

**Northern Energy** Corporation Limited



# Annual Report 2005

**NORTHERN ENERGY CORPORATION LIMITED**  
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<b>CORPORATE DIRECTORY</b>	
<b>DIRECTORS</b> Dr Christopher Rawlings (Non-Executive Chairman) Richard Seville (Non-Executive Director) Sam Willis (Non-Executive Director)	<b>AUDITORS</b> PKF Chartered Accountants Level 7, BGC Centre 28 The Esplanade Perth WA 6000
<b>CHIEF EXECUTIVE OFFICER</b> Keith Barker <b>SECRETARY</b> Paul Marshall	<b>SOLICITORS</b> Hemming & Hart Level 2 307 Queen St Brisbane Qld 4000
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<b>AUSTRALIAN BUSINESS NUMBER</b> ABN 90 081 244 395	<b>STOCK EXCHANGE LISTING</b> Australian Stock Exchange Ltd ASX Code: NEC

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**Chairman's Letter**

Dear Shareholder

The 2004/05 financial year saw your company move forward in the exciting new direction of coal exploration and development. The company was relisted on the Australian Stock Exchange at the end of February 2005 with a new name Northern Energy Corporation Limited, after an extensive capital and administration restructuring process.

I take this opportunity to thank the previous directors for their efforts in providing shareholders with this new opportunity and to all shareholders I welcome their support in this the inaugural year of Northern Energy Corporation.

The world relies on coal for a substantial proportion of its energy needs. Coal has underpinned the ongoing growth of the global economy providing a reliable, cost efficient fuel to the electricity sector and a vital raw material, coking coal, to the steel industry. Currently in excess of 5 billion tonnes of coal are consumed each year and an increasing percentage of this is supplied through global coal trade. Australia is an important part of this global trade, a sector which is expected to continue to grow and offer opportunities for the development of new coal export mines in Australia and elsewhere.

This is the fundamental goal of your company – to discover, assess and develop coal resources to supply the global demand for coal. I am pleased that we have already reported our initial resource statement at the Ashford coking coal project, even though the company did not formally commence operating, until the latter part of the financial year.

The company has management in place to progress exploration over its portfolio of tenements in both New South Wales and Queensland. There is ample potential to identify new coal resources in the Company's exploration tenements, particularly in the highly prospective northern NSW/ southern Queensland areas and in the Surat and Maryborough Basins. The Company will identify and take advantages of opportunities in the coal sector as they may arise.

The company is in a sound financial position having just obtained commitments for a raising by way of a placement of approximately 5,000,000 ordinary shares at a price of 45c per share to a mixture of Australian and overseas institutional and sophisticated investors. The issue of these shares will result in approximately \$2.36 million being raised by the company before issue costs.

On behalf of the Board I would like to thank our shareholders for their support together with the staff, contractors and consultants, who have contributed to the early growth of Northern Energy Corporation Limited

Yours sincerely

Christopher D. Rawlings  
Chairman

## **REVIEW OF OPERATIONS**

### **Highlights for the year**

November 2004	Agreement to purchase 50% of Ashford project from Renison Consolidated Mines in conjunction with recapitalisation of the company and agreement to purchase 100% of Taroom Coal
February 2005	Change of name; new directors; \$4 million public offer and commencement of new direction into coal exploration and development
June 2005	Drilling commences on the Ashford project
September 2005	Initial resource statement for the Ashford Project – Inferred Resource 14Mt coking coal
September 2005	Capital raising by way of institutional and sophisticated investor placement of approximately 5,000,000 shares at 45c to raise approximately \$2.36m before costs

### **Introduction**

The company's broad strategic objectives are:-

- To progress the Ashford high quality coking coal deposit to development status and beyond
- To identify new coal deposits in developing coal provinces and develop them to "mine ready" status.
- To discover new coal deposits through the application of fundamental exploration ideas and discovery methods
- Through the activities outlined above add shareholder wealth by moving up the resource development value curve

After a successful recapitalisation, in which the Company raised \$4 million, Northern Energy Corporation (NEC) began trading on February 23 2005. NEC was one of the first pure coal exploration floats to have listed on the ASX for many years.

Immediately the Company began implementing plans to undertake coal exploration on its Ashford project EL 6234, NSW (NEC 50%). The Company also held the Elimatta EPC 650 (NEC 100%) project in Queensland.

In addition the Company held a number of applications for exploration tenure in Queensland and NSW.

The company has aggressively progressed the work on the key projects in line with the objectives set out in the January 2005 prospectus. These, in summary were:-

- Commence a drilling and analysis programme in EL6234 (Ashford) – drilling commenced in June 2005;
- Establish a JORC resource at Ashford within the vicinity of the old mining area – an inferred resource of 14Mt has been estimated;

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- Look for extensions to the resource to the west and north – an intersection in EL6248 north of the identified resource provides encouragement for an extension to the initial resource. Phase 2 of the drilling program due to start in the final quarter 2005 is planned to further assess the area to the north and also to the west of the resource;
- The company has progressed the Ashford regional program with over 1200 sq km of granted exploration tenure, initial fieldwork has identified potential target areas. An additional application has been lodged at Bonshaw (NEC 50%), in northern NSW;
- Exploration tenure over the previously excluded area within EPC 650, in Queensland has been granted and a drilling program is planned to commence shortly;
- Exploration application areas in Southern Queensland were reviewed - two EPCs were granted, one is still under application and two applications have been withdrawn after extensive geological review.

The permit and tenement interests of the company as at September 2005 are shown in the following table.

**Table 1 SCHEDULE OF PERMIT AND TENEMENT INTERESTS**

**QUEENSLAND**

<b>TENEMENT</b>	<b>LOCATION</b>	<b>STATUS</b>	<b>GRANT APPLICATION DATE</b>	<b>EXPIRY DATE</b>	<b>NEC INTEREST</b>
EPC 650	Wandoan	Granted	March 1998	March 2006	100%
EPC 913	Texas	Granted	June 2005	June 2008	100%
EPC 914	Texas	Granted	August 2005	August 2008	100%
EPC 915	Texas	Granted	August 2005	August 2008	100%
EPC 922	Beaudesert	Granted	May 2005	May 2008	100%
EPC 927	Emerald	Granted	April 2005	April 2010	100%
EPC 932	Texas	Granted	July 2005	July 2010	100%
EPCA 917	Texas	Application	October 2004	N/A	100%
EPCA 923	Maryborough	Application	November 2004	N/A	100%

**NSW**

<b>TENEMENT</b>	<b>LOCATION</b>	<b>STATUS</b>	<b>GRANT APPLICATION DATE</b>	<b>EXPIRY DATE</b>	<b>NEC INTEREST</b>
EL 6234	Ashford	Granted	April 2004	April 2006	50% *
EL 6428	Ashford	Granted	June 2005	June 2008	50% *
ELA 2546	Bonshaw	Application	June 2005	N/A	50%

\* Northern Energy Corporation may earn an additional interest in these tenements by satisfying the requirement of the Farm-in Agreement with Renison Consolidated Mines NL. Minimum exploration commitments are likely to apply to the above areas under application following grant of tenure.

**Ashford Coking Coal Project (NEC 50% earning option over additional 25%)**

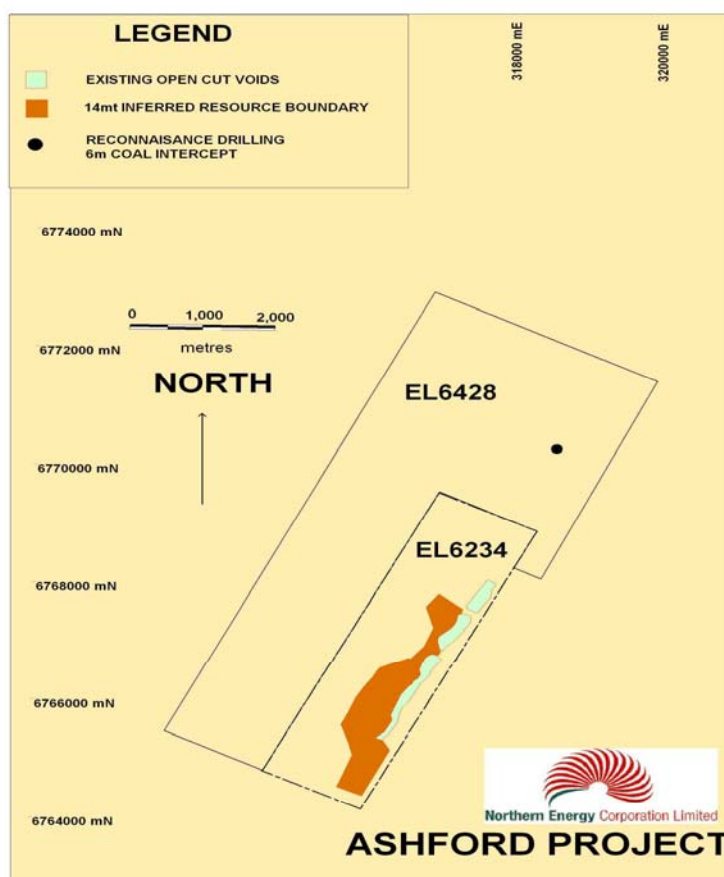
The Ashford coal project comprises ELs 6234 and 6428 which cover approximately 27km<sup>2</sup>. The project is located 10km north of the Ashford township, some 60km north of Inverell in Northern NSW. The target at Ashford is to delineate a resource of hard coking coal suitable for development to supply the export hard coking coal market.

Prior to the commencement of drilling, extensive consultation took place with the immediate landholders and the broader Ashford community. The company has appreciated the substantial support and cooperation that has been provided by the local community to date.

Drilling commenced at Ashford in June, adjacent to the previously mined area. At the completion of Phase 1, 32 drill holes had been completed, 14 of which were cored holes. Data from this program was combined with that from historical exploration and an initial inferred resource of 14Mt was announced at the beginning of September.

The area of the resource is illustrated on Fig 1, which illustrates that the resource area is a relatively small part of the entire project area. Further drilling is planned to commence in the final quarter of 2005, with the view to identify further extensions of the resource, to the West and North of the initial resource area.

Figure 1 Ashford Project Initial Resource Area



Analysis of the Ashford Seam, which comprises the resource, has indicated that this coal possesses excellent coking properties that should result in it being valued highly in the traded coal market.

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Coking coal is a vital raw material to the integrated steel making process which accounts for the majority of global steel production. Coking coal has specific characteristics which distinguish it from other coals and which result in it being valued by customers at a significant premium to other coal types which are typically used for power generation.

Ashford Seam Indicative Qualities

<b>Coal Characteristic</b>	<b>Ashford Indicative Quality</b>
Moisture (air dried)	0.9-1.1%
Ash	8-9% (washed) 12-13% (raw)
Volatiles	23-24% raw and washed
CSN	Up to 8.5
Fluidity	Low /medium
Sulphur	0.3-0.4%
Vitrinite	50-60%
mmr	1.1-1.15

Coking coal is currently mined in a relatively small number of regions around the world, with Australia currently supplying more than half of the world's coking coal trade. In addition, resources of coking coal are owned by a relatively small number of suppliers. It is our belief that coking coal produced from any development at Ashford would be well received by a market which is seeking new sources of coking coal supply.

Following the delineation of the initial resource, the company will assess alternative development options, with the conceptual target being an operation producing 0.5-1Mtpa of coking coal for export, using open cut methods. In parallel to these development studies, additional drilling programs will target potential extensions to the initial deposit. Importantly the Company is confident that this initial resource will be expanded as a result of ongoing work to be undertaken at the Ashford Project.

There are a number of existing rail corridors in the Northern NSW and Southern Queensland region most of which are currently in operation. These would provide possible truck / rail transport options to either the Newcastle or Brisbane ports, both of which currently have coal export facilities. These transport options will be evaluated in conjunction with the mining studies.

The Directors particularly wish to acknowledge the exploration team which initially identified the Ashford opportunity in 2004 and have carried this exploration project forward to its current stage.

