a based on the fact that the shares in the consolidated entity have been traded only sparsely and the price of the consolidated entity's shares has not moved since January 2003.

Directors' Report continued

* On 1 May 2003, 833 Shares were issued at A\$0.50c each in lieu of payment for services rendered totalling A\$416.66 in relation to controlled entities.

*On 1 June 2003, 833 Shares were issued at A\$0.50c each in lieu of payment for services rendered totalling A\$416.66 in relation to controlled entities.

**On 19 July 2002, as ratified in the 2002 Annual General Meeting, 375,000 Options were issued to David Rose in lieu of payment for services rendered.

** 25,000 Shares allotted pursuant to a resolution carried at the Annual General Meeting of the Company held on 25 November 2002.

**On 1 January 2003, 10,417 Shares were issued at A\$0.30c each in lieu of payment for services rendered totalling A\$3,125 in relation to controlled entities.

**On 1 April 2003, 6,250 Shares were issued at A\$0.50c each in lieu of payment for services rendered totalling A\$3,125 in relation to controlled entities.

Directors' Meetings

The number of meetings of directors (including meetings of committees of directors) held during the year and the number of meetings attended by each director were as follows:

| | Meetings of Committees | | | | |
|--|------------------------|--------------------|-----------------|-------------------------------|--------------------|
| | Directors' Meetings | Audit & Compliance | Risk Management | Strategic Review & Operations | Board Appointments |
| Number of meetings held: | 29 | 6 | 2 | 2 | 1 |
| Number of meeting attended: | | | | | |
| H.Giles | 28 | 6 | - | - | 1 |
| D.Gibbs (resigned 30 June 2003) | 29 | - | 2 | 2 | - |
| A.Grace (resigned 30 June 2003) | 28 | 6 | 2 | 2 | 1 |
| D.Rose (appointed 19/7/02 and resigned 30 June 2003) | 25 | 6 | - | 2 | - |
| C.Rowe (appointed 30 June 2003) | - | - | - | - | - |
| P.Reilly (appointed 30 June 2003) | - | - | - | - | - |

Directors' Report continued

Committee membership

As at the date of this report, the Company had an Audit & Compliance Committee, a Risk Management Committee, a Strategic Review & Operations Committee, and a Board Appointments Committee with Board agreed charters all appointed as sub Committees of the Board.

Members acting on the committees of the Board during the year or subsequently appointed were:

| Audit & Compliance | Risk Management | Strategic Review & Operations | Board Appointments |
|---|--|---|---------------------------------|
| H.Giles (Chairman) | A.Grace (Chairman resigned 30 June 2003) | D.Gibbs (Chairman resigned 30 June 2003) | H.Giles (Chairman) |
| P.Reilly (appointed 30 June 2003) | P.Reilly (Chairman 30 June 2003) | C.Rowe (Chairman 30 June 2003) | C.Rowe (30 June 2003) |
| S.Danne | S.Danne | P.Reilly (appointed 30 June 2003) | A.Grace (resigned 30 June 2003) |
| D.Rose (19 July 2002 and resigned 30 June 2003) | D.Gibbs (resigned 30 June 2003) | S.Danne | |
| A.Grace (resigned 19 July 2002) | | A.Grace (resigned 30 June 2003) | |
| | | D.Rose (19 July 2002 and resigned 30 June 2003) | |

Corporate governance

In recognising the need for the highest standards of corporate behaviour and accountability, the directors of Concentrated Capital Limited support and have adhered to the principles of corporate governance. The company's corporate governance statement is contained in the following section of this annual report.

Signed in accordance with a resolution of the directors.



.....
Hamish M Giles
Chairman

Signed this 19th day of September 2003

Corporate Governance Statement

This statement outlines the main Corporate Governance Practices adopted and approved by the Board.

These Policies have been adopted by the Board pursuant to the ASX Corporate Governance Counsel "Principals of good Corporate Governance and best practice recommendations" issued by the ASX on 31 March 2003.

The Practices are in place at the present time and are dealt with under the following headings:

1. Board of Directors and its Committee's;
2. Internal Control Framework; and
3. The role of Shareholders.

1. Board of Directors and its Committee's

A. Role of the Board

The Board's primary role is the protection and enhancement of long term Shareholder value.

To fulfil this role, the Board is responsible for the overall Corporate Governance of the Company including its strategic direction, establishing goals for Management and monitoring the achievement of these goals.

The Board is responsible for:

- Providing entrepreneurial leadership for the Company;
- The appointment and removal of Key Executive staff including the Chief Executive Officer and the Chief Financial Officer;
- Setting Corporate Strategy and Performance Objectives;
- Reviewing and ratifying systems of Risk Management and Internal Compliance and Control, Codes of Conduct, Delegations Manuals and Legal Compliance;
- Monitoring Management's Performance and Implementation of Strategy and ensuring appropriate Human and Financial Resources are available; and
- Approving and monitoring Capital Expenditure, Capital Management and Acquisition and Divestitures.

The terms and conditions of the appointment and retirement of non-Executive Directors are set out in the letter of appointment.

The appointment letter includes the following matters:

- Details of the induction process;
- The manner in which remuneration is determined;

Corporate Governance Statement continued

- The term of the appointment (subject to Shareholder approval);
- The expectation of the Board in relation to attendance and preparation for all Board meetings;
- The Committee's to which the Director may be expected to be appointed;
- The procedures for dealing with conflicts of interest;
- The availability of independent professional advice;
- The acceptance of other Directorships; and
- A copy of the Constitution of the Company is also provided.

The Chairman reviews the performance of all Directors each year. Directors whose performance is unsatisfactory are asked to retire.

Non-Executive Directors are expected to attend 90% of all Board meetings and to attend in person a minimum of two (2) Board meetings per year. Non-Executive Directors are expected to devote a minimum of two (2) days per month in respect to attending to Board matters including attendance on various Board Committee's. Non-Executive Directors are not expected to sit on more than three (3) Public Company Boards.

Senior Executive Management are provided with Contracts of Employment incorporating formal job descriptions and performance parameters.

The Board has resolved the appointment and/or removal of a Company Secretary shall be a matter for decision by the Board as a whole.

B. Composition of the Board

The Composition of the Board is determined using the following principals:

The Board should comprise a minimum of three (3) Directors. This number may be increased where it is felt that additional expertise is required in specific areas, or where an outstanding candidate is identified.

- Where practicable, the Chairman of the Board should be an independent non-Executive Director;
- The Board should comprise a majority of non-Executive Directors, with at least 50% of the Board being independent non-Executive Directors;
- An independent non-Executive Director is a Director who is not a member of Management or a full time employee and who:
 - has not within the last three (3) years been employed an Executive capacity by the Company;
 - is not a significant supplier or customer to the Company or an Officer of or otherwise associated, directly or indirectly, with a significant supplier or customer;
 - has no material contractual relationship with the Company or another group member other than as a Director of the Company;
 - is free of any interest and any business or other relationship, which could, or could

Corporate Governance Statement continued

reasonably be perceived to, materially interfere with the Directors ability to act in the best interest of the Company;

- is not a substantial Shareholder of the Company or an Officer of, or otherwise associated directly with, a substantial Shareholder in the Company;
 - in the last three (3) years has not been a Principal or Employee of a Material Professional Advisor or a Material Consultant to the Company or another group member, or an Employee materially associated with the service provided; and
 - has not served on the Board for a period which could, or could reasonably be perceived to, materially interfere with the Directors ability to act in the best interest of the Company.
- The Board should have enough Directors to serve on various Committee's of the Board without over burdening the Directors or making it difficult for them to fully discharge their responsibilities; and
 - The Board should comprise Directors with a broad range of expertise both nationally and internationally.

C. Board Appointments Committee

Background

The Board Appointments Committee (“**Committee**”) is a Committee established by the Board to review the composition of the Board and ensure that the Board has an appropriate mix of expertise and experience and to assess and review the performance of the Directors of the Board.

The Board believes that the individual performance of the Directors of the Company has a significant bearing on the success of the Company and that each Director should be independently accountable in respect to their contribution. The Board is cognisant of the need to ensure that appropriate expertise and skills exist within the Board in order for the Board to address current issues of the Company and focus on the strategic plans of the Company.

Constitution

The Committee has been established by a Board resolution and has the power to obtain information from management. The Committee also has the right to seek independent professional advice, when considered necessary.

Charter

a) Objectives

- Review the individual performance of Directors against key performance indicators and agreed benchmarks;
- Identify potential candidates who could provide services as a new Director of the Company;
- Utilise professional external consultants where necessary to identify potential candidates;
- Establish key performance indicators for Directors; and
- Establish and monitor the Company’s Director education program.

Corporate Governance Statement continued

b) Composition of the Board Appointments Committee

The Committee shall initially consist of the Chairman, a non Executive Director appointed by the Chairman and an external consultant, when required.

The Chairman shall chair the Committee.

The Chief Executive Officer of the Company shall be invited to attend Committee meetings.

Members of the Committee shall be appointed for an initial three (3) year term of office after which their appointment may be subject to annual rotation.

c) Meetings

The Committee shall meet as and when required.

The Chairman will determine when meetings are to be held having regard to the needs of the Company and on the recommendation and advice of an external consultant.

The Chairman will call a meeting of the Committee if so requested by any Committee member, the Board or the Chief Executive Officer.

d) Responsibilities

The Committee shall consider all matters in respect to the appointment of Board members and a review of the performance of Board members including:

- The development of an appointment letter for Board members;
- Identification of the induction process for Board members;
- The term of appointment of Board members, subject to shareholders approval;
- The expectation of the Board in relation to attendance and preparation for all Board meetings;
- The Committees to which the Director may be expected to be appointed;
- The procedures for dealing with conflicts of interest;
- The establishment of a Directors continuous education program; and
- The establishment of key performance indicators and responsibilities for each Director.

e) Reporting

The Chairman of the Committee shall report the findings and recommendation of the Committee to the Board as soon as practicable after a recommendation has been made. The Minutes of all Committee meetings shall be circulated to members of the Board.

The Chairman shall submit an annual report to the Board summarising the Committee's activities during the year.

Corporate Governance Statement continued

D. Audit and Compliance Committee

Background

The Audit and Compliance Committee (“**Committee**”) is a committee established by the Board of the Company to give additional assurance regarding the quality and reliability of financial information used by the Board and financial information provided by the Company pursuant to its Statutory reporting requirements.

The Board of the Company believe that having raised funds from the public, it has a responsibility to ensure independent accountability exists. The focus of the activities of this Committee is to increase confidence in the credibility and reliability of financial statements and other financial information released to the public.

Constitution

The Committee has been established by a Board resolution and has the power to obtain information from management and to consult directly with the Auditors of the Company.

The Committee also has the right to seek independent professional advice, when considered necessary. The Committee should not, under any circumstances accept the delegation of Executive power in respect to the operations of the Company or undertake activities in a manner which could be construed to impinge on the Executive role of the Company.

Charter

a) Objectives

- Provide enhanced public confidence in the credibility and objectivity of financial information released to the public;
- Demonstration of the Board’s intention to exercise due care in reviewing financial information and in fulfilling legal responsibilities;
- Improved quality of financial reporting;
- Augment non Executive Directors’ knowledge and understanding of financial information;
- Increase focus on the corporate risk profile of the Company including the level of authority delegated to management by the Board;
- Provide an insight to the Directors of the Company in respect to the accounting and control systems that exist within the Company and management action to maintain and improve them;
- Assist the Finance Director/Financial Controller by providing a forum in which to raise issues of concern;
- Increase Directors’ understanding of the nature and scope of the statutory audit and where applicable, internal audit;
- Provide a framework within which the external Auditors can assert their independence in the event of a dispute with management;
- Strengthen the position of the internal audit function, by providing a greater degree of independence from management; and

Corporate Governance Statement continued

- Provide improved communication between the external Auditor and the Board.

b) **Composition of the Audit and Compliance Committee**

The Committee shall consist of a minimum of two (2) non Executive Directors appointed by the Board, and the Company Secretary.

The Board shall determine the Chairman of the Committee and the Chairman may choose to expand the membership of the Committee by the appointment of external professionals to the Committee or by the appointment of further non Executive Directors of the Company to the Committee. The Chairman will be a non Executive Director. Should the Chairman of the Committee be absent from a meeting, the members of the Committee present shall appoint an acting Chairman for that meeting.

The Chief Executive Officer and other senior management of the Company may be invited to attend Committee meetings. Advisers and other parties external to the Company may also be invited to attend meetings of the Committee, as the Chairman considers appropriate.

A quorum of the meeting will consist of two members of the Committee.

Members of the Committee shall be appointed for an initial three (3) year term of office after which their appointment may be subject to annual rotation.

c) **Meetings**

The Committee is expected to meet six (6) times per year on a bi monthly basis and more often where specifically required to.

The content of the meetings shall be determined have regard to the financial reporting and audit cycle of the Company and having specific reference to NSX listing requirements.

The Company Secretary of the Company shall be appointed Secretary of the Committee. Minutes of the meetings shall be prepared by the Secretary, as required, approved by the Chairman and circulated to all members of the Committee for their approval. The Secretary shall, in conjunction with the Chairman, draw up an agenda which will be circulated at least ten business days prior to each meeting to the members of the Committee.

The Chairman will call a meeting of the Committee if so requested by any Committee member, the Finance Director/Financial Controller or the internal or external Auditors.

Any action required or permitted to be taken at any meeting of the Committee may be taken without a meeting, if a written consent thereto is signed by all the members of the Committee, provided that such written consent shall be filed with the minutes of the proceedings of the Committee.

The Constitution of the Company shall govern the regulation of the meetings and proceedings of the Committee, so far as the Constitution may be applicable.

d) **Responsibilities**

The Committee shall consider any matters relating to the financial affairs of the Company, compliance with statutory and NSX listing requirements and issues relating to internal and external Audit. In addition, the Committee shall examine any other matters referred to it by the Board.

Corporate Governance Statement continued

The duties of the Committee are as follows:

- reviewing financial statements and other financial information distributed externally and determine whether or not to recommend their acceptance by the Board;
- monitoring corporate risk assessment and internal controls instituted and implementing internal controls to manage those risks;
- monitoring the establishment of an appropriate internal control framework, including information systems and considering enhancements;
- reviewing internal and external audit reports to ensure that where major deficiencies or breakdowns in controls or procedures have been identified, appropriate and prompt remedial action is taken by management;
- reviewing the nomination and performance of the external Auditors;
- liaising with the external Auditors and ensuring that the annual and half year statutory audits are conducted in an effective manner;
- monitoring the procedures in place to ensure that the Company is in compliance with the Corporations Law, NSX Listing Rules, its Constitution and other legislative and reporting requirements. This includes implementing a reporting system that meets formulated standards for public announcements made by the Company to ensure that shareholders and financial markets are adequately and properly informed in order to meet the continuous reporting requirements of the Corporations Law and the listing rules of Newcastle Stock Exchange Limited;
- reviewing reports on any major defalcations, frauds and thefts from the Company;
- reviewing the declaration from the Company Secretary on compliance with statutory responsibilities;
- ensuring that a corporate Code of Ethics is established and periodically reviewed;
- initiating and supervising special investigations;
- reviewing risk management practices, including the Company's use of derivatives;
- reviewing policies to avoid conflicts of interest and reviewing past or proposed transactions between the Company and members of management;
- reviewing related party transactions and considering the adequacy of disclosure of those transactions in the financial statements;
- reviewing reports on certain aspects of the Company's superannuation plan and compliance with relevant laws and regulations;
- reviewing reports on the adequacy of insurance coverage;
- formulate, review and monitor compliance with and investigate allegations of a breach of appropriate internal controls and reporting standards, mechanisms and procedures to ensure that the Board is informed at all times of all material corporate governance matters affecting the Company;

Corporate Governance Statement continued

- formulate and update, for submission to the Board for its approval, a statement of corporate governance principals and other associated documents dealing with, amongst other matters:
 - a) the structure and responsibilities of the Board;
 - b) the proper relationship between the Board and management including the proper relationship between the roles of Chairman and Managing Director;
 - c) the responsibilities of management;
 - d) *the proper relationships between the Company and its shareholders, suppliers and customers and employees;*
 - e) business dealings, in particular related party transactions, by Directors, management and employees giving rise to actual or potential conflicts of interest and their appropriate disclosure of such dealings; and
 - f) ethical and other matters considered by the Committee to be relevant to good corporate governance practice.
- to monitor compliance with the statement and to review or investigate allegations of a breach of the statement or of good corporate governance practice and to report to the Board in respect of such compliance, reviews and investigations at least annually, or more frequently if circumstances require;
- to formulate for Board approval and review and to facilitate the implementation of appropriate procedures to enable individual Directors to have access to independent professional advice, as considered necessary, in respect of corporate governance matters; and
- to act as a resource for individual Directors and the Company as a whole on questions of corporate governance and corporate ethics, including providing decisions and/or advice on such matters as are referred to the Committee by the Chairman of the Board or the Managing Director.

e) Reporting

The Chairman of the Committee shall report the findings and recommendations of the Committee to the Board after each Committee meeting. The minutes of all Committee meetings shall be circulated to members of the Board. The Chairman shall submit an annual report to the Board summarising the Committees activities during the year and the related significant results and findings.