### **EPC 650 Elimatta (NEC 100%)**

The company acquired this exploration project through the purchase of Taroom Coal in February 2005. Located in the northern Surat Basin, Queensland the Elimatta project area is approximately 29 sq km. The deposit was delineated by Brigalow Mines in 1981. The area includes outcropping members of the coal bearing Juandah Sequence, part of the Walloon Coal Measures.

Following application under the Native Title Act (1993), an area previously excluded from the EPC has now been added to the area under exploration tenure. Subsequently, following a review of the historical data, the company has designed a drilling program to verify the previous work and so enable a resource estimate under current JORC code requirements to be made.

A deposit capable of supporting a large mine (3-4Mtpa) supplying high volatile, low sulphur, low nitrogen coal for power generation is the target for this project. Consultation with the relevant landholders has taken place and the company appreciates their support. Drilling is scheduled to commence in the final quarter 2005.

Development of an export project at Elimatta will require access to a rail link to Gladstone. A number of proposals for linking this part of the Surat Basin with Gladstone are being evaluated by a number of different parties. The company is encouraged by the level of interest being shown in the development of infrastructure to service the Surat region. Following a successful initial drilling program the company intends to identify and evaluate the development options for this project in conjunction with the development of the regional infrastructure.

### **Other Exploration Areas**

#### **Northern NSW and Southern Queensland**

The company now has a substantial area under granted exploration tenure (and under application) to the north of the Ashford project extending into the Texas / Inglewood region of southern Queensland. Totalling in excess of 1200km<sup>2</sup>, this tenure is referred to as the Ashford Regional Project. The company is targeting additional Ashford style deposits in this region.

Ashford is a Permian age deposit, which is largely hidden beneath rocks of much younger ages. The company believes that there is the potential for other similar hidden coal bearing Permian Basins in the region. Preliminary fieldwork within a small part of the project area has focussed on examination of outcrops and other geological features. The Company's exploration team has identified a number of targets, which show similar characteristics to the geologic setting at Ashford.

In the current year it is planned to conduct more detailed field work across the area and establish targets for more detailed exploration, including drilling. The identification of additional coal deposits in the Ashford region would be of significant benefit for the development of infrastructure services.

#### **Central Queensland (Bowen Basin)**

The company also holds EPC 927 in the Emerald region of Central Queensland. Review of historical exploration data in this area indicates that the tenement contains the Rangal Coal Measures, which are mined elsewhere in the region. The review is ongoing and is expected to lead to further exploration activity over the area with the target being thermal / Pulverised Coal Injection coal.

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Southern Queensland (Clarence Moreton Basin)

EPC 922 is located in the Boonah / Beaudesert region south of Brisbane. This area has also been explored in the past and is known to contain Clarence Moreton coal measures which are mined elsewhere to supply domestic and export thermal coal.

Maryborough (Maryborough Basin)

The company holds the application for EPC 923 which is approximately 300km<sup>2</sup>. covering an area which has been the subject of very small scale mining in the past. The Notice of Proposed Grant of Exploration Permit has been advertised in accordance with the Native Title Act and the company anticipates that this process will be concluded in the final quarter 2005.

The company's priorities for the current financial year are as follows:

- Through additional drilling extend and upgrade the existing inferred resource at Ashford;
- Progress exploration over the Ashford project to identify the full extent of the presence of coal over EL 6234 and EL 6428;
- Conduct scoping studies followed by feasibility studies to evaluate development alternatives for the Ashford Project;
- Commence a development approval process at Ashford once positive feasibility outcomes are reached;
- Complete earn in requirement at Ashford providing the option to acquire an additional 25% of project;
- Complete the Phase 1 exploration program on EPC650 – Elimatta to bring previously identified area containing coal to JORC resource standard;
- Identify Ashford style targets through field exploration within the Ashford Regional project in southern Queensland and Northern NSW.
- Commence preliminary geological evaluation on exploration application areas once the tenements are granted

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**REPORT OF THE DIRECTORS**

The Directors present their report for the year ended 30 June 2005.

**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 the entire year unless otherwise stated.

Names, qualifications, experience and special responsibilities

Dr Christopher Rawlings  
Non-Executive Chairman

Dr Rawlings was appointed 17 February 2005. He has over 25 years experience in the mining industry, 19 of them in the coal industry. Until late 2000, he was Managing Director of one of Australia's leading mining companies, QCT Resources Ltd

Dr Rawlings is also the Non-Executive Chairman of Renison Consolidated Mines NL, Australian Magnesium Corporation Ltd and D'Aguilar Gold Ltd. He is also a Non-Executive Director of UniQuest Pty Ltd, Queensland Energy Resources Limited and JK Technology Pty Ltd.

He has previously held board positions with numerous industry bodies including President of the Queensland Mining Council, Chairman of the Australia Coal Association and Director of the World Coal Institute.

During the past three years Dr Rawlings has also served as a Director of the following listed companies:

- Renison Consolidated Mines NL \*
- D'Aguilar Gold Ltd \*
- Australian Magnesium Corporation Ltd \*
- Gympie Gold Limited

\* denotes current directorship.

Richard Seville  
Non-Executive Director

Mr Seville was appointed 17 February 2005. He is a mining geologist and geotechnical engineer with 20 years experience in the mining industry. He graduated in mining geology from the Royal School of Mines, Imperial College, UK in 1982 and holds a masters degree in rock engineering from James Cook University, Northern Queensland.

From 1994 until late 2000, Mr Seville was Executive Director – Operations of Murchison United NL, where he was responsible for the development of, and operations at, the Mount Cuthbert heap leach SX-EW Copper Mine in NW Queensland and operations at the Renison Bell Mine, as well as being responsible for the Ambor Coal Project in Kalimantan, Indonesia.

Outside his experience with Murchison United, Mr Seville has been involved in gold, coal and base metals operations in Western Australia and Queensland and was project manager for the Burton Coal Project prior to its sale to Portman Mining Ltd. He is also currently the Managing Director of Renison Consolidated Mines NL.

During the past three years Mr Seville has also served as a Director of the following listed companies:

- Renison Consolidated Mines NL \*

\* denotes current directorship.

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Sam Willis  
Non-Executive Director

Mr Willis holds a Bachelor of Commerce from the University of Western Australia where he majored in Accounting and Finance with a Marketing minor. He is a consultant for Cygnet Capital in its corporate advisory group in Perth. Prior to joining Cygnet, Mr Willis worked in the corporate advisory field for over 4 years where his primary duties involved providing corporate advice, completing opportunity evaluation, investment analysis, capital raising and co-ordination, broker liaison and deal co-ordination and structuring.

Mr Willis has also held positions as a private client advisor with Hartleys, an advisory capacity with Red Dingo (venture capital), and as an analyst with both Deutsche Bank and Schroders Investment Management in London. Mr Willis is currently a Non-Executive Director of New Standard Exploration NL and Eldore Mining Corporation Ltd.

During the past three years Mr Willis has also served as a Director of the following listed companies:

- CTI Communications Ltd (now renamed Biosignal Ltd)

Tim Kestell

Resigned 17 February 2005.

Graeme Boden

Resigned 17 February 2005.

#### **Company Secretary**

Paul Marshall

Appointed 17 February 2005.

Mr Marshall is a Chartered Accountant. He holds a Bachelor of Laws degree, a post graduate Diploma in Accounting and Finance and is a member of the Institute of Chartered Accountants in England and Wales. He has more than 20 years in the accountancy profession both in England and Australia, with the accountancy firm Ernst and Young, and subsequently over ten years spent in commercial roles gaining extensive experience in all aspects of company secretarial administration, company reporting and prospectus due diligence. Mr Marshall is also the Company Secretary of ASX listed Arrow Energy NL and Renison Consolidated Mines NL.

Graeme Boden

Resigned 17 February 2005.

#### **Interests in the shares and options of the Company**

Interest of the Directors in the shares and options of the Company as at the date of this report are:

	Fully Paid Ordinary Shares	Director Options
Christopher Rawlings	500,000	1,000,000
Richard Seville	500,000	1,000,000
Sam Willis	68,750	-

#### **Corporate Information**

##### Corporate Structure

Northern Energy Corporation Limited is a company limited by shares that is incorporated and domiciled in Australia.

Northern Energy Corporation Limited has prepared a consolidated financial report encompassing the entities that it controlled or had significant influence over during the financial year.

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Northern Energy Corporation Limited had the following investments in controlled non-trading companies during the financial year:

- Taroom Coal Pty Ltd (100%)

On 17 February 2005, Northern acquired a 100% interest in Taroom Coal Pty Ltd by issuing 4,500,000 Acquisition Shares to the Taroom Coal Vendor.

Nature of operations and principal activities

The principal activities of the Company during the year were:

- the restructure, refinancing and relisting of the Company
- coal exploration

Employees

The consolidated entity employed 2 full-time employees plus a further 1 part-time employee and 1 full-time contractor (excluding the Directors and Secretary) as at 30 June 2005 (2004: nil).

**Review of Financial Condition**

Capital structure

On 2 July 2004, 22,248,266 shares were issued to Scheme Creditors, as defined in the Deed of Company Arrangement dated 27 February 2004 as consideration for the Scheme Creditors releasing their claims against the Company. These shares were issued fully paid at 0.281 cents per share. A further 33,349,276 shares were issued fully paid at 0.281 cents per share, on 10 September 2004, to raise \$93,711 for working capital. On 28 January 2005, the share capital of the Company was reorganised by way of consolidating every 25 fully paid ordinary shares on issue at 28 January 2005 into one fully paid ordinary share.

In February under a Seed Capital Placement, a total of 8,170,000 fully paid ordinary shares were issued to investors at 12.5 cents each. Through a public equity raising, the Company also issued 20,000,000 ordinary shares at 20 cents each to raise \$4,000,000. The shares were issued and allotted in February 2005.

On 17 February 2005, the Company issued 4,500,000 ordinary shares to the Taroom Coal Vendor to acquire all the issued shares in Taroom Coal Pty Ltd. Also on 17 February 2005, the Company issued 10,658,947 ordinary shares to Renison Consolidated Mines NL to acquire a 50% interest in the Ashford Projects.

At 30 June 2005 the Company had 53,562,546 ordinary shares and 4,000,000 unlisted options on issue.

Treasury policy

The Company does not have a formally established treasury function. The Board is responsible for managing the Company's currency risks and finance facilities. The Company does not currently undertake hedging of any kind.

Liquidity and funding

The Company has sufficient funds to finance its operations and exploration activities, and to allow the Company to take advantage of favourable business opportunities, not specifically budgeted for, or to fund unforeseen expenditure.

<b>Results</b>	<b>2005</b>	<b>2004</b>
	\$	\$
Operating loss after income tax attributable to members	(419,569)	(1,983,400)

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### **Dividends**

No dividend was paid during the year and none is recommended as at 30 June 2005.

### **Review of Operations**

Detailed comments on operations and exploration programmes are included separately in the Annual Report under Review of Operations.

### **Significant Changes in the State of Affairs**

Northern Energy Corporation Limited was formerly Poltech International Limited. Poltech went through an administration process and on 6 July 2004 the terms of the Deed of Company Arrangement were satisfied in full and the control of the Company was returned to Directors on 7 July 2004. As a result, all liabilities of the Company were extinguished and the former business was sold.

On 2 July 2004, 22,248,266 shares were issued to Scheme Creditors, as defined in the Deed of Company Arrangement dated 27 February 2004, as consideration for the Scheme Creditors releasing their claims against the Company. The shares were issued fully paid at \$0.00281 per share, which was the basis of shares issued to unrelated parties for cash on 24 June 2004, thus the amount deemed to be paid to Scheme Creditors was \$62,518. On 10 September 2004, 33,349,276 shares were issued fully paid at \$0.00281 per share, to raise \$93,711 for working capital.

The Company is now pursuing a new business strategy in coal exploration and development. To raise funds for working capital and to meet the costs associated with re-listing, the Company raised \$1,021,025 from the issue of 8,170,000 Placement Shares to Placement Investors at an issue price of 12.5 cents each.