E. Strategic Review and Operations Committee

Background

The Strategic Review and Operations Committee ("**Committee**") is a Committee established by the Board to review the operational activities of the Company. As the Company at present has not appointed a Managing Director, this Committee has strategic and operational responsibility and reports directly to the Board. In the event that the Company appoints a Managing Director, then this Committee will support the activities of the Managing Director.

Corporate Governance Statement continued

Constitution

The Committee has been established by a Board resolution.

The Committee has the right to seek independent professional advice, when considered necessary. The Committee should not, under any circumstances accept the delegation of Executive power in respect to the operations of the Company or undertake activities in a manner which could be construed to impinge on the Executive role of the Company.

Charter

a) Objectives

- Provide an interface to the Board on the operational activities of the Company;
- Develop the Business Plan and Budgets for review by the Board;
- To keep the Board apprised of variances against the Business Plan and Budgets;
- To liaise with the Risk Management Committee and assess and determine any risks that may become apparent from an operational stand point; and
- To meet on a regular basis in order to provide executive management to the activities of the Company or in the event of an MD being appointed to support the MD's activities.

b) Composition of the Strategic Review and Operations Committee

The Committee shall consist of a minimum of two (2) non Executive Directors appointed by the Board, and the Company Secretary.

The Board shall determine the Chairman of the Committee and the Chairman may choose to expand the membership of the Committee by the appointment of external professionals to the Committee or by the appointment of further non Executive Directors of the Company to the Committee. The Chairman will be a non-Executive.

Director. Should the Chairman of the Committee be absent from a meeting the members of the Committee present shall appoint an acting Chairman for that meeting.

The Chief Executive Officer and other senior management of the Company may be invited to attend Committee meetings. Advisers and other parties external to the Company may also be invited to attend meetings of the Committee as the Chairman considers appropriate.

A quorum of the meeting will consist of two members of the Committee.

Members of the Committee shall be appointed for an initial three (3) year term of office after which their appointment may be subject to annual rotation.

c) Meetings

The Committee is expected to meet six (6) times per year on a bi monthly basis and more often where specifically required to.

The content of the meetings shall be determined having regard to the operational requirements of the Company and having specific reference to the review of the Company's Business Plan and development of budgets.

Corporate Governance Statement continued

The Company Secretary of the Company shall be appointed Secretary of the Committee. Minutes of the meetings shall be prepared by the Secretary, as required, approved by the Chairman and circulated to all members of the Committee for their approval. The Secretary shall, in conjunction with the Chairman, draw up an agenda which will be circulated at least ten business days prior to each meeting to the members of the Committee.

The Chairman will call a meeting of the Committee if so requested by any Committee member, the MD (once appointed) or the Board.

Any action required or permitted to be taken at any meeting of the Committee may be taken without a meeting, if a written consent thereto is signed by all the members of the Committee, provided that such written consent shall be filed with the minutes of the proceedings of the Committee.

The Constitution of the Company shall govern the regulation of the meetings and proceedings of the Committee, so far as the Constitution may be applicable.

d) **Responsibilities**

- Provide support to the Managing Director (MD) and senior management team on identifying issues of strategic importance and providing possible directions;
- Provide support to the MD in considering step-out opportunities to reduce product/business dependence & risk and to provide the business with growth options;
- Promote a frequent and robust process for strategy debate and agreement by the MD and senior management and involving the Board;
- Ensure that the Company maintains focus on potential for unsolicited acquisition – not to prevent this – but to ensure that it only occurs at a fair valuation;
- Ensure that the Company maintains a watching brief for strategic acquisitions;
- Ensure that the Company is proactive in managing its register and in attracting strategic partners onto the register where this is considered sensible;
- Develop and monitor the Business Plan in consultation with the Board;
- Establish the business Budgets and assess the performance of the business against the Budgets and Business Plan;
- Develop, review and assess Business Forecasts and Cashflow Forecasts;
- Review and advise the Board on the Farm-in activities of the Company and compliance with these agreements; and
- Monitor and assess the operational activities of the Company.

e) **Reporting**

The Chairman of the Committee shall report the findings and recommendations of the Committee to the Board after each Committee meeting. The minutes of all Committee meetings shall be circulated to members of the Board. The Chairman shall submit an annual report to the Board summarising the Committees activities during the year and the related significant results and findings.

Corporate Governance Statement continued

F. Risk Management Committee

The Board has established a sound system of Risk Oversight and Management of Internal Control.

Background

The Risk Management Committee (“**Committee**”) is a Committee established by the Board of the Company to provide risk management assessment of the business activities of the Company.

The Board has resolved that this Committee shall be a sub committee of the Audit & Compliance Committee.

Constitution

The Committee has been established by a Board resolution and ratified as a sub-committee of the Audit & Compliance Committee by the Audit & Compliance Committee.

The Committee has the right to seek independent professional advice when considered necessary.

Charter

a) Objectives

- To establish a Risk Management process which objectively assesses the risks of the Company in their business activities;
- To provide quantitative and qualitative assessment of risks;
- To develop Risk Action Plans and ensure that management responds to these plans and reports to this Committee as to their response;
- To liaise with the external auditors in respect to their assessment of risks encountered by the Company in its ongoing business activities; and
- To assess the business plans developed by management in consultation with the Audit & Compliance Committee and independently determine risks associated with those business plans.

b) Composition of the Risk Management Committee

The Audit & Compliance Committee shall determine the Chairman of this Committee which will at all times be a non executive Director.

The Committee shall initially consist of a non Executive Director, the Financial Controller and the Company Secretary.

A quorum of the meeting will consist of three members of the Committee, inclusive of the Chairman.

Members of the Committee shall be appointed for an initial three (3) year term of office, after which their appointments may be subject to annual rotation.

c) Meetings

Having regard to the Risk Action Plans developed by the Risk Management Committee, the Committee shall meet as and when required and generally on the same timelines as the Audit & Compliance Committee.

Corporate Governance Statement continued

The Company Secretary shall act as Secretary to the Committee and shall prepare an agenda and keep minutes in respect to meetings.

The external auditors may be requested to attend Committee meetings.

d) Responsibilities

The Committee shall consider any matters relating to risk assessment of the business activities of the Company including and not limited to:

- Investment strategies;
- Operational activities;
- Assessment and minimisation of potential internal and external fraud;
- NSX Listing obligations;
- Corporate governance; and
- Such other matters the Committee considers to be relevant in assessing the risk of the business.

The duties of the Committee are as follows:

- Monitoring corporate risk and implementing controls to manage those risks;
- Reporting to the Audit & Compliance Committee as to the development of Risk Action Plans and the activities of management in monitoring the risks identified;
- Liaising with external auditors and ensuring the accuracy and timeliness of legislatively required reporting; and
- Continuous review of risk management practices within the Company.

e) Reporting

The Chairman of the Committee shall report its findings to the Chairman of the Audit & Compliance Committee.

The Chairman of the Committee shall report to the Board at each Board meeting with particular reference to the 5 highest ranked Risks of the business and the Risk Action Plans targeted to those Risks.

G. Remuneration Committee

The Board determines remuneration packages and policies applicable to the Managing Director, Senior Executives and the Directors themselves. This also includes responsibility for future entitlements under any option plan and share plan, incentive performance packages, superannuation entitlements, retirement and termination entitlement and fringe benefits policies.

To the extent that any Directors have a conflict of interest in respect to remuneration policies they abstain.

Corporate Governance Statement continued

Remuneration levels are competitively set to attract the most qualified and experienced Directors and Senior Executives. Where appropriate, the Board seeks independent advice on the appropriateness of remuneration packages.

The Shareholders determine at a General Meeting the total remuneration to be paid to non-Executive Directors. When setting fees and other compensation for non Executive Directors, the Board takes independent advice and applies Australian and International benchmarks.