On 28 January 2005, the share capital of the Company was reorganised by way of consolidating every 25 fully paid ordinary shares on issue at 28 January 2005 into one fully paid ordinary share.

In January 2005, a prospectus was lodged with the ASIC and ASX with the Company inviting subscriptions from investors for up to 20,000,000 new shares at an issue price of 20 cents each. Additional offers made under the prospectus included the following:

- Acquisition Share Offer for the purposes of offering 4,500,000 Acquisition Shares at \$0.0725 per share, to the Taroom Coal Vendor pursuant to the Share Purchase Agreement;
- Ashford Coal Offer for the purpose of offering 10,658,887 Ashford Shares at \$0.20 per share to Renison pursuant to the Asset Purchase Agreement;
- Seed Capital Offer of 8,170,000 Placement Shares at \$0.125 per share to certain Placement Investors;
- Broker Option Offer to Cygnet Capital of 1,000,000 25 cent and 30 cent options exercisable from the grant date and expiring on 1 February 2008;
- Director Option Offer to the Proposed Directors of the Company of 1,000,000 25 cent and 1,000,000 30 cent options exercisable 12 months after grant date and expiring on 1 February 2008; and
- CEO Option Offer to Mr Keith Barker of 1,000,000 25 cent options exercisable 12 months after grant date and expiring on 1 February 2008

On 17 February the transactions which were the subject of the prospectus were settled and all shares and options were issued.

### **Matters Subsequent to the End of the Financial Year**

In September 2005 the company announced that it had entered agreements to place approximately 5,000,000 ordinary shares at a price of 45c per share to a mixture of Australian and overseas institutional and sophisticated investors. The issue of the shares will result in approximately \$2.36 million being raised by the company before issue costs.

Apart from the item noted above no matter or circumstance has arisen since 30 June 2005, that has significantly affected or may significantly affect the operations of the Company, the results of those operations, or the state of affairs of the Company in financial years subsequent to 30 June 2005.

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**Likely Developments and Expected Results of Operations**

Likely developments in the operations of the Company and the expected results of those operations in subsequent financial years have been discussed where appropriate in relation to the Company's exploration and development prospects in the Annual Report under Review of Operations.

There are no further developments of which the Directors are aware which could be expected to affect the results of the Company's operations in subsequent financial years other than information which the Directors believe comment on or disclosure of, would prejudice the interests of the Company.

**Environmental Regulation and Performance**

The consolidated entity is subject to environmental regulation in relation to its exploration activities. There are no matters that have arisen in relation to environmental issues up to the date of this report.

**Indemnification and Insurance of Directors, Officers and Auditor**

Each of the Directors of the Company have entered into a Deed with the Company whereby the Company has provided certain contractual rights of access to books and records of the Company to those Directors.

The Company has insured all of the Directors of Northern Energy Corporation Ltd. The contract of insurance prohibits the disclosure of the nature of the liabilities covered and amount of the premium paid. The Corporations Act does not require disclosure of the information in these circumstances.

The Company has not indemnified its auditor.

**Remuneration Report**

This report outlines the remuneration arrangements in place for Directors and Executives of Northern Energy Corporation Ltd (the Company).

Remuneration Policy

The performance of the Company depends upon the quality of its Directors and Executives. To prosper, the Company must attract, motivate and retain highly skilled Directors and Executives.

Remuneration Committee

The Board does not presently have a Remuneration and Nomination Committee. The Directors consider that the Company is not of a size, nor are its affairs of such complexity, as to justify the formation of a separate committee. All matters which might be dealt with by such a committee are reviewed by the Directors meeting as a Board. The Board, in carrying out the functions of the Remuneration and Nomination Committee, are responsible for determining and reviewing compensation arrangements for the Directors and the Executive team.

The Board, in carrying out the functions of the Remuneration and Nomination Committee, assess the appropriateness of the nature and amount of emoluments of such officers on a periodic basis by reference to relevant employment market conditions with the overall objective of ensuring maximum stakeholder benefit from the retention of a high quality Board and Executive team.

Such officers are given the opportunity to receive their base emolument in a variety of forms including cash and fringe benefits. It is intended that the manner of payments chosen will be optimal for the recipient without creating undue cost for the Company.

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Remuneration structure

It is the Company's objective to provide maximum stakeholder benefit from the retention of a high quality Board and Executive team by remunerating Directors and key Executives fairly and appropriately with reference to relevant employment market conditions. To assist in achieving this objective, the Board considers the nature and amount of Executive Directors' and Officers' emoluments alongside the Company's financial and operational performance. The expected outcomes of the remuneration structure are the retention and motivation of key Executives, the attraction of quality management to the Company and performance incentives which allow Executives to share the rewards of the success of Northern Energy Corporation Ltd.

In accordance with best practice corporate governance, the structure of Non-Executive Director remuneration and Chief Executive Officer and Senior Management remuneration is separate and distinct.

Non-Executive Director remuneration

The Board seeks to set aggregate remuneration at a level which provides the Company with the ability to attract and retain Directors of the highest calibre, whilst incurring a cost which is acceptable to shareholders.

The Constitution of the Company and the ASX Listing Rules specify that the Non-Executive Directors are entitled to remuneration as determined by the Company in General Meeting to be apportioned among them in such manner as the Directors agree and, in default of agreement, equally. The maximum aggregate remuneration currently approved by shareholders is for a total of \$500,000 per annum.

If a Non-Executive Director performs extra services, which in the opinion of the Directors are outside the scope of the ordinary duties of the Director, the Company may remunerate that Director by payment of a fixed sum determined by the Directors in addition to or instead of the remuneration referred to above. A Non-Executive Director is entitled to be paid travel and other expenses properly incurred by them in attending Director's or General Meetings of the Company or otherwise in connection with the business of the Company.

The remuneration of Non-Executive Directors for the year ending 30 June 2005 is detailed in Table 1 of this Remuneration Report.

Chief Executive Officer and Senior Management remuneration

The Company aims to reward the Chief Executive Officer and Senior Management with a level and mix of remuneration commensurate with their position and responsibilities within the Company and so as to:

- reward Executives for company and individual performance against targets set by reference to appropriate benchmarks;
- align the interests of Executives with those of shareholders;
- link reward with the strategic goals and performance of the Company; and
- ensure total remuneration is competitive by market standards.

The remuneration of the Chief Executive Officer and Senior Management may from time to time be fixed by the Board. As noted above, the Board's policy is to align Executive objectives with shareholder and business objectives by providing a fixed remuneration component and offering long-term incentives.

The level of fixed remuneration is set so as to provide a base level of remuneration which is both appropriate to the position and is competitive in the market. Fixed remuneration is reviewed annually by the Remuneration and Nomination Committee, and the process consists of a review of company wide and individual performance, relevant comparative remuneration in the market and internal, and where appropriate, external advice on policies and practices.

In relation to the payment of bonuses, options and other incentive payments, discretion is exercised by the Board, having regard to the overall performance of Northern Energy Corporation Ltd and the performance of the individual during the year.

The remuneration of the Chief Executive Officer and Senior Management for the year ending 30 June 2005 is detailed in Table 1 of this Remuneration Report.

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Employment contracts

It is the Board's policy that employment agreements are entered into with all Directors, Executives and employees. The current employment agreement with the Chief Executive Officer has a three month notice period. All other employment agreements have one month (or less) notice periods. No current employment contracts contain early termination clauses. All Non-Executive Directors have contracts of employment.

The Chief Executive Officer, Mr Keith Barker is employed under an executive services contract. Under the terms of the executive services contract, Mr Barker's remuneration package included the following:

- 1,000,000 CEO Options with an exercise price of 25 cents and expiry date of 1 February 2008; and
- the right to subscribe for 250,000 post consolidation shares at 12.5 cents each pursuant to the Seed Capital Placement.

(a) Details of specified Directors and specified Executives

(i) Specified Directors

Christopher Rawlings	Non-Executive Chairman (appointed 17 February 2005)
Richard Seville	Non-Executive Director (appointed 17 February 2005)
Sam Willis	Non-Executive Director
Tim Kestell	Non-Executive Director (resigned 17 February 2005)
Graeme Boden	Non-Executive Director (resigned 17 February 2005)

(ii) Specified Executives

Keith Barker	Chief Executive Officer (appointed 17 February 2005)
Paul Marshall	Company Secretary (appointed 17 February 2005)
Graeme Boden	Company Secretary (resigned 17 February 2005)

(b) Remuneration of specified Directors and specified Executives

The Specified Executives are also the most highly paid Executive Officers of the Company for the year ended 30 June 2005.

**Table 1**

2005	Salary & Fees	Primary Cash Bonus	Non-cash benefits	Post-Employment Superannuation	Retirement benefits	Equity Options#	Other	Total
Christopher Rawlings	14,648	-	-	1,318	-	36,037	-	52,003
Richard Seville	7,324	-	-	659	-	36,037	-	44,020
Sam Willis	22,324	-	-	659	-	-	-	22,983
Tim Kestell	13,761	-	-	1,239	-	-	-	15,000
Graeme Boden	50,219	-	-	-	-	-	-	50,219
<b>Total Remuneration: Specified Directors</b>	<b>108,276</b>	<b>-</b>	<b>-</b>	<b>3,875</b>	<b>-</b>	<b>72,074</b>	<b>-</b>	<b>184,225</b>
Keith Barker	77,406	-	-	6,481	-	37,604	-	121,491
Paul Marshall	15,760	-	-	-	-	-	-	15,760
<b>Total Remuneration: Specified Executives</b>	<b>93,166</b>	<b>-</b>	<b>-</b>	<b>6,481</b>	<b>-</b>	<b>37,604</b>	<b>-</b>	<b>137,251</b>

#The calculation of value of options granted using the Black-Scholes option pricing model, which takes into account factors such as the option exercise price, the market price at the date of issue and volatility of the underlying share price and the time to maturity of the option. The model allocates a value to more than one reporting period.

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(c) Options issued as part of remuneration for the year ended 30 June 2005

During the year options were granted as equity compensation benefits to certain specified Directors and Executives as disclosed below. The options were issued free of charge. Each of the granted options entitles the holder to subscribe for one fully paid ordinary share in the entity at various exercise prices and various option periods, as set out in Table 2 of this Remuneration Report.

**Table 2**

Terms & Conditions for Each Grant								
	Grant Date	Grant Number	Vest Date	Value per option at grant date (\$)#	Exercise Number	Value per Option at Exercise Date	Value at Date Option Lapsed	% of Remuneration
<b>Specified Directors</b>								
Christopher Rawlings	17 Feb 05	500,000	17 Feb 06	0.1029	N/A	N/A	N/A	98.9
	17 Feb 05	500,000	17 Feb 06	0.0943	N/A	N/A	N/A	90.7
Richard Seville	17 Feb 05	500,000	17 Feb 06	0.1029	N/A	N/A	N/A	116.9
	17 Feb 05	500,000	17 Feb 06	0.0943	N/A	N/A	N/A	107.1
<b>Specified Executives</b>								
Keith Barker	17 Feb 05	1,000,000	17 Feb 06	0.1029	N/A	N/A	N/A	84.7
<b>Total</b>		<b>3,000,000</b>						

# Calculation of value of options granted using the Black-Scholes option pricing model, which takes into account factors such as the option exercise price, the market price at the date of issue and volatility of the underlying share price and the time to maturity of the option.

No options were granted as equity compensation benefits in 2004.

(d) Shares issued on exercise of remuneration options

There were no shares issued during the year on exercise of remuneration options.