Any share plan, incentives or option incentives are predicated on the enhancement of Shareholder value and the achievement of specific corporate milestones.

The Board has determined that:

- Non-Executive Directors should be remunerated by way of fees and should not participate in schemes designed for the remuneration of Executive Directors;
- Non-Executive Directors may received options and bonus payments subject to the achievement of specific milestones and Shareholder value hurdles determined and agreed by Shareholders at a General Meeting; and
- Non-Executive Directors are only entitled to receive retirement benefits as determined by the law.

H. Directors Dealing in Company Shares

All Directors and Senior Executives (as nominated by the CEO) must comply with the law regarding to purchase or sale of securities by a person who has inside knowledge (Corporations Law Section 1002G).

As policy, the Company will comply with the continuance disclosure regime under NSX Listing Rules, subject to the exceptions pursuant to that listing Rule whereby certain information may not be provided in circumstances where for example, transactions are incomplete. Directors and Senior Executives therefore acknowledge that there is the potential for a breach of Corporations Law Section 1002G in circumstances where price sensitive information has not been provided to NSX.

In respect to the Company's investor relations, the Company wishes to give to the public, its shareholders, investors, analysts and the financial press, information which properly reflects the activities of the Company and provides the impression that Directors and Senior Executives are focused on the development of the Company and its business rather than continuously dealing in its listed securities.

In order to minimise any negative perception that may arise from dealing in the Company's securities, Directors and Senior Executives may purchase or sell Company securities within a four week window **after** the day on which:

- a) The half yearly report is filed with NSX;
- b) The preliminary final report is filed with NSX;
- c) The day of the Annual General Meeting; and
- d) The day of listing of the Company on NSX.

In order for a Director or Senior Executive to purchase or sell securities in the Company:

- a) It must be lawful to do so pursuant to Section 1002G of the Corporations Law;
- b) There must be a relevant window as outlined above;
- c) The individual must give notice to the Chairman in the case of a Director (whether Executive or non Executive), all Directors in the case of the Chairman or to the CEO in the case of a Senior Executive;

Corporate Governance Statement continued

- d) The information to be provided shall include the number of shares that the Director or Executive wishes to buy or sell and that notification can be either verbal or in writing;
- e) Subject to no negative response within one business day of the notification being provided, the Director or Executive may implement their specific trade/s;
- f) In the event that the Chairman or the CEO provides instruction to a Director or Senior Executive as to perceived dangers or impropriety in trading, that person must heed that warning or instruction;
- g) In the event of a significant dealing in the Company's securities (defined as an amount greater than A\$100,000) the Chairman or CEO shall notify the other Directors of the Company; and
- h) In the case of serious financial need of either a Director or Senior Executive, the Chairman or CEO have the discretion to provide special dispensation in respect to the buying or selling of the Company securities subject always to the proposed dealing being lawful.

The thrust of this policy is to ensure that the Company, Directors and Senior Executives will be saved from embarrassment in undertaking transactions in securities of the Company in circumstances where they may be perceived to have inside information (whether or not that is the actual case).

I. Independent Professional Advice and access to Company Information

Each Director has the right of access to all relevant Company information and to the Company's Executives and, subject to prior consultation with the Chairman, may seek independent professional advice at the Company's expense. A Copy of advice received by the Director is made available to all other members of the Board.

J. Promotion of Ethical and Responsible Decision Making

The Company has established within its Human Resources manual a set of standards and a Code of Conduct. The Code of Conduct sets out how each Director, Manager and Employee of the Company is expected to act. The requirement to comply with the Code of Conduct is communicated to and signed by all Employees on an annual basis. All Directors, Managers and Employees are expected to act with the utmost integrity and objectivity, striving at all times to enhance the reputation and performance of the Company. Every Employee has a nominated Manager to whom they may refer any issues arising from their employment.

The Code of Conduct addresses the following:

- Conflicts of interest - where the interest of a private individual interferes or appears to interfere with the interests of the Company as a whole;
- Corporate opportunities - where Directors and key Executives take advantage of property, information or position, or opportunities arising from these, for personal gain or to compete with the Company;
- Confidentiality - the use of non-public information except where disclosure is authorised or legally mandated;
- Fair dealing - by all Employees with the Company's customers, suppliers, competitors and Employees;
- Protection of and proper use of the Company's assets - protecting and ensuring efficient use of assets for legitimate business purposes;

Corporate Governance Statement continued

- Compliance with laws and regulations - active promotion of compliance; and
- Encouraging reporting of unlawful/unethical behaviour - active promotion of ethical behaviour and protection for those who report violations in good faith.

K. Making Timely and Balanced Disclosures

The Company has adopted written Policies and Procedures designed to ensure compliance with NSX Listing Rule disclosure requirements and to ensure accountability at a Senior Management level for that compliance.

The Company has a policy that all Shareholders and investors have equal access to the Company's information and has procedures to ensure that price sensitive information is reported to the NSX in accordance with continuous disclosure requirements of the Corporations Act 2001 and NSX Listing Rules.

The Company Secretary is responsible for the drafting of communications to the NSX.

The announcements are provided to the Chairman of the Audit and Compliance Committee and/or the Chairman of the Board prior to release to the NSX.

The announcements are vetted to ensure:

- So they are made in a timely manner;
- Are factual;
- Do not omit material information; and
- Are expressed in a clear and objective manner so as to allow investors to assess the information when making investment decisions.

The Company has adopted a transparent process in respect to the release of information. Once authorised, all releases and information will be monitored and managed by the Company Secretary.

Media comment and external communications are the responsibility of the Chairman.

Meetings with Analysts, Share brokers and the Capital Markets are the responsibility of the Chairman and other Board members as and when specifically required.

L. Performance Management

The Board has introduced Performance Management for both itself and staff of the Company and this is reflected in the contractual relations between the Employees and the Company and in the letter of appointment provided to Directors.

The Performance Management system identifies Key Performance Indicators for each of the job roles undertaken within the Organisation. The Key Performance Indicators are:

- Specific;
- Measured;
- Agreed between the parties;
- Realistic; and
- Timed.

The Performance Management Reviews are undertaken annually and the Company has introduced a bonus structure to reflect over achievement.

Corporate Governance Statement continued

At each Board meeting of the Company, management are requested to provide:

- Management reports that reflect accurately the accounts, work in progress, debtors and creditors, cash flows forecasts and variances against budget;
- Senior Managers are requested to attend Board meetings to present to the Board the activities within their division; and
- Key elements of the business are addressed by key Managers at each Board meeting.

2. Internal Control Framework

The Board acknowledges that it is responsible for the overall internal control framework, but recognises that no cost effective internal control system will preclude all errors and irregularities. To assist in discharging this responsibility, the Board has adopted policies and procedures that can be described under the following headings:

- Financial reporting - there is a comprehensive budgeting system with an annual budget approved by the Board of Directors. Monthly actual results are reported against budget and revised forecasts for the year are prepared quarterly. The Company reports to Shareholders half-yearly;
- Continuous disclosure - the Company has a policy that all Shareholders and investors have equal access to the Company's information and has procedures to ensure that price sensitive information is reported to the NSX in accordance with Continuous Disclosure Requirements of the Corporations Act 2001 and NSX Listing Rules;
- Quality and integrity of personnel - the Company's policies are detailed in a Human Resources Manual. A signed statement is obtained on an annual basis from Employees stating that they have read and understood the Code of Conduct and the various policies and procedures as published on the Company's Intranet and contained in the Company's Human Resources Manual. Formal appraisals are conducted at least annually for all Employees;
- Financial controls - various policies and procedures are in place for financial controls including a Delegations Manual;
- Investment appraisal - the Company has clearly defined guidelines for capital expenditure. These include annual budgets, detailed appraisal and review procedures, levels of authority and due diligence requirements if any businesses are to be acquired or divested;
- The Chief Executive Officer and the Company Secretary/Chief Financial Officer provides to the Board a statement that the Company's financial reports present fairly, in all material respects, the Company's financial condition and operating results in accordance with relevant accounting standards;
- Further, they formally state to the Board that the statement given about the integrity of the financial statement is founded on a sound system of Risk Management and Internal Compliance and Control, which implements the policies adopted by the Board and that the Company's Risk Management and Internal Compliance and Control system is operating efficiently and effectively in all material respects; and
- Finally, they confirm they have disclosed to the Audit and Compliance Committee and the External Auditor any significant deficiencies of material weaknesses in Internal Control and financial reporting and they have disclosed any significant changes that have occurred that effected Internal Controls over the financial reporting period and whether any corrective actions were taken if any significant deficiencies and material weaknesses were identified.

Corporate Governance Statement continued

3. The Role of Shareholders

The Board of Directors aims to ensure that the Shareholders are informed of all major developments affecting the Company's state of affairs. Information is communicated to Shareholders as follows:

- The annual report is distributed to all Shareholders (unless a Shareholder has specifically requested not to receive the documents). The Board ensures that the annual report includes relevant information about the operations of the Company during the year, changes in the state of affairs of the Company and details of future developments, in addition to the other disclosures required by the Corporations Act 2001;
- The half-yearly report contains summarised financial information and review of the operations of the Company during the period. The annual audited financial report is prepared in accordance with the requirements of applicable Accounting Standards and the Corporations Act 2001 and is lodged with the Australian Securities and Investments Commission and the Newcastle Stock Exchange Limited. The financial report is sent to any Shareholder who requests it;
- Proposed major changes in the Company which may impact on share ownership rights are submitted to a vote of Shareholders;
- Price sensitive information is reported to the NSX in accordance with Continuous Disclosure Requirements;
- Notices of all meetings of Shareholders; and

The Board encourages full participation of Shareholders at the Annual General Meeting to ensure a high level of accountability and identification with the Company's strategy and goals. Important issues are presented to the Shareholders as single resolutions.

The Shareholders are requested to vote on the granting of options and shares to Directors and on the reappointment of Directors. Directors rotate in accordance with the Constitution.

NSX Additional Information

Additional information required pursuant to the Newcastle Stock Exchange Listing Rules and not disclosed elsewhere in this report is set out below.

Shareholdings (as at 19th September 2003)**Substantial Shareholders.**

Number of shares held by the substantial shareholders and their associated interests are set out below:

| Shareholder | Ordinary |
|---------------------------|-----------------|
| PARMELIA PTY LTD | 2,200,000 |
| SKVINSKY NOMINEES PTY LTD | 750,000 |
| ELMSIDE PTY LTD | 600,000 |

Distribution of Equity Security Holders

| RANGE | HOLDERS | UNITS | % |
|------------------|----------------|--------------|----------|
| 1 – 1,000 | 0 | 0 | 0.00 |
| 1,001 – 5,000 | 3 | 11,500 | 0.11 |
| 5,001 – 10,000 | 8 | 66,000 | 0.64 |
| 10,001 – 100,000 | 60 | 3,094,833 | 30.20 |
| 100,001 – OVER | 21 | 7,076,500 | 69.05 |

Twenty Largest Shareholders

| Shareholder | Ordinary |
|-------------------------------------|-----------------|
| PARMELIA PTY LTD | 2,200,000 |
| SKVINSKY NOMINEES PTY LTD | 750,000 |
| ELMSIDE PTY LTD | 600,000 |
| ROBERT JOHN AIRD | 360,000 |
| TULIP TOWER PTY LTD | 300,000 |
| MACKINTOSH HOLDINGS PTY LTD | 300,000 |
| MR MIKE MALBOURNE | 250,000 |
| ESTELVILLE NOMINEES PTY LTD | 250,000 |
| AGVEST PTY LTD | 250,000 |
| UPMARKET INVESTMENTS PTY LTD | 200,000 |
| RAGLAN PROPERTY INVESTMENTS PTY LTD | 200,000 |
| MRS ANGELA JOHNSON | 200,000 |
| MR CHRISTOPHER H AESCHLIMAN | 200,000 |
| SHAYNE MENZIES | 180,000 |
| GRAEME ALAN MENZIES | 160,000 |
| GIBBS INTERNATIONAL PTY LTD | 150,000 |
| CRAMM NOMINEES PTY LIMITED | 132,000 |
| HAMISH GILES | 125,000 |
| DAVID GIBBS | 125,000 |
| ANDREW GRACE | 125,000 |

STATEMENT OF FINANCIAL PERFORMANCE

YEAR ENDED 30 JUNE 2003

| | Notes | CONSOLIDATED | | CONCENTRATED CAPITAL | |
|---|-------|------------------|-----------------|----------------------|-----------------|
| | | 2003 \$ | 2002 \$ | 2003 \$ | 2002 \$ |
| REVENUES FROM ORDINARY ACTIVITIES | 2 | 5,394 | - | 5,394 | - |
| Corporate and administrative expenses | | (90,108) | (38,113) | (86,107) | (34,084) |
| Salaries and employee benefits expense | | (58,958) | - | (58,958) | - |
| Other expenses from ordinary activities | 3 | (8,854) | - | (8,854) | - |
| (LOSS) FROM ORDINARY ACTIVITIES BEFORE INCOME TAX EXPENSE | | (152,526) | (38,113) | (148,525) | (34,084) |
| INCOME TAX EXPENSE RELATING TO ORDINARY ACTIVITIES | 4 | - | - | - | - |
| (LOSS) FROM ORDINARY ACTIVITIES AFTER INCOME TAX EXPENSE | | (152,526) | (38,113) | (148,525) | (34,084) |
| TOTAL REVENUES, EXPENSES AND VALUATION ADJUSTMENTS RECOGNISED DIRECTLY IN EQUITY | | - | - | - | - |
| TOTAL CHANGES IN EQUITY OTHER THAN THOSE RESULTING FROM TRANSACTIONS WITH OWNERS AS OWNERS | | (152,526) | (38,113) | (148,525) | (34,084) |

STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2003

| | Notes | CONSOLIDATED | | CONCENTRATED CAPITAL | |
|--|-------|----------------|---------------|----------------------|-----------------|
| | | 2003 \$ | 2002 \$ | 2003 \$ | 2002 \$ |
| CURRENT ASSETS | | | | | |
| Cash assets | | 300,576 | 2 | 300,571 | 2 |
| Receivables | 5 | 38,874 | 9,497 | 492,989 | 5,058 |
| TOTAL CURRENT ASSETS | | 339,450 | 9,499 | 793,560 | 5,060 |
| NON-CURRENT ASSETS | | | | | |
| Other financial assets | 6 | 152,168 | - | 5 | - |
| Deferred exploration, evaluation and development costs | 8 | 305,528 | 59,738 | 10,811 | 16,503 |
| TOTAL NON-CURRENT ASSETS | | 457,696 | 59,738 | 10,816 | 16,503 |
| TOTAL ASSETS | | 797,146 | 69,237 | 804,376 | 21,563 |
| CURRENT LIABILITIES | | | | | |
| Payables | 9 | 43,991 | 57,348 | 43,191 | 41,645 |
| TOTAL CURRENT LIABILITIES | | 43,991 | 57,348 | 43,191 | 41,645 |
| TOTAL LIABILITIES | | 43,991 | 57,348 | 43,191 | 41,645 |
| NET ASSETS | | 753,155 | 11,889 | 761,185 | (20,082) |
| EQUITY | | | | | |
| Contributed equity | 10 | 943,794 | 50,002 | 943,794 | 14,002 |
| Retained profits | 11 | (190,639) | (38,113) | (182,609) | (34,084) |
| TOTAL EQUITY | | 753,155 | 11,889 | 761,185 | (20,082) |

STATEMENT OF CASH FLOWS**YEAR ENDED 30 JUNE 2003**

| | Notes | CONSOLIDATED | | CONCENTRATED CAPITAL | |
|--|-------|----------------|----------|----------------------|----------|
| | | 2003 | 2002 | 2003 | 2002 |
| | | \$ | \$ | \$ | \$ |
| CASH FLOWS FROM OPERATING ACTIVITIES | | | | | |
| Payments to suppliers and employees | | (114,565) | - | (94,366) | - |
| GST refund received | | 23,107 | - | 23,107 | - |
| Interest received | | 5,394 | - | 5,394 | - |
| Withholding tax paid | | (9) | - | (9) | - |
| Deferred exploration, evaluation and development costs | | (397,957) | - | 2,019 | - |
| NET CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES | 12(a) | (484,030) | - | (63,855) | - |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | | | |
| Purchase of shares | | - | - | (5) | - |
| Advances to related parties | | - | - | (420,175) | - |
| NET CASH FLOWS (USED IN) INVESTING ACTIVITIES | | - | - | (420,180) | - |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | | | |
| Proceeds from issues of ordinary shares | | 933,000 | - | 933,000 | - |
| Payment of share issue costs | | (139,541) | - | (139,541) | - |
| NET CASH FLOWS FROM (USED IN) FINANCING ACTIVITIES | | 793,459 | - | 793,459 | - |
| NET INCREASE/(DECREASE) IN CASH HELD | | 309,429 | - | 309,424 | - |
| Add opening cash brought forward | | 2 | 2 | 2 | 2 |
| Effects of exchange rates on cash | | (8,855) | - | (8,855) | - |
| CLOSING CASH CARRIED FORWARD | 12(b) | 300,576 | 2 | 300,571 | 2 |

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 30 JUNE 2003

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of accounting

The financial report is a general-purpose financial report, which has been prepared in accordance with the requirements of the Corporations Act 2001 including applicable Accounting Standards. Other mandatory professional reporting requirements (Urgent Issues Group Consensus Views) have also been complied with.