(e) Shareholdings holdings of specified Directors and specified Executives

	Balance 1 July 2004	Granted as Remuneration	On Exercise of Options	Net Change Other	Balance 30 June 2005
<b>Specified Directors</b>					
Christopher Rawlings	-	-	-	500,000	500,000
Richard Seville	-	-	-	500,000	500,000
Sam Willis	-	-	-	68,750	68,750
<b>Specified Executives</b>					
Keith Barker	-	-	-	250,000	250,000
Paul Marshall	-	-	-	50,000	50,000
<b>Total</b>	-	-	-	<b>1,368,750</b>	<b>1,368,750</b>

(f) Option holdings of specified Directors and specified Executives

	Balance 1 July 2004	Granted as Remuneration	On Exercise of Options	Net Change Other	Balance 30 June 2005
<b>Specified Directors</b>					
Christopher Rawlings	-	1,000,000	-	-	1,000,000
Richard Seville	-	1,000,000	-	-	1,000,000
Sam Willis	-	-	-	-	-
<b>Specified Executives</b>					
Keith Barker	-	1,000,000	-	-	1,000,000
Paul Marshall	-	-	-	-	-
<b>Total</b>	-	<b>3,000,000</b>	-	-	<b>3,000,000</b>

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(g) Loans to specified Directors and specified Executives

There were no loans to specified Directors or specified Executives during the year.

(h) Other transactions to specified Directors and specified Executives

Other transactions with (specified) Directors are set out in Note 24. There were no other transactions or balances with specified Executives during the year.

### **Meetings of Directors**

The following table sets out the number of meetings of the Company's Directors held during the year ended 30 June 2005 and the number of meetings attended by each Director.

	<b>Number of meetings held while in office</b>	<b>Number of meetings attended</b>
Christopher Rawlings	3	3
Richard Seville	3	3
Sam Willis	9	9
Tim Kestell	6	6
Graeme Boden	6	6

Total number of meetings held during the financial year – 9.

### **Non-Audit Services**

The following non-audit services were provided by PKF Corporate Advisory Services (WA) Pty Ltd, a related entity of the entity's auditor PKF. The Directors are satisfied that the provision of non-audit services is compatible with the general standard of independence for auditors imposed by the Corporations Act. The nature and scope of each type of non-audit service provided means that auditor independence was not compromised.

PKF received the following amounts for the following amounts for the provision of non-audit services:

Independent Accountants' Report for the Prospectus	\$8,921
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### **Auditor's Independence Declaration**

The Auditor's Independence Declaration forms part of the Directors' Report and can be found on page 20.

### **Share Options**

#### Unissued shares

As at the date of this report (and at the balance date) there were 4,000,000 unissued ordinary shares under options as follows:

- 2,500,000 unlisted options to take up one ordinary share in Northern Energy Ltd at an issue price of 25 cents. The options expire 1 February 2008
- 1,500,000 unlisted options to take up one ordinary share in Northern Energy Ltd at an issue price of 30 cents. The options expire 1 February 2008

#### Shares issued as a result of the exercise of options

During the year ended 30 June 2005, and as at the date of this report, no shares were issued as a result of the exercise of an option over unissued shares.

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**Proceedings on Behalf of the Company**

No person has applied for leave of Court to bring proceedings on behalf of the Company or intervene in any proceedings to which the Company is a party for the purpose of taking responsibility on behalf of the Company for all or any part of those proceedings. The Company was not a party to any such proceedings during the year.

**Corporate Governance**

In recognising the need for the highest standards of corporate behaviour and accountability, the Directors of Northern Energy Corporation Limited support and adhere to the principles of corporate governance. The Company's corporate governance statement is set out in a separate section of this report.

Signed in accordance with a resolution of the Directors.

**R Seville**  
**Director**

**Brisbane      30 September 2005**

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**AUDITOR'S INDEPENDENCE DECLARATION  
TO THE DIRECTORS OF NORTHERN ENERGY CORPORATION LIMITED**

As lead engagement partner for the audit of Northern Energy Corporation Limited for the year ended 30 June 2005, I declare that, to the best of my knowledge and belief, there have been:

- (i) no contraventions of the independence requirements of the *Corporations Act 2001* in relation to the audit; and
- (ii) no contraventions of any applicable code of professional conduct in relation to the audit.

**PKF**  
Chartered Accountants

**IAN P OLSON**  
Partner

Perth, 30<sup>th</sup> day of September 2005

## SHAREHOLDER INFORMATION

### DISTRIBUTION OF NUMBER OF HOLDERS OF EACH CLASS OF SECURITIES AS AT 21 SEPTEMBER 2005

**NEC – Ordinary Fully Paid Shares**

Number of Securities Held	No's of holders
1 to 1,000	160
1,001 to 5,000	95
5,001 to 10,000	189
10,001 to 100,000	288
100,001 and over	70
	802
Number of shareholders holding less than a marketable parcel of shares	160

### TWENTY LARGEST HOLDERS OF EACH QUOTED SECURITY

**NEC – Ordinary Fully Paid Shares**

No.	Name of Shareholder	Holding	% Held
1	Renison Consolidated Mines NL	10,533,947	19.67%
2	ANZ Nominees Ltd	8,346,564	15.58%
3	Samuel Capital Ltd	4,500,000	8.40%
4	James Hamersley	1,060,000	1.98%
5	Dr Salim Cassim	887,500	1.66%
6	Sixth Era Pty Ltd	742,978	1.39%
7	Narod Nominees Pty Ltd	697,421	1.30%
8	Elizabeth Lee Nelson	500,000	0.93%
9	Israport (Sales) Pty Ltd	477,500	0.89%
10	Cyberspace Investments Pty Ltd	472,500	0.88%
11	David McLauchlan	445,000	0.83%
12	Flue Holdings Pty Ltd	440,000	0.82%
13	Sally Diane Bizzell	400,000	0.75%
14	Kenneth Clements	400,000	0.75%
15	William Richard Savage	375,000	0.70%
16	Ocean View WA Pty Ltd	365,000	0.68%
17	Benjamin Weetman	365,000	0.68%
18	Brian Featherby	355,976	0.66%
19	Everbond Pty Ltd	345,000	0.64%
20	Richard Seville & Associates Pty Ltd	312,500	0.58%
		32,021,886	59.77%

### VOTING RIGHTS

- (i) All fully paid ordinary shares carry one vote per share without restriction.

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**SUBSTANTIAL SHAREHOLDERS**

Substantial shareholders as shown in substantial shareholder notices received by the Company at 21 September 2005 are:

<u>Name of Shareholder</u>	<u>Ordinary Shares</u>
Renison Consolidated Mines NL	10,533,947

**RESTRICTED SECURITIES**

**Ordinary Shares**

Date securities cease to be restricted:	Number of restricted securities:
23 February 2006 (ASX restriction)	7,095,000
23 February 2007 (ASX restriction)	11,127,697

**Options exercisable at \$0.25 on or before 1 February 2008**

Date securities cease to be restricted:	Number of restricted securities:
23 February 2007 (ASX restriction)	2,500,000

**Options exercisable at \$0.30 on or before 1 February 2008**

Date securities cease to be restricted:	Number of restricted securities:
23 February 2007 (ASX restriction)	1,500,000

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**INTERESTS IN MINING TENEMENTS**

Northern Energy Corporation Limited held the following interests in mining and exploration tenements as at 20 September 2005:

**New South Wales Tenements**

Type	Title No	Location	Interest
EL	6234	Ashford	50% *
EL	6428	Ashford	50% *
ELA	2546	Bonshaw	50%

\* - Option to earn a 25% additional interest in these tenements by satisfying the requirements of the Farm-in Agreement with Renison Consolidated Mines NL.

**Queensland Tenements**

Type	Title No	Location	Interest
EPC	650	Wandoan	100%
EPC	913	Texas	100%
EPC	914	Texas	100%
EPC	915	Texas	100%
EPC	922	Beaudesert	100%
EPC	927	Emerald	100%
EPC	932	Texas	100%
EPCA	917	Texas	100%
EPCA	923	Maryborough	100%

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**CORPORATE GOVERNANCE STATEMENT**

The Board of Directors of Northern Energy Corporation Ltd is responsible for the corporate governance of the consolidated entity. The Board guides and monitors the business and affairs of Northern Energy Corporation Ltd on behalf of the shareholders by whom they are elected and to whom they are accountable.

Northern Energy Corporation Ltd's Corporate Governance Statement is structured with reference to the Corporate Governance Council's principles and recommendations, which are as follows:

- Principle 1. Lay solid foundations for management and oversight
- Principle 2. Structure the Board to add value
- Principle 3. Promote ethical and responsible decision making
- Principle 4. Safeguard integrity in financial reporting
- Principle 5. Make timely and balanced disclosure
- Principle 6. Respect the rights of shareholders
- Principle 7. Recognise and manage risk
- Principle 8. Encourage enhanced performance
- Principle 9. Remunerate fairly and responsibly
- Principle 10. Recognise the legitimate interests of stakeholders

For further information on corporate governance policies adopted by Northern Energy Corporation Ltd, refer to our website: [www.northernenergy.com.au](http://www.northernenergy.com.au).

Any departures to the Council's best practice recommendations as at the date of this report, or throughout the year ended 30 June 2005, are set out below.

**Structure of the Board**

The skills, experience and expertise relevant to the position of Director held by each Director in office at the date of the annual report is included in the Directors' Report. Directors of Northern Energy Corporation Ltd are considered to be independent when they are independent of management and free from any business or other relationship that could materially interfere with, or could reasonably be perceived to materially interfere with, the exercise of their unfettered and independent judgment.

In the context of Director independence, "materiality" is considered from both the Company and individual Director perspective. The determination of materiality requires consideration of both quantitative and qualitative elements. An item is presumed to be quantitatively material on the following basis - balance sheet items are material if they have a value of more than 5% of pro-forma net assets and profit and loss items are material if they will have an impact on the current year operating result of 10% or more. Qualitative factors considered include whether a relationship is strategically important, the competitive landscape, the nature of the relationship and the contractual or other arrangements governing it and other factors which point to the actual ability of the Director in question to shape the direction of the Company's loyalty.

In accordance with the definition of independence above, and the materiality thresholds set, the following Directors of Northern Energy Corporation Ltd are considered to be independent:

Christopher Rawlings  
Richard Seville  
Sam Willis

There are procedures in place, agreed by the Board, to enable Directors, in furtherance of their duties, to seek independent professional advice at the Company's expense.

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The term in office held by each Director in office at the date of this report is as follows:

Name	Term in Office
Christopher Rawlings	7 months
Richard Seville	7 months
Sam Willis	1 year 5 months

### **Remuneration and Nomination Committee**

Recommendations 9.2 and 2.4 require listed entities to establish Remuneration and Nomination Committees. During the year ended 30 June 2005, Northern Energy Corporation Ltd did not have separately established Remuneration or Nomination Committees. The full Board carried out the functions of Remuneration and Nomination Committees during the reporting year.

### **Audit Committee**

Recommendation 4.2 requires listed entities to establish an Audit Committee. During the year ended 30 June 2005, Northern Energy Corporation Ltd did not have a separately established Audit Committee. The full Board carried out the functions of Remuneration and Nomination Committees during the reporting year.

It is the Board's responsibility to ensure that an effective internal control framework exists within the entity. This includes internal controls to deal with both the effectiveness and efficiency of significant business processes, the safeguarding of assets, the maintenance of proper accounting records, and the reliability of financial information as well as non-financial considerations such as the benchmarking of operational key performance indicators.

### **Performance**

The full Board, in carrying out the functions of the Remuneration and Nomination Committee, considers remuneration and nomination issues annually and otherwise as required in conjunction with the regular meetings of the Board.

The performance of the individual members of the Board is reviewed annually, and otherwise as required in conjunction with the regular meetings of the Board, by the other Directors against both measurable and qualitative indicators. The performance criteria against which Directors and Executives are assessed is aligned with the financial and non-financial objectives of Northern Energy Corporation Ltd.

### **Remuneration**

It is the Company's objective to provide maximum stakeholder benefit from the retention of a high quality Board and Executive team by remunerating Directors and key Executives fairly and appropriately with reference to relevant and employment market conditions. To assist in achieving this objective, the Board links the nature and amount of Executive Director's and Officer's emoluments to the Company's financial and operations performance. The expected outcomes of the remuneration structure are:

- retention and motivation of key Executives
- attraction of quality management to the Company
- performance incentives which allow Executives to share the rewards of the success of Northern Energy Corporation Ltd

For details on the amount of remuneration and all monetary and non-monetary components for each of the five highest paid (Non-Director) Executives during the year, and for all Directors, please refer to the Remuneration Report within the Directors' Report. In relation to the payment of bonuses, options and other incentive payments, discretion is exercised by the Board, having regard to the overall performance of Northern Energy Corporation Ltd and the performance of the individual during the year.

There is no scheme to provide retirement benefits, other than statutory superannuation, to Non-Executive Directors.

The Board is responsible for determining and reviewing compensation arrangements for the Directors themselves, subject to the Company's constitution and prior shareholder approvals, and the Executive team.

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**STATEMENT OF FINANCIAL PERFORMANCE**  
**FOR THE YEAR ENDED 30 JUNE 2005**

	Note	Consolidated		Parent Entity	
		2005	2004	2005	2004
		\$	\$	\$	\$
Revenue from Ordinary Activities					
Operating revenue		-	(1,355,568)	-	794,576
Interest received		82,520	-	82,028	-
Other revenues from ordinary activities		-	12,089,250	-	7,559,099
Total Revenue from Ordinary Activities	2	82,520	10,733,682	82,028	8,353,675
Expenses from ordinary activities					
Employee benefits expense		189,616	858,626	189,616	548,503
Depreciation and amortisation expenses	3	4,347	1,748,869	4,347	1,184,364
Borrowing costs expense	3	1,415	213,602	1,415	61,355
Bad debts	3	-	1,159,751	-	1,489,252
Write down of Intangibles to recoverable amount		-	3,124,636	-	-
Write down of Investment in subsidiary		-	-	-	2,000,000
Legal and patent fees		35,307	369,459	35,307	369,459
Administration and consultancy costs		243,526	-	241,068	-
Occupancy costs		-	182,505	-	182,505
Compliance and certification costs		-	78,349	-	78,349
Hawaii Settlement write-off		-	4,130,406	-	4,130,406
Ferrier Hodgson costs of Company Administration		-	243,823	-	243,823
Other expenses from ordinary activities		27,878	607,056	27,878	618,726
Total expenses from ordinary activities		502,089	12,717,082	499,631	10,906,742
Profit/(Loss) from ordinary activities before income tax					
		(419,569)	(1,983,400)	(417,603)	(2,553,067)
Income tax expense relating to ordinary activities	4	-	-	-	-
Net Profit/(Loss) attributable to members of Northern Energy Corporation Limited					
	17	(419,569)	(1,983,400)	(417,603)	(2,553,067)
Share issue expenses		(777,833)	-	(777,833)	-
Total changes in equity other than those resulting from transactions of owners as owners					
		(1,197,402)	(1,983,400)	(1,195,436)	(2,553,067)
Basic earnings/(loss) per share (cents per share)	21	(1.62)	(7.99)		
Diluted earnings/(loss) per share (cents per share)	21	(1.62)	(7.99)		

The above statement of financial performance should be read in conjunction with the notes to the financial statements.

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**STATEMENT OF FINANCIAL POSITION**  
**AS AT 30 JUNE 2005**

	Note	Consolidated		Parent Entity	
		2005	2004	2005	2004
		\$	\$	\$	\$
<b>Current Assets</b>					
Cash assets		3,428,374	-	3,427,790	-
Receivables	5	46,470	-	46,047	-
Other current assets	6	34,013	-	34,013	-
<b>Total Current Assets</b>		<u>3,508,857</u>	<u>-</u>	<u>3,507,850</u>	<u>-</u>
<b>Non-Current Assets</b>					
Receivables	7	52,589	-	64,149	-
Other financial assets	8	-	-	322,695	-
Property, plant & equipment	10	60,297	-	60,297	-
Exploration and development	11	2,976,560	-	2,645,278	-
<b>Total Non-Current Assets</b>		<u>3,089,446</u>	<u>-</u>	<u>3,092,419</u>	<u>-</u>
<b>Total Assets</b>		<u>6,598,303</u>	<u>-</u>	<u>6,600,269</u>	<u>-</u>
<b>Current Liabilities</b>					
Payables	12	172,462	62,518	172,462	62,518
Interest bearing liabilities	13	7,906	-	7,906	-
Provisions	14	8,314	-	8,314	-
<b>Total Current Liabilities</b>		<u>188,682</u>	<u>-</u>	<u>188,682</u>	<u>-</u>
<b>Non-Current Liabilities</b>					
Interest bearing liabilities	15	44,147	-	44,147	-
<b>Total Non-Current Liabilities</b>		<u>44,147</u>	<u>-</u>	<u>44,147</u>	<u>-</u>
<b>Total Liabilities</b>		<u>232,829</u>	<u>62,518</u>	<u>232,829</u>	<u>62,518</u>
<b>Net Assets</b>		<u>6,365,474</u>	<u>(62,518)</u>	<u>6,367,440</u>	<u>(62,518)</u>
<b>Equity</b>					
Contributed Equity	16	28,287,066	21,439,505	28,287,066	21,439,505
Accumulated Losses	17	(21,921,592)	(21,502,023)	(21,919,626)	(21,502,023)
<b>Total Equity</b>		<u>6,365,474</u>	<u>(62,518)</u>	<u>6,367,440</u>	<u>(62,518)</u>

The above statement of financial position should be read in conjunction with the notes to the financial statements.

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**STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED 30 JUNE 2005**

	Note	Consolidated		Parent Entity	
		2005	2004	2005	2004
		\$	\$	\$	\$
<b>Cash Flows from Operating Activities</b>					
Cash receipts in the course of operations		-	918,396	-	860,076
Cash payments in the course of operations		(491,349)	(1,655,102)	(486,918)	(1,085,403)
Interest received		74,000	3,458	73,508	3,458
Interest paid		(1,415)	-	(1,415)	-
Borrowing costs		-	(213,602)	-	(61,355)
Proceeds from sale of inventories		-	278,299	-	-
<b>Net Cash Used in Operating Activities</b>	18	<b>(418,764)</b>	<b>(668,551)</b>	<b>(414,825)</b>	<b>(283,224)</b>
<b>Cash Flow From Investing Activities</b>					
Cash acquired		419	-	-	-
Loan to subsidiary company		-	-	(21,649)	-
Proceeds from sale of plant & equipment		-	193,600	-	193,600
Payments for property, plant & equipment		(4,692)	-	(4,692)	-
Proceeds from sale of intellectual property		-	584,448	-	584,448
Payments for exploration & development		(239,645)	-	(215,530)	-
Payments for purchase of prospects		(264,369)	-	(264,369)	-
Payments for purchase of controlled entity	18	-	-	(6,570)	-
Payments of security deposits		(42,500)	-	(42,500)	-
<b>Net Cash Flow (Used in)/Provided by Investing Activities</b>		<b>(550,787)</b>	<b>778,048</b>	<b>(555,310)</b>	<b>778,048</b>
<b>Cash Flow from Financing Activities</b>					
Proceeds from issue of shares		5,177,479	800,050	5,177,479	800,050
Payments for issue of shares		(777,833)	(50)	(777,833)	(50)
Proceeds from borrowings		73,173	759,010	73,173	-
Repayment of borrowings		(73,173)	(1,439,925)	(73,173)	(842,047)
Payments of hire purchase / finance lease principal		(1,721)	-	(1,721)	-
<b>Net Cash Flow from Financing Activities</b>		<b>4,397,925</b>	<b>119,085</b>	<b>4,397,925</b>	<b>(42,047)</b>
<b>Net increase/(decrease) in cash held</b>		<b>3,428,374</b>	<b>228,582</b>	<b>3,427,790</b>	<b>452,777</b>
Overdrafts extinguished by Deed of Company Arrangement		-	4,600,594	-	1,900,432
Cash at the beginning of the financial year		-	(4,829,176)	-	(2,353,209)
<b>Cash at the end of the financial year</b>	18	<b>3,428,374</b>	<b>-</b>	<b>3,427,790</b>	<b>-</b>

The above statement of cash flows should be read in conjunction with the notes to the financial statements.

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## **1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

### **Basis of accounting**

The financial report is a general purpose financial report which has been drawn up in accordance with Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board, Urgent Issues Group Consensus Views and Corporations Act 2001. Other mandatory professional reporting requirements (Urgent Issues Group Consensus Views) have also been complied with.

The financial statements have been prepared in accordance with the historical cost convention.

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

### **Principles of consolidation**

The consolidated accounts are those of the consolidated entity, comprising Northern Energy Corporation Limited (the parent entity) and all entities which Northern Energy Corporation Limited controlled from time to time during the year and at balance date.

Information from the financial statements of subsidiaries is included from the date the parent company obtains control until such time as the control ceases. Where there is a loss of control of a subsidiary, the consolidated financial statements include the results for the part of the reporting year during which the parent company has control.

The financial statements of subsidiaries are prepared for the same reporting year as the parent entity, using consistent accounting policies. All intercompany balances and transactions, including unrealised profits arising from intra-group transactions, have been eliminated in full.

### **Comparatives**

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

### **Foreign Currencies**

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.

### **Cash**

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

For the purpose of the Statement of Cash Flows, cash includes cash on hand and in banks and money market investments which are readily convertible to cash within two working days. Bank overdrafts are carried at the principal amount. Interest is recognised as an expense as it accrues.

### **Receivables**

Trade and other receivables are recognised and carried at original invoice amount less a provision for any uncollectible debts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written-off as incurred.

Receivables from related parties are recognised and carried at the nominal amount due. Interest is taken up as income on an accrual basis.

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### **Investments**

Investments in associates are carried at the lower of the equity-accounted amount and recoverable amount in the financial report. All other non-current investments are carried at the lower of cost and recoverable amount.

Investments are brought to account at cost. The carrying amount of investments is reviewed annually by Directors to ensure they are not in excess of the recoverable amount of these investments. The recoverable amount is assessed from the shares' current market value or the underlying net assets in the particular entities.

### **Recoverable Amount**

Non-current assets are not carried at an amount above their recoverable amount, and where carrying values exceed this recoverable amount assets are written down. In determining recoverable amount the expected net cash flows have not been discounted to their present value.

### **Property, Plant and Equipment**

All property, plant and equipment is measured at cost less accumulated depreciation, where depreciation is calculated on a straight line basis over the estimated useful lives for the period the assets are put to productive use.

Major depreciation periods are

- Plant and equipment	3-8 years
- Motor vehicles	5-6 years
- Computers and office equipment	3-8 years
- Furniture and fittings	3-8 years

### **Leases**

Leases are classified at their inception as either operating or finance leases based on the economic substance of the agreement so as to reflect the risks and benefits incidental to ownership.

#### *Operating leases*

The minimum lease payments of operating leases, where the lessor effectively retains substantially all of the risks and benefits of ownership of the leased item, are recognised as an expense on a straight line basis.

#### *Finance leases*

Leases which effectively transfer substantially all of the risks and benefits incidental to ownership of the leased item to the group are capitalised at the present value of the minimum lease payments. A lease liability of equal value is also recognised. Minimum lease payments are allocated between interest expense and reduction of the lease liability with the interest expense calculated using the interest rate implicit in the lease and recognised directly in net profit.

### **Exploration, evaluation, development and restoration 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. Costs carried forward in respect of an area of interest that is abandoned are written off in the year in which the decision to abandon is made.

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*Restoration Costs*

Restoration costs that are expected to be incurred are provided for as part of the cost of the exploration, evaluation, development, construction and production phases that give rise to the need for restoration. Accordingly, these costs are recognised gradually over the life of the facility as these phases occur. The costs include obligations relating to reclamation, waste site closure, plant closure, platform removal and other costs associated with the restoration of the site. These estimates are current costs and have not been discounted to their present value. Any changes in the estimates are adjusted on a retrospective basis. In determining the restoration obligations, the entity has assumed no significant changes will occur in the relevant Federal and State legislation in relation to restoration of such mines in the future.

**Other Non-Current Assets**

*Expenditure carried forward*

Significant items of carry forward expenditure having a benefit or relationship to more than one period are written off over the periods to which such expenditure relates.