The financial report has been prepared in accordance with the historical cost convention. The accounting policies adopted are consistent with those of the previous year.

(b) Principles of consolidation

The consolidated financial statements are those of the consolidated entity, comprising Concentrated Capital Limited (the parent company) and all entities that Concentrated Capital Limited controlled from time to time during the year and at reporting date.

Information from the financial statements of subsidiaries is included from the date the parent company obtains control until such time as control ceases.

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 intercompany 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.

(c) Foreign Currencies

Translation of foreign currency transactions

Transactions in foreign currencies of entities within the consolidated entity are converted to local currency at the rate of exchange ruling at the date of the transaction.

Foreign currency monetary items that are outstanding at the reporting date (other than monetary items arising under foreign currency contracts where the exchange rate for that monetary item is fixed in the contract) are translated using the spot rate at the end of the financial year.

A monetary item arising under a foreign currency contract outstanding at the reporting date where the exchange rate for the monetary item is fixed in the contract is translated at the exchange rate fixed in the contract.

All resulting exchange differences arising on settlement or re-statement are recognised as revenues and expenses for the financial year.

(d) Cash and cash equivalents

Cash on hand and in banks and short term deposits are stated at nominal value.

For the purposes of the Statement of Cash Flows, cash includes cash on hand and in banks, and money market investments readily convertible to cash within 2 working days, net of outstanding bank overdrafts.

(e) Deferred exploration, evaluation and development costs

Costs carried forward

Costs arising from exploration and evaluation activities are carried forward provided such costs are expected to be recouped through successful development, or by sale, or where exploration and evaluation activities have not, at balance date, reached a stage to allow a reasonable assessment regarding the existence of economically recoverable reserves.

Amortisation

Costs carried forward in relation to a producing area of interest will be amortised on a production output basis, over the economic life of the area, pending commencement of production.

(f) Receivables

Trade receivables are carried at original invoice amounts less any provision for doubtful debts. A provision for doubtful debts is recognised when collection of the full nominal amount is no longer probable. Bad debts are written off as incurred.

NOTES CONTINUED

YEAR ENDED 30 JUNE 2003

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(g) Payables

Liabilities for trade creditors and other amounts are carried at cost which is the fair value of the consideration to be paid in the future for goods and services received, whether or not billed to the consolidated entity.

(h) Contributed equity

Issued and paid up capital is recognised at the fair value of the consideration received by the company.

Any transaction costs arising on the issue of ordinary shares are recognised directly in equity as a reduction of the share proceeds received.

(i) Revenue Recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the entity and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

Interests

Control of the right to receive the interest payment.

(j) Taxes

Income taxes

Tax-effect accounting is applied using the liability method whereby income tax is regarded as an expense and is calculated on the accounting profit after allowing for permanent differences. To the extent timing differences occur between the time items are recognised in the financial statements and when items are taken into account in determining taxable income, the net related taxation benefit or liability, calculated at current rates, is disclosed as a future income tax benefit or a provision for deferred income tax. The net future income tax benefit relating to tax losses and timing differences is not carried forward as an asset unless the benefit is virtually certain of being realised.

Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST except:

- where the GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- receivables and payables are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the Statement of Financial Position.

Cash flows are included in the Statement of Cash Flows on a gross basis and the GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the taxation authority are classified as operating cash flows.

(k) Comparative figures

Where necessary, comparatives have been reclassified and repositioned for consistency with current year disclosures.

NOTES CONTINUED

YEAR ENDED 30 JUNE 2003

| | Notes | CONSOLIDATED | | CONCENTRATED CAPITAL | |
|--|-------|--------------|------------|----------------------|------------|
| | | 2003 \$ | 2002 \$ | 2003 \$ | 2002 \$ |
| 2. REVENUE FROM ORDINARY ACTIVITIES | | | | | |
| Revenues from non-operating activities | | | | | |
| Interest | | 5,394 | - | 5,394 | - |
| Total revenues from non-operating activities | | 5,394 | - | 5,394 | - |
| Total revenues from ordinary activities | | 5,394 | - | 5,394 | - |

3. EXPENSES AND LOSSES/(GAINS)

Losses/(gains)Net foreign currency (gains)/losses**Total other expenses from ordinary activities**

4. INCOME TAX

No income tax is payable by the parent company or any subsidiary company within the consolidated entity as the companies are in a current tax loss position.

Income tax losses

The parent company has tax losses of A\$155,688 at reporting date. The future income tax benefit arising from these tax losses has not been brought to account at reporting date, as realisation of the benefit is not regarded as virtually certain. As the parent company is a Pooled Development Fund, the rate at which it will pay tax will vary according to the nature of the income earned and as such the value of the future income tax benefit has not been quantified.

This future income tax benefit will only be obtained if:

- (a) future assessable income is derived of a nature and of an amount sufficient to enable the benefit to be realised;
- (b) the conditions for deductibility imposed by tax legislation continue to be complied with; and
- (c) no changes in tax legislation adversely affect the consolidated entity in realising the benefit.

NOTES CONTINUED**YEAR ENDED 30 JUNE 2003**

| | Notes | CONSOLIDATED | | CONCENTRATED CAPITAL | |
|--|-------|--------------|------------|----------------------|------------|
| | | 2003 \$ | 2002 \$ | 2003 \$ | 2002 \$ |
| 5. RECEIVABLES (CURRENT) | | | | | |
| Sundry debtors | | 38,874 | 9,497 | 33,140 | 5,058 |
| Amounts other than trade debts receivable from related parties: | | | | | |
| Wholly-owned group – controlled entities | | - | - | 459,849 | - |
| | | 38,874 | 9,497 | 492,989 | 5,058 |

Terms and conditions

Terms and conditions relating to the above financial instruments

(i) Sundry debtors and other receivables are non-interest bearing and have repayment terms between 30 and 90 days.

| | Notes | CONSOLIDATED | CONCENTRATED CAPITAL |
|--|-------|----------------|----------------------|
| | | 2003 \$ | 2003 \$ |
| 6. OTHER FINANCIAL ASSETS (NON-CURRENT) | | | |
| <i>Investments as cost comprise:</i> | | | |
| Investments in subsidiaries | | - | 5 |
| 3.3% interest in the Avalon Oil Partnership | | 152,168 | - |
| | | 152,168 | 5 |

NOTES CONTINUED**YEAR ENDED 30 JUNE 2003**

| 7. INTERESTS IN SUBSIDIARIES | | | |
|-------------------------------------|---------------------------------|--|-------------------|
| Name | Country of incorporation | Percentage of equity interest held by the consolidated entity | Investment |
| | | 2003 | 2003 |
| | | % | \$ |
| Concentrated Coal Pty Ltd | Australia | 100 | 1 |
| QMI Investments Pty Ltd | Australia | 100 | 1 |
| Swearingen Gas Pty Ltd | Australia | 100 | 1 |
| Colorado Energy Pty Ltd | Australia | 100 | 1 |
| Avalon Investments (Aus) Pty Ltd | Australia | 100 | 1 |

| | Notes | CONSOLIDATED | | CONCENTRATED CAPITAL | |
|---|--------------|---------------------|---------------|-----------------------------|---------------|
| | | 2003 | 2002 | 2003 | 2002 |
| | | \$ | \$ | \$ | \$ |
| 8. DEFERRED EXPLORATION, EVALUATION AND DEVELOPMENT COSTS | | | | | |
| Exploration, evaluation and development costs carried forward in respect of mining, oil and gas areas of interest | | | | | |
| Pre-production | | | | | |
| – exploration and evaluation phases | | | | | |
| | | 305,528 | 59,738 | 10,811 | 16,503 |
| | | 305,528 | 59,738 | 10,811 | 16,503 |

The ultimate recoupment of costs carried forward for exploration and evaluation phases is dependent on the successful development and commercial exploitation or sale of the respective mining, oil and gas areas to which the deferred costs relate. Amortisation of the costs carried forward for the development phase is not being charged pending the commencement of production.