**Payables**

Liabilities for trade creditors and other services 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.

Payables to related parties are carried at the principal amount. Interest, when charged by the lender, is recognised as an expense on an accrual basis.

**Interest Bearing Liabilities**

All borrowings are measured at the principal amount. Interest is charged as an expense as it accrues.

Finance lease and hire purchase liability is determined in accordance with the requirements of AASB 1008 'Leases'.

**Provisions**

Provisions are recognised when the economic entity has a legal, equitable or constructive obligation to make a future sacrifice of economic benefits to other entities as a result of past transactions or other past events, it is probable that a future sacrifice of economic benefits will be required and a reliable estimate can be made of the amount of the obligation.

**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.

**Revenue Recognition**

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

Interest: Revenue is recognised on a proportional basis taking into account the interest rates applicable to the financial assets.

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## **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 of the item. 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. Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the taxation authority.

### *Tax Consolidation Legislation*

The consolidated entity is in the process of forming an income tax consolidated group under the Tax Consolidation Regime. Northern Energy Corporation will be responsible for recognising the current and deferred tax assets and liabilities for the tax consolidation group. The tax consolidated group will be entering a tax sharing agreement whereby each company in the group contributes to the income tax payable in proportion to their contribution to the net profit before tax of the consolidated group.

## **Employee Benefits**

Provision is made for employee benefits accumulated as a result of employees rendering services up to the reporting date. These benefits include wages and salaries, annual leave and long service leave.

Liabilities arising in respect of wages and salaries, annual leave and any other employee benefit expected to be settled within twelve months of the reporting date are measured at their nominal amounts based on remuneration rates which are expected to be paid when the liability is settled. All other employee benefit liabilities are measured at the present value of the estimated future cash outflow to be made in respect of services provided by employees up to the reporting date.

Employee benefit expenses and revenues arising in respect of wages and salaries, non-monetary benefits, annual leave, and other types of employee benefits are charged against profits on a net basis in their respective categories.

## **Earnings/Loss per Share**

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

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

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Note	Consolidated		Parent Entity	
	2005	2004	2005	2004
	\$	\$	\$	\$
<b>2. REVENUE FROM ORDINARY ACTIVITIES</b>				
<b>Revenues from operating activities</b>				
Income from equipment sales	-	479,239	-	479,239
Service income	-	577,053	-	520,969
Interest received	82,520	3,458	82,028	3,458
Other revenue	-	36,792	-	36,792
Total revenues from operating activities	82,520	1,096,542	82,028	1,040,458
<b>Revenues from non-operating activities</b>				
Proceeds from disposal of plant and equipment	-	181,416	-	181,416
Proceeds from disposal of inventories	-	222,289	-	-
Proceeds from disposal of intellectual property	-	584,448	-	584,448
Cancellation of liabilities under Deed of Company Arrangement	-	11,088,822	-	6,793,235
Cancellation adjustment on liquidation of subsidiary	-	12,275	-	-
Total revenues from non-operating activities	-	12,089,250	-	7,559,099
<b>Total revenue</b>	<b>82,520</b>	<b>13,185,792</b>	<b>82,028</b>	<b>8,599,557</b>
<b>3. EXPENSES AND LOSSES/(GAINS)</b>				
<b>(a) Expenses</b>				
<b>Cost of sales</b>				
- Cost of sales	-	216,774	-	245,882
- Write down of all work in progress and product stocks on disposal	-	2,235,336	-	-
Total cost of sales	-	2,452,110	-	245,882
<b>Depreciation and amortisation</b>				
Depreciation of non-current assets:				
- Plant and equipment	27	77,882	27	69,712
- Demonstration units	-	35,521	-	15,541
- Motor vehicles	2,930	-	2,930	-
- Computers and office equipment	1,376	-	1,376	-
- Furniture and fittings	14	-	14	-
Total depreciation of non-current assets	4,347	113,403	4,347	85,253
Amortisation of non-current assets				
- Leasehold improvements	-	2,731	-	2,470
- Leased plant and equipment	-	28,168	-	13,308
- Intangibles	-	89,274	-	-
Total amortisation of non-current assets	-	120,173	-	15,778
<b>Write off of written down values upon disposal</b>				
- Plant and equipment	-	985,527	-	853,725
- Demonstration units	-	378,713	-	169,945
- Leasehold improvements	-	15,513	-	10,566
- Leased plant and equipment	-	135,540	-	49,096
Total write off of written down values upon disposal	-	1,515,293	-	1,083,332
<b>Total depreciation and amortisation expenses</b>	<b>4,347</b>	<b>1,748,869</b>	<b>4,347</b>	<b>1,184,363</b>

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	Note	Consolidated		Parent Entity	
		2005	2004	2005	2004
		\$	\$	\$	\$
<b>3. EXPENSES AND LOSSES/(GAINS) (continued)</b>					
<b>Borrowing costs</b>					
- Banks and other non related financial institutions		1,415	213,602	1,415	61,355
Total borrowing costs		1,415	213,602	1,415	61,355
<b>Bad Debts</b>					
- Loan to controlled entity		-	-	-	366,781
- Hawaii settlement		-	4,130,406	-	4,130,406
- Other		-	1,159,751	-	1,122,471
Total Bad Debts		-	5,290,157	-	5,619,658
<b>Other</b>					
- Exploration expenditure written off		5,029	-	3,268	-
<b>(b) Revenue and Net Gains</b>					
Net gain/(loss) on the disposal of property, plant & equipment		-	(891,393)	-	(889,732)
Net gain/(loss) on disposal of intellectual property		-	(2,500,936)	-	623,700
<b>(c) Significant revenues and expenses</b>					
The following significant revenue and expense items are relevant in explaining the financial performance:					
<b>Significant revenue</b>					
- Liabilities extinguished under Deed of Company Arrangement		-	11,088,822	-	6,973,235
- Consolidation adjustment offset to revenue on liquidation of subsidiary		-	12,275	-	-
- Proceeds from sale of intellectual property		-	584,448	-	584,448
<b>Significant expense</b>					
- Write down intangibles to recoverable amount		-	3,124,636	-	-
- Write down of loan to controlled entity		-	-	-	366,781
- Write down of investment in subsidiary		-	-	-	2,000,000
<b>4. INCOME TAX</b>					
<b>(a) Income Tax Expense</b>					
Prima Facie Tax Expense (Revenue) at 30%		(125,871)	(595,020)	(125,281)	(765,919)
<b>Increase in income tax expense due to:</b>					
Entertainment		344	-	344	-
Legal fees		10,592	-	10,592	-
Website development costs		2,196	-	2,196	-
Amortisation of intangibles		-	26,782	-	-
Write down of intangibles		-	937,391	-	-
Write down of investment in subsidiary		-	-	-	600,000
Write down of loan to controlled entity		-	-	-	110,034
<b>Decrease in income tax expense due to:</b>					
Capital raising costs		(48,788)	-	(48,788)	-
Prior period carried forward losses applied		-	(369,153)	-	-
Timing differences not brought to account		161,527	-	160,937	55,885
Income tax expense (revenue)		-	-	-	-

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	Note	Consolidated		Parent Entity	
		2005	2004	2005	2004
		\$	\$	\$	\$
<b>4. INCOME TAX (continued)</b>					
(b) Deferred tax liabilities					
Provision for deferred income tax comprises the estimated expense at the applicable rate of 30% on the following items:					
Expenditure currently deductible for tax but deferred and amortised for accounting purposes					
		(802,040)	-	(793,583)	-
(c) Deferred tax assets					
<i>Future income tax benefit not taken into account</i>					
The potential future income tax benefit arising from tax losses and timing differences has not been recognised as an asset because recovery of tax losses is not virtually certain and recovery of timing differences is not assured beyond reasonable doubt.					
Tax losses carried forward					
		958,708	-	949,661	-
Timing differences					
		4,860	-	4,860	-
		963,568	-	954,521	-

**Tax Consolidation**

The Company and its 100% owned subsidiaries intend to form a tax consolidated group. At the date of this report, the Company has not determined the date of entry into tax consolidation because the decision will be based upon the most favourable outcome in terms of the transitional rules in tax consolidation legislation. The date of entry will be determined at the time the head company lodges its tax return. As part of the entry into consolidation, it is anticipated that members of the group will enter into a tax sharing arrangement in order to allocate income tax expense to the wholly-owned subsidiaries on a pro-rata basis. In addition, it is anticipated that the agreement will provide for the allocation of income tax liabilities between the entities should the head entity default on its tax payment obligations.

**5. RECEIVABLES (CURRENT)**

Other debtors	26,852	-	26,754	-
GST receivable	19,618	-	19,293	-
	46,470	-	46,047	-

Terms and conditions relating to the above financial instruments:

- (i) Other debtors are non interest bearing and have repayment terms of between 30 and 90 days

**6. OTHER CURRENT ASSETS**

Prepayments	34,013	-	34,013	-
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**7. RECEIVABLES (NON-CURRENT)**

Security deposits	52,589	-	42,500	-
Amounts receivable from related parties:				
- Controlled entities	24	-	21,649	-
	52,589	-	64,149	-

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Note	Consolidated		Parent Entity	
	2005	2004	2005	2004
	\$	\$	\$	\$
<b>8. OTHER FINANCIAL ASSETS (NON-CURRENT)</b>				
Investments at recoverable amount comprise:				
- Controlled entities (unlisted)	-	-	322,695	-

**9. INTERESTS IN SUBSIDIARIES**

All companies are incorporated in Australia and have a balance date of 30 June	Percentage of equity interest held by consolidated entity		Investment	
	2005	2004	2005	2004
	%	%	\$	\$
Taroom Coal Pty Ltd	100	-	322,695	-

**10. PROPERTY, PLANT AND EQUIPMENT**

Plant and equipment				
- At cost	795	-	795	-
- Accumulated depreciation	(27)	-	(27)	-
	768	-	768	-
Motor vehicles				
- At cost	49,064	-	49,064	-
- Accumulated depreciation	(2,930)	-	(2,930)	-
	46,134	-	46,134	-
Computers and office equipment				
- At cost	14,432	-	14,432	-
- Accumulated depreciation	(1,376)	-	(1,376)	-
	13,056	-	13,056	-
Furniture and fittings				
- At cost	353	-	353	-
- Accumulated depreciation	(14)	-	(14)	-
	339	-	339	-
Total Property, Plant and Equipment				
- At cost	64,644	-	64,644	-
- Accumulated depreciation	(4,347)	-	(4,347)	-
	60,297	-	60,297	-

**Reconciliations**

Reconciliations of the carrying amounts of property, plant and equipment at the beginning and end of the financial year.