NOTES CONTINUED**YEAR ENDED 30 JUNE 2003**

| | Notes | CONSOLIDATED | | CONCENTRATED CAPITAL | |
|---|-------|---------------|---------------|----------------------|---------------|
| | | 2003 \$ | 2002 \$ | 2003 \$ | 2002 \$ |
| 9. PAYABLES | | | | | |
| Trade creditors | | 2,396 | - | 1,596 | - |
| Other creditors | | 41,595 | 57,348 | 41,595 | 41,645 |
| | | 43,991 | 57,348 | 43,191 | 41,645 |
| Aggregate amounts payable to related parties: | | | | | |
| Director-related entities | | - | 17,353 | - | 17,353 |
| | | - | 17,353 | - | 17,353 |

| | Notes | CONSOLIDATED | | CONCENTRATED CAPITAL | |
|---------------------------------------|-------|----------------|---------------|----------------------|---------------|
| | | 2003 \$ | 2002 \$ | 2003 \$ | 2002 \$ |
| 10. CONTRIBUTED EQUITY | | | | | |
| (a) Issued and paid up capital | | | | | |
| Ordinary shares fully paid | | 943,794 | 50,002 | 943,794 | 14,002 |
| | | 943,794 | 50,002 | 943,794 | 14,002 |

NOTES CONTINUED

YEAR ENDED 30 JUNE 2003

10. CONTRIBUTED EQUITY (continued)

| | | CONSOLIDATED | | | | |
|---------------------------------|------------------------|--------------|---------------------|-----------|---------------------|--------|
| | | Notes | 2003 | | 2002 | |
| | | | Number of Shares | \$ | Number of Shares | \$ |
| Beginning of the financial year | | | 1,200,000 | 50,002 | 2 | 2 |
| Issued during the year | | | | | | |
| - | public equity raising | (i) | 7,208,000 | 848,000 | 699,998 | - |
| - | less issue costs | | - | (139,541) | - | - |
| - | private equity raising | (ii) | 1,763,333 | 185,333 | 500,000 | 50,000 |
| End of the financial year | | | 10,171,333 | 943,794 | 1,200,000 | 50,002 |

(i) On 5 August 2002 6,890,000 Shares were issued at A\$ 0.10 each to the general public. Capital of A\$689,000 was raised.

On 30 May 2003 318,000 Shares were issued at A\$0.50 each to the general public. Capital of A\$159,000 was raised.

On 30 May 2003 40,000 Shares had been applied for but not issued at A\$0.50 each to the general public and was a receivable as at 30 June 2003.

(ii) On 30 September 2002, 105,000 Shares were issued at A\$0.10c each in lieu of payment for services rendered totalling A\$10,500 in relation to controlled entities.

On 30 September 2002, 120,000 Shares were issued at A\$0.10c each in lieu of payment for services rendered totalling A\$12,000 in relation to controlled entities.

On 7 October 2002, 495,000 Shares were issued at A\$0.10c each in lieu of payment for services rendered totalling A\$49,500 in relation to controlled entities.

On 10 November 2002, 150,000 Shares were issued at A\$0.10c each in lieu of payment for services rendered totalling A\$15,000 in relation to controlled entities.

On 10 December 2002, 850,000 Shares were issued at A\$0.10c each by private placement. Capital of A\$85,000 was raised.

On 10 December 2002, 25,000 Shares were issued at A\$0.25c each in lieu of payment for services rendered totalling A\$6,250 in relation to controlled entities.

On 1 January 2003, 10,417 Shares were issued at A\$0.30c each in lieu of payment for services rendered totalling A\$3,125 in relation to controlled entities.

On 1 April 2003, 6,250 Shares were issued at A\$0.50c each in lieu of payment for services rendered totalling A\$3,125 in relation to controlled entities.

On 1 May 2003, 833 Shares were issued at A\$0.50c each in lieu of payment for services rendered totalling A\$416.66 in relation to controlled entities.

On 1 June 2003, 833 Shares were issued at A\$0.50c each in lieu of payment for services rendered totalling A\$416.66 in relation to controlled entities.

NOTES CONTINUED

YEAR ENDED 30 JUNE 2003

10. CONTRIBUTED EQUITY (continued)**(b) Terms and conditions of contributed equity***Ordinary Shares*

Ordinary Shares have the right to receive dividends as declared and, in the event of winding up the company, to participate in the proceeds from the sale of all surplus assets in proportion to the number of and amounts paid up on shares held.

Ordinary Shares entitle their holder to one vote, either in person or by proxy, at a meeting of the company.

(c) Options*Employee Share Scheme*

An employee share scheme has been established where directors, executives and certain members of staff of the consolidated entity are issued with options over the ordinary Shares of Concentrated Capital Limited. The options, issued for nil consideration, are issued in accordance with performance guidelines established by the Directors of Concentrated Capital Limited. The options are issued for a term of 5 years and are exercisable on granting. The options cannot be transferred and will not be quoted on the Newcastle Stock Exchange. There are currently 3 directors and 1 executive eligible to participate.

| | 2003 | | 2002 | |
|------------------------------|--------------------------|---|--------------------------|---|
| | Number of options | Weighted average exercise price \$ | Number of options | Weighted average exercise price \$ |
| Balance at beginning of year | 1,350,000 | 0.166 | - | - |
| - granted | 545,000 | 0.143 | 1,350,000 | 0.166 |
| - forfeited | - | - | - | - |
| - exercised | - | - | - | - |
| Balance at end of year | 1,895,000 | 0.159 | 1,350,000 | 0.166 |
| Exercisable at end of year | 1,895,000 | 0.159 | 1,350,000 | 0.166 |

The following table summarises information about options outstanding and exercisable at 30 June 2003:

| Option price | Options | Outstanding | | Exercisable | |
|---------------------|----------------|----------------------------|-----------------------------|--------------------------|-----------------------------|
| | | Average option life | Average option price | Number of options | Average option price |
| \$0.09 | 170,000 | 0.4 | 0.09 | 170,000 | 0.09 |
| \$0.10 | 575,000 | 4.0 | 0.10 | 575,000 | 0.10 |
| \$0.20 | 1,150,000 | 4.0 | 0.20 | 1,150,000 | 0.20 |
| Total | 1,895,000 | 3.64 | 0.16 | 1,895,000 | 0.16 |

NOTES CONTINUED**YEAR ENDED 30 JUNE 2003**

| | Notes | CONSOLIDATED | | CONCENTRATED CAPITAL | |
|---|-------|--------------|----------|----------------------|----------|
| | | 2003 | 2002 | 2003 | 2002 |
| | | \$ | \$ | \$ | \$ |
| 11. RESERVES AND RETAINED PROFITS | | | | | |
| Retained profits | | | | | |
| Balance at the beginning of the year | | (38,113) | - | (34,084) | - |
| (Loss) from ordinary activities | | (152,526) | (38,113) | (148,525) | (34,084) |
| Balance at the end of the year | | (190,639) | (38,113) | (182,609) | (34,084) |
| 12. STATEMENT OF CASH FLOWS | | | | | |
| (a) Reconciliation of the net profit after tax to the net cash flows from operations | | | | | |
| Profit from ordinary activities after income tax expense | | (152,526) | (38,113) | (148,525) | (34,084) |
| Non-Cash Items | | | | | |
| Shares issued in lieu of payment for services | | 100,333 | 50,000 | 100,333 | 14,000 |
| Net foreign currency (gains)/losses | | 8,854 | - | 8,854 | - |
| Changes in assets and liabilities | | | | | |
| (Increase)/decrease in deferred exploration, evaluation and development costs | | (397,957) | (59,738) | 2,019 | (16,503) |
| (Increase)/Decrease in trade and other receivables | | (25,520) | - | (25,520) | - |
| (Decrease)/Increase in trade and other creditors | | (13,357) | 57,348 | 1,546 | 41,645 |
| (Decrease)/Increase in goods and services tax payable | | (3,857) | (9,497) | (2,562) | (5,058) |
| Net cash flow from operating activities | | (484,030) | - | (63,855) | - |
| (b) Reconciliation of cash | | | | | |
| Cash balance comprises: | | | | | |
| - Cash assets | | 300,576 | 2 | 300,571 | 2 |
| Closing cash balance | | 300,576 | 2 | 300,571 | 2 |

13. EXPENDITURE COMMITMENTS

The Directors confirm that there are no material Capital or Income expenditure commitments as at the date of this report.

NOTES CONTINUED**YEAR ENDED 30 JUNE 2003**

| | Notes | CONSOLIDATED | | CONCENTRATED CAPITAL | |
|--|-------|--------------|-------------|----------------------|------|
| | | 2003 | 2002 | 2003 | 2002 |
| | | \$ | \$ | \$ | \$ |
| 14. CONTINGENT LIABILITIES AND CONTINGENT ASSETS | | | | | |
| (a) Contingent Liabilities | | | | | |
| The Directors confirm that there are no known contingent liabilities at the date of this report. | | | | | |
| (b) Contingent Assets | | | | | |
| The Directors confirm that there are no known contingent assets at the date of this report. | | | | | |
| 15. REMUNERATION OF DIRECTORS | | | | | |
| (a) Director's remuneration | | | | | |
| Income paid or payable, or otherwise made available, in respect of the financial year, to all directors of each entity in the consolidated entity, directly or indirectly, by the entities of which they are directors or any related party: | | 183,956 | - | | |
| | | | | | |
| Income paid or payable, or otherwise made available, in respect of the financial year, to all directors of Concentrated Capital Limited, directly or indirectly, from the entity or any related party: | | | | 183,956 | - |
| | | | | | |
| | | 2003 | 2002 | | |
| | | No | No | | |
| The number of directors of Concentrated Capital Limited whose income (including superannuation contributions) falls within the following bands is: | | | | | |
| \$0 - \$9,999 | | 2 | - | | |
| \$10,000 - \$19,999 | | 3 | - | | |
| \$140,000 - \$150,000 | | 1 | - | | |

NOTES CONTINUED**YEAR ENDED 30 JUNE 2003**

| | Notes | CONSOLIDATED | | CONCENTRATED CAPITAL | |
|--|-------|---------------|----------|----------------------|----------|
| | | 2003 | 2002 | 2003 | 2002 |
| | | \$ | \$ | \$ | \$ |
| 16. AUDITORS' REMUNERATION | | | | | |
| Amounts received or due and receivable by Ernst & Young Australia for: | | | | | |
| - an audit or review of the financial report of the entity and any other entity in the consolidated entity | | 19,000 | - | 19,000 | - |
| - other services in relation to the entity and any other entity in the consolidated entity. | | 17,550 | - | 17,550 | - |
| | | 36,550 | - | 36,550 | - |

17. RELATED PARTY DISCLOSURES**Directors**

The Directors of Concentrated Capital Pty Ltd during the year were:

A.M. Grace (resigned 30 June 2003)

H.M. Giles

D.F. Gibbs (resigned 30 June 2003)

D.R. Rose (appointed 19/7/02 and resigned 30 June 2003)

C.Rowe (appointed 30 June 2003)

P.Reilly (appointed 30 June 2003)

Director-related entity transactions**Services**

Accounting services, Nominated Advisor Services and Sundry Corporate Services were provided by Salmon Giles Pty Ltd, of which Mr Hamish M Giles is a director, for an amount of A\$31,400 (2002: A\$17,353).

Mr David Rose as a Director received 41,667 Ordinary shares in lieu of services provided valued at A\$12,500 (2002:nil) and 375,000 Options over shares in lieu of services provided valued at A\$125,000 (2002 : nil).

Equity instruments of directors**Interests at balance date**

Interests in the equity instruments of Concentrated Capital Limited held by Directors of the reporting entity and their director-related entities:

| | Ordinary Shares Fully Paid | | Options over Ordinary Shares | |
|-----------|----------------------------|----------------|------------------------------|------------------|
| | 2003 | 2002 | 2003 | 2002 |
| | Number | Number | Number | Number |
| H. Giles | 126,666 | 125,000 | 375,000 | 375,000 |
| D. Gibbs | 275,000 | 125,000 | 375,000 | 375,000 |
| A. Grace | 135,000 | 125,000 | 375,000 | 375,000 |
| D. Rose | 241,667 | - | 375,000 | - |
| C. Rowe | - | - | - | - |
| P. Reilly | 2,200,000 | - | 40,000 | - |
| | 2,978,333 | 375,000 | 1,540,000 | 1,125,000 |

NOTES CONTINUED

YEAR ENDED 30 JUNE 2003

Movements in directors' equity holdings

During the year, Mr Rose, received 93% of his Director's remuneration by the issue of Shares and Options.

During the year, Mr Giles received 6% of his Director's remuneration by the issue of Shares.

There have been no other transactions concerning equity instruments during the year with Directors or their director related entities.

All equity dealings with Directors have been entered into with terms and conditions no more favourable than those that the entity would have adopted if dealing at arm's length.

18. SEGMENT REPORTING

The company is a Pooled Development Fund which is in the business of investing in small to medium sized Australian companies. These companies then invest in projects both in Australia and in the United States of America.

19. FINANCIAL INSTRUMENTS

Interest Rate Risk

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

Fixed interest rate maturing in:

| Financial Instruments | Floating Interest rate | | Total carrying amount as per the statement of financial position | | Weighted average effective interest rate | |
|-----------------------------|------------------------|----------------|--|----------------|--|-----------|
| | 2003 \$'000 | 2002 \$'000 | 2003 \$'000 | 2002 \$'000 | 2003 % | 2002 % |
| <i>(i) Financial assets</i> | | | | | | |
| Cash | 300 | - | 300 | - | 3.0 | N/A |
| Trade and other receivables | 38 | 9 | 38 | 9 | N/A | N/A |
| | 338 | 9 | 338 | 9 | 3.0 | |

Net Fair Values

All financial assets and financial liabilities have been recognised at balance date at their net fair values.

Credit Risk Exposures

The Company's maximum exposures to credit risk at reporting date in relation to each class of recognised financial asset, is the carrying amount of those assets in the Statement of Financial Position.

NOTES CONTINUED

YEAR ENDED 30 JUNE 2003

Director's Declaration

In accordance with a resolution of the directors of Concentrated Capital Limited, I state that:

1. 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 2003 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.

2. In the opinion of the directors, as at the date of this declaration, there are reasonable grounds to believe that the members of the Closed Group identified in note 7 will be able to meet any obligations or liabilities to which they are or may become subject.

On behalf of the Board



Hamish M Giles
Chairman

Independent audit report to members of Concentrated Capital Limited

Scope

The financial report and directors' responsibility

The financial report comprises the statement of financial position, statement of financial performance, statement of cash flows, accompanying notes to the financial statements, and the directors' declaration for Concentrated Capital Limited (the company) and the consolidated entity, for the year ended 30 June 2003. The consolidated entity comprises both the company and the entities it controlled during that year.

The directors of the company are responsible for preparing a financial report that gives a true and fair view of the financial position and performance of the company and the consolidated entity, and that complies with Accounting Standards in Australia, 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 of the financial report in order to express an opinion on it 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 in Australia, 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.

We performed procedures to assess whether the substance of business transactions was accurately reflected in the financial report. These and our other procedures did not include consideration or judgement of the appropriateness or reasonableness of the business plans or strategies adopted by the directors and management of the company.

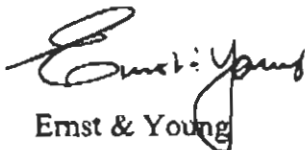
Independence

We are independent of the company, and have met the independence requirements of Australian professional ethical pronouncements and the Corporations Act 2001.

Audit opinion

In our opinion, the financial report of Concentrated Capital Limited is in accordance with:

- (a) the Corporations Act 2001, including:
 - (i) giving a true and fair view of the financial position of Concentrated Capital Limited and the consolidated entity at 30 June 2003 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.

A handwritten signature in black ink, appearing to read 'Ernst & Young', with the company name printed below it.

Ernst & Young

A handwritten signature in black ink, appearing to read 'Stuart Alford', with the name printed below it.

Stuart Alford
Partner
Melbourne
22 September 2003