Plant & equipment		
- Carrying amount at beginning	-	-
- Additions	795	795
- Depreciation	(27)	(27)
	768	768
Motor vehicles		
- Carrying amount at beginning	-	-
- Additions	49,064	49,064
- Depreciation	(2,930)	(2,930)
	46,134	46,134

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	Note	Consolidated		Parent Entity	
		2005	2004	2005	2004
		\$	\$	\$	\$
<b>10. PROPERTY, PLANT AND EQUIPMENT (continued)</b>					
Computers and office equipment					
- Carrying amount at beginning		-		-	
- Additions		14,432		14,432	
- Depreciation		(1,376)		(1,376)	
		<u>13,056</u>		<u>13,056</u>	
Furniture and fittings					
- Carrying amount at beginning		-		-	
- Additions		353		353	
- Depreciation		(14)		(14)	
		<u>339</u>		<u>339</u>	
<b>11. DEFERRED EXPLORATION AND DEVELOPMENT COSTS</b>					
Exploration and development costs carried forward in respect of areas of interest		2,976,560	-	2,645,278	-
Pre-production					
- Exploration phase		2,976,560	-	2,645,278	-
- Development phase		-	-	-	-
		<u>2,976,560</u>	-	<u>2,645,278</u>	-
Ultimate recoupment of these costs is dependent on a successful development and commercial exploitation or alternative a sale of the respective areas of interest.					
<b>12. PAYABLES (CURRENT)</b>					
Trade creditors		71,949	-	71,949	-
Other creditors and accruals		100,513	62,518	100,513	62,518
		<u>172,462</u>	<u>62,518</u>	<u>172,462</u>	<u>62,518</u>
Included in the above are aggregate amounts payable to the following related parties					
Directors and Director related entities		51,587	-	51,587	-
Terms and conditions relating to the above financial instruments					
(i) Trade creditors are unsecured, non-interest bearing and are normally settled on 30 day terms					
(ii) Other creditors are unsecured, non interest bearing					
<b>13. INTEREST BEARING LIABILITIES (CURRENT)</b>					
Lease and hire purchase liability		7,906	-	7,906	-
Secured Liability: The lease and hire purchase liabilities are secured by charges over the assets subject to the liability.					
<b>14. PROVISIONS (CURRENT)</b>					
Employee benefits		8,314	-	8,314	-

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Note	Consolidated		Parent Entity	
	2005	2004	2005	2004
	\$	\$	\$	\$
<b>15. INTEREST BEARING LIABILITIES (NON-CURRENT)</b>				
Lease and hire purchase liability	44,147	-	44,147	-

Secured liability: The lease and hire purchase liabilities are secured by charges over the assets subject to the liability

**16. CONTRIBUTED EQUITY**

**(a) Issued and paid up capital**

Ordinary shares fully paid	28,287,066	21,439,505
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**(b) Movements in shares on issue**

	2005		2004	
	No's of shares	\$	No's of shares	\$
Ordinary shares fully paid				
Beginning of the financial year	200,236,194	21,439,505	20,483,466	20,639,505
Increases				
- Issue to scheme creditors	22,248,466	62,518	-	-
- Post DOCA issue	33,349,276	93,711	-	-
- Seed capital offer	8,170,000	1,021,250	-	-
- Initial public offer	20,000,000	4,000,000	-	-
- Taroom Coal purchase	4,500,000	316,125	-	-
- Ashford coal project purchase	10,658,947	2,131,790	-	-
- Share issue	-	-	1,000,000	170,000
- Share issue	-	-	765,000	130,050
- DOCA subscription agreement	-	-	177,987,728	500,000
Decreases				
- Consolidation	(245,600,337)	-	-	-
- Transaction Costs	-	(777,833)	-	(50)
	53,562,546	28,287,066	200,236,194	21,439,505

**(c) Share Options**

During the financial year a total of 4,000,000 share options were granted to Directors, Executives and the broker to the public offer. The options have exercise prices of 25 and 30 cents and expire on 1 February 2008. At balance date all of these options were outstanding.

**(d) 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 of 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 share held. Ordinary shares entitle their holder to one vote, either in person or by proxy, at a meeting of the Company.

**17. ACCUMULATED LOSSES**

Balance at the beginning of the year	(21,502,023)	(19,518,623)	(21,502,023)	(18,948,956)
Net profit/(loss) attributable to members of Northern Energy Corporation Limited	(419,569)	(1,983,400)	(417,603)	(2,553,067)
Balance at end of year	(21,921,592)	(21,502,023)	(21,919,626)	(21,502,023)

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Note	Consolidated		Parent Entity	
	2005	2004	2005	2004
	\$	\$	\$	\$
<b>18. STATEMENT OF CASH FLOWS</b>				
<b>(a) Reconciliation of the operating /(loss) after tax to the net cash flows from operations</b>				
Profit/(Loss) from ordinary activities after tax	(419,569)	(1,983,400)	(417,603)	(2,553,067)
Add (less) non-cash items				
- Depreciation of fixed assets	4,347	1,657,415	4,347	1,184,363
- Write off exploration expenditure	5,029	-	3,268	-
- Amortisation of intellectual property	-	89,274	-	-
- Bad / doubtful debts	-	1,159,751	-	1,489,251
- Write down of investments	-	-	-	2,000,000
- Write down of intellectual property	-	3,124,636	-	-
- Cancellation of liabilities under DOCA	-	(7,488,656)	-	(4,892,803)
Changes in assets & liabilities during the year				
- (Increase)/decrease in receivables	(36,251)	645,292	(36,153)	605,776
- (Increase)/decrease in inventory	-	2,128,417	-	-
- (Increase)/decrease in Hawaii Settlement	-	4,130,406	-	4,130,406
- (Increase)/decrease in prepayments, sundry receivables and deposits	(34,013)	592,471	(34,013)	578,304
- (Decrease)/increase in provisions	8,206	(540,335)	8,206	(403,819)
- (Decrease)/increase in creditors	(20,410)	-	(16,774)	-
- (Decrease)/increase in accruals	73,897	(3,576,571)	73,897	(1,938,304)
- (Decrease)/increase in interest bearing liabilities	-	(2,050,536)	-	(1,899,050)
- Reconciliation difference due to lack of detailed information	-	1,443,285	-	1,415,719
	(418,764)	(668,551)	(414,825)	(283,224)
<b>(b) Reconciliation of cash</b>				
- Cash on hand and at bank	896,926	-	896,342	-
- Cash on deposit	2,531,448	-	2,531,448	-
	3,428,374	-	3,427,790	-
<b>(c) Acquisition of entities</b>				
During the year 100% of the ordinary shares of Taroom Coal Pty Ltd were acquired.				
Details of this transaction are:				
Purchase consideration				
4,500,000 ordinary shares at 7.025 cents per share	316,125	-	316,126	-
Cash consideration	6,570	-	6,570	-
	322,695	-	322,695	-
Fair values of net assets acquired:				
Cash	419	-	-	-
Receivables	10,729	-	-	-
Exploration expenditure	12,092	-	-	-
Creditors	(3,637)	-	-	-
	19,603	-	-	-
Exploration expenditure acquired on consideration	303,092	-	-	-
	322,695	-	-	-

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Note	Consolidated		Parent Entity	
	2005	2004	2005	2004
	\$	\$	\$	\$

**18. STATEMENT OF CASH FLOWS (continued)**

**(c) Acquisition of entities (continued)**

The 100% interest in Taroom Coal Pty Ltd was acquired under a contract entered into in November 2004 by the issue of 4,500,000 ordinary shares in Northern Energy Corporation Ltd at a price of 7.025 cents per share. The directors consider this value per share is reasonable considering the prices at which the Company was able to raise seed capital in September 2004 (0.28 cents per share) and January 2005 (12.5 cents per share).

**(d) Non-cash financing and investing activities**

(i) Share issue

10,658,947 ordinary shares were issued to Renison Consolidated Mines NL to acquire a 50% interest in the Ashford Projects.

**19. EXPENDITURE COMMITMENTS**

(a) Future Exploration

The Economic Entity has certain obligations to expend minimum amounts on exploration in tenement areas. These obligations may be varied from time to time and are expected to be fulfilled in the normal course of operations of the Company.

The commitments to be undertaken are as follows:

Payable - within one year		437,320	-	200,000	-
- between one and five years		997,822	-	-	-
		1,435,142	-	200,000	-
Finance lease and hire purchase contracts					
- payable within one year		12,470	-	12,470	-
- payable between one and five years		52,060	-	52,060	-
<i>Total minimum payments</i>		64,530	-	64,530	-
- future finance charges		(12,477)	-	(12,477)	-
- hire purchase and lease liability		52,053	-	52,053	-
- current liability	13	7,906	-	7,906	-
- non-current liability	15	44,147	-	44,147	-
		52,053	-	52,053	-

**20. EMPLOYEE BENEFITS**

The aggregate employee benefit liability is comprised of:

Accrued wages, salaries and on costs		59,379	75,575	59,379	75,575
Provisions (current)		8,314	22,387	8,314	22,387
		67,693	97,962	67,693	97,962

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Note	Consolidated		Parent Entity	
	2005	2004	2005	2004
	\$	\$	\$	\$

**20. EMPLOYEE BENEFITS (continued)**

Equity based instruments

The Company has granted options over ordinary shares to Directors and Executives as part of their remuneration packages. The options were granted for nil consideration and are not quoted on the ASX. Information with respect to the number of options granted is as follows:

	2005		2004	
	No's of options	Weighted average exercise price	No's of options	Weighted average exercise price
Balance at beginning of year	-	-	850,000	\$1.52
- granted	3,000,000	\$0.27	-	-
- lapsed	-	-	(850,000)	\$1.52
Balance at end of year	3,000,000	\$0.27	-	-
Exercisable at end of year	-	-	-	-

Options held at the beginning of the reporting year:

There were no options outstanding as at 1 July 2004.

Options granted during the reporting year

The following table summarises information about director and executive options granted during the year.

Number of options	Grant date	Vesting date	Expiry date	Weighted average exercise price
3,000,000	17 February 2005	17 February 2006	1 February 2008	\$0.27

Options exercised

There were no options exercised during the year.

Options held at the end of the reporting year:

The following table summarises information about director and executive options outstanding as at 30 June 2005.

Number of options	Grant date	Vesting date	Expiry date	Weighted average exercise price
3,000,000	17 February 2005	17 February 2006	1 February 2008	\$0.27

**21. EARNINGS PER SHARE**

Consolidated	
2005	2004
\$	\$

The following reflects the income and share data used in the calculations of basic and diluted earnings per share:

Net Profit/(Loss)	(419,569)	(1,983,400)
Adjustments	-	-
Earnings used in calculating basic and diluted earnings per share	(419,569)	(1,983,400)

	<u>Number</u>	<u>Number</u>
Weighted average no's of ordinary shares on issue used in the calculation of basic EPS	25,878,500	24,835,620
Effect of dilutive securities	-	-
Adjusted weighted average no's of ordinary shares used in calculating dilutive EPS	25,878,500	24,835,620

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Note	Consolidated		Parent Entity	
	2005	2004	2005	2004
	\$	\$	\$	\$

**21. EARNINGS PER SHARE (continued)**

The following potential ordinary shares are not dilutive and therefore are not included in the determination of diluted earnings per share.

- 3,000,000 25 cent options expiring 1 February 2008
- 1,000,000 30 cent options expiring 1 February 2008

**Conversions, calls, subscriptions or issues after 30 June 2005**

Since the end of the financial year the no additional securities have been issued.

**22. AUDITORS REMUNERATION**

	\$	\$	\$	\$
Amounts Received or Due and Receivable by the Auditors for:				
- audit and review of financial reports				
PKF Melbourne	-	*	-	*
PKF Perth	19,795	7,500	19,795	-
- other services	8,921	-	8,921	-
	28,716	7,500	28,716	-

\* Information not disclosed for year in 2004 prior to Administration because it is either incomplete, not sufficient to include an accurate picture or the location of the information is not known.

**23. DIRECTOR and EXECUTIVE DISCLOSURES**

Information about the remuneration of Directors and Executives which is currently required under Section 300A of the Corporations Act and under Accounting Standard AASB 1046 "Directors and Executives Disclosures by Disclosing Entities" is included in the Remuneration Report within the Director's Report. The Company has taken the relief provided by Corporations Amendments Regulations 2005 (No. 4) released on 5 July 2005.

**24. RELATED PARTY DISCLOSURES**

**Ultimate parent**

Northern Energy Corporation Limited is the ultimate parent entity.

**Wholly-owned group**

Northern Energy Corporation Limited has advanced interest free loans to Taroom Coal Pty Ltd, at balance date \$21,649 (2004: \$0) was outstanding.

**Other Related Parties**

Under normal commercial terms, Renison Consolidated Mines NL, an entity associated with Christopher Rawlings (a Director) and Richard Seville (a Director), provides geological and office services to the entity. During the financial year, Renison Consolidated Mines NL received or was due to receive \$78,525 for these services.

**25. SEGMENT INFORMATION**

**Segment products and locations**

The entity operates solely in the mining and exploration segments. The mining segment has exploration activities in Queensland and New South Wales. Geographically the group operates only within Australia.

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	Consolidated		Parent Entity	
	2005	2004	2005	2004
Note	\$	\$	\$	\$

**Segment accounting policies**

Segment accounting policies are the same as the consolidated entity's policies described in note 1.

**26. CONTINGENT LIABILITIES AND CONTINGENT ASSETS**

(a) Contingent liabilities

The company has arranged for the issue of bank indemnity guarantees for \$20,000 in respect of security deposit required by the issuer of a corporate credit card.

(b) The directors are not aware of any other significant contingent liabilities or contingent assets at the date of this report.

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**27. FINANCIAL INSTRUMENTS**

**Notes to the financial statements for the year ended 30 June 2005**

**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 balance date, are as follows:

Financial Instruments	Floating Interest Rate		Fixed interest rate maturing in:						Non-interest bearing		Total carrying amount as per the statement of financial position		Weighted average effective interest rate		
			1 year or less		Over 1 to 5 years		More than 5 years								
	2005 \$	2004 \$	2005 \$	2004 \$	2005 \$	2004 \$	2005 \$	2004 \$	2005 \$	2004 \$	2005 \$	2004 \$	2005 %	2004 %	
(i) Financial assets															
Cash	896,926	-	2,531,448	-	-	-	-	-	-	-	-	3,428,374	-	5.42	-
Receivables	-	-	-	-	-	-	-	-	-	99,059	-	99,059	-	N/A	-
Total Financial Assets	896,926	-	2,531,448	-	-	-	-	-	-	-	-	3,527,433	-	-	-

Financial Instruments	Floating Interest Rate		Fixed interest rate maturing in:						Non-interest bearing		Total carrying amount as per the statement of financial position		Weighted average effective interest rate		
			1 year or less		Over 1 to 5 years		More than 5 years								
	2005 \$	2004 \$	2005 \$	2004 \$	2005 \$	2004 \$	2005 \$	2004 \$	2005 \$	2004 \$	2005 \$	2004 \$	2005 %	2004 %	
(ii) Financial liabilities															
Payables	-	-	-	-	-	-	-	-	-	172,462	62,518	172,462	62,518	N/A	N/A
Interest bearing liabilities	-	-	7,906	-	44,147	-	-	-	-	-	-	52,053	-	8.69	-
Total Financial Liabilities	-	-	7,906	-	44,147	-	-	-	-	172,462	62,518	224,515	62,518	-	-

N/A – not applicable for non-interest bearing instruments.

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### **Net fair values**

All financial assets and liabilities have been recognised at the balance date at their net fair values. The following methods and assumptions are used to determine the net fair values of financial assets and liabilities:

#### Recognised financial instruments

Cash and term deposits: For cash the carrying amount approximates fair value. For term deposits the carrying amount approximates fair value because of their short term to maturity. Interest accrued to balance date is included in receivables.

Trade receivables and payables: The carrying amount approximates fair value.

Unlisted shares: For investments where there is no quoted market price, a reasonable estimate of the fair value is determined by reference to the net asset value of the Company.

### **Credit risk exposures**

The consolidated entity's maximum exposures to credit risk at balance date in relation to each class of recognised financial asset is the carrying amount of those assets as indicated in the statement of financial performance. The maximum credit risk exposure does not take into account the value of any collateral or other security held, in the event other parties fail to perform their obligations under the financial instruments in question. The Company has no credit risk exposure in relation to derivative financial instruments or has no concentration of credit risk with any counterparty.

## **28. SUBSEQUENT EVENTS**

In September 2005 the company announced that it had entered agreements to place approximately 5,000,000 ordinary shares at a price of 45c per share to a mixture of Australian and overseas institutional and sophisticated investors. The issue of the shares will result in approximately \$2.36 million being raised by the company before issue costs.

## **29. IMPACT OF ADOPTING AASB EQUIVALENTS TO IASB STANDARDS**

Northern Energy Corporation Ltd is in the process of transitioning its accounting policies and financial reporting from current Australian Accounting Standards (AGAAP) to Australian equivalents of International Financial Reporting Standards (AIFRS) which will be applicable for the financial year ended 30 June 2006. In 2005, the Company allocated internal resources and engaged expert consultants to conduct impact assessments to identify key areas that would be impacted by the transition to AIFRS. As a result the Board of Northern Energy Corporation Ltd, in carrying out the functions of the Audit and Risk Management Committee, addressed each of the areas in order of priority. Priority has been given to the preparation of an opening balance sheet in accordance with AIFRS as at 1 July 2004, Northern Energy Corporation Ltd's transition date to AIFRS. This will form the basis of accounting for AIFRS in the future, and is required when Northern Energy Corporation Ltd prepares its first fully AIFRS compliant financial report for the year ended 30 June 2005.

Set out below are the key areas where accounting policies are expected to change on adoption of AIFRS and our best estimate of the quantitative impact of the changes on total equity as at the date of transition and 30 June 2005 and on net profit for the year ended 30 June 2005.

The figures disclosed are management's best estimates of the quantitative impact of changes as at the date of preparing the 30 June 2005 financial report. The actual effects of transition to AIFRS may differ from the estimates disclosed due to (a) ongoing work being undertaken by the Audit and Risk Management Committee; (b) potential amendments to AIFRSs and Interpretations thereof being issued by the standard-setters and IFRIC; and (c) emerging accepted practice in the interpretation and application of AIFRS and UIG Interpretations.

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(a) Reconciliation of equity as presented under AGAAP to that under AIFRS

(i) As at 1 July 2004

	Note	AGAAP 1 July 2004	AIFRS Adjustments	AIFRS 1 July 2004
	s	\$	\$	\$
<b>Current Assets</b>				
Cash assets		-	-	-
Receivables		-	-	-
Other assets		-	-	-
<b>Total Current Assets</b>		<u>-</u>	<u>-</u>	<u>-</u>
<b>Non-Current Assets</b>				
Receivables		-	-	-
Other financial assets		-	-	-
Property, plant & equipment	(ii)	-	-	-
Exploration and development	(iv)	-	-	-
<b>Total Non-Current Assets</b>		<u>-</u>	<u>-</u>	<u>-</u>
<b>Total Assets</b>		<u>-</u>	<u>-</u>	<u>-</u>
<b>Current Liabilities</b>				
Payables		62,518	-	62,518
Interest bearing liabilities		-	-	-
Provisions		-	-	-
<b>Total Current Liabilities</b>		<u>-</u>	<u>-</u>	<u>-</u>
<b>Non-Current Liabilities</b>				
Interest bearing liabilities		-	-	-
<b>Total Non-Current Liabilities</b>		<u>-</u>	<u>-</u>	<u>-</u>
<b>Total Liabilities</b>		<u>62,518</u>	<u>-</u>	<u>62,518</u>
<b>Net Assets</b>		<u>(62,518)</u>	<u>-</u>	<u>(62,518)</u>
<b>Equity</b>				
Contributed equity		21,439,505	-	21,439,505
Reserves	(iii)	-	-	-
Accumulated losses	(iii)	(21,502,023)	-	(21,502,023)
<b>Total Equity</b>		<u>(62,518)</u>	<u>-</u>	<u>(62,518)</u>

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(ii) As at 30 June 2005

	AGAAP 30 June 2005	AIFRS Adjustments	AIFRS 30 June 2005
Note	\$	\$	\$
s			
<b>Current Assets</b>			
Cash assets	3,428,374	-	3,428,374
Receivables	46,470	-	46,470
Other assets	34,013	-	34,013
<b>Total Current Assets</b>	<u>3,508,857</u>	<u>-</u>	<u>3,508,857</u>
<b>Non-Current Assets</b>			
Receivables	52,589	-	52,589
Other financial assets	-	-	-
Property, plant & equipment	(ii) 60,297	-	60,297
Exploration and development	(iv) 2,976,560	-	2,976,560
<b>Total Non-Current Assets</b>	<u>3,089,446</u>	<u>-</u>	<u>3,089,446</u>
<b>Total Assets</b>	<u>6,598,303</u>	<u>-</u>	<u>6,598,303</u>
<b>Current Liabilities</b>			
Payables	172,462	-	172,462
Interest bearing liabilities	7,906	-	7,906
Provisions	8,314	-	8,314
<b>Total Current Liabilities</b>	<u>188,682</u>	<u>-</u>	<u>188,682</u>
<b>Non-Current Liabilities</b>			
Interest bearing liabilities	44,147	-	44,147
Deferred tax liabilities	-	602,027	602,027
<b>Total Non-Current Liabilities</b>	<u>44,147</u>	<u>-</u>	<u>646,174</u>
<b>Total Liabilities</b>	<u>232,829</u>	<u>-</u>	<u>834,856</u>
<b>Net Assets</b>	<u>6,365,474</u>	<u>-</u>	<u>5,763,447</u>
<b>Equity</b>			
Contributed equity	28,287,066	-	28,287,066
Reserves	(iii) -	109,679	109,679
Accumulated losses	(iii) (21,921,592)	(711,706)	(22,633,298)
<b>Total Equity</b>	<u>6,365,474</u>	<u>(602,679)</u>	<u>5,763,447</u>

**(b) Reconciliation of net profit under AGAAP to that under AIFRS**

**Year ended 30 June 2005**

	Consolidated \$	Parent Entity \$
<b>Net profit as reported under AGAAP</b>	(419,569)	(417,603)
Recognition of deferred tax liability	(i) (602,027)	(602,027)
Share-based payment expense	(iii) (109,679)	(109,679)
<b>Net profit under AIFRS</b>	<u>(1,131,275)</u>	<u>(1,129,309)</u>

**(c) Restated AIFRS Statement of Cash Flows for the year ended 30 June 2005**

No material impacts are expected to the cashflows presented under AGAAP on adoption of AIFRS.

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**(d) Key differences**

Key differences in accounting policy that have arisen or may arise from the adoption of AIFRS are listed below:

*(i) Income Tax*

AASB 112 "Income Tax" requires all income tax balances to be calculated using the comprehensive balance sheet liability method. Deferred tax items will be calculated by comparing the difference in carrying amounts to tax bases for all assets and liabilities and multiplying this by the tax rates expected to apply to the period when the asset is realised or the liability settled. Recognition of the resulting amounts are subject to some exceptions, but generally deferred tax balances must be calculated for each item in the statement of financial position. Deferred tax assets will only be recognised where there exists the probability that future taxable profit will be available to recognise the asset. The recognition of deferred tax liabilities arising in the 2005 year will result in a deferred tax liability of \$602,027 being recorded for the 2005 financial year.

*(ii) Property, Plant & Equipment*

Under AASB 116 "Property Plant & Equipment" an impairment test is required when there is an indication that impairment exists by reference to internal and external market factors. Any item of property, plant and equipment which is impaired must be written down to its recoverable amount. The amount of the impairment write down for assets carried at cost will be expensed through the statement of financial performance.

Items of property, plant and equipment measured at fair value will still be carried at fair value, however the offsets of balances in the asset revaluation reserve under the new standards will be determined on an "asset by asset" basis rather than the current "class by class" treatment. This means that a change to profit or loss will occur where an impairment write down is necessary and there is no existing balance for that asset in the asset revaluation reserve.

All Company assets of property plant and equipment assets are tested to ensure the carrying amount is less than recoverable and write downs are made to reflect losses arising.

*(iii) Share Based Payments*

The entity currently engages in the practice of allocating to its employees share options as part of their remuneration packages under the employee share option plan. AASB 2 "Share Based Payments" require that these payments and also payments made to other counterparties in return for goods and services shall be measured at the more readily determinable fair value of the good/service or the fair values of the equity instrument. Under the new standards an amount of \$109,679 will be expensed in the statement of financial performance. Where the grant date and the vesting date are different the total expenditure calculated will be allocated between the two dates taking into account the terms and conditions attached to the instruments and the counterparties as well as management's assumptions about probabilities of payments and compliance with and attainment of the set out terms and conditions.

*(iv) Exploration Expenditure*

Australian Standard AASB 6 – Exploration For and Evaluation of Mineral Resources was released in December 2004, and will apply to Northern Energy for the half year ending 31 December 2005. AASB 6 will generally allow Northern Energy to treat exploration and evaluation expenditure in the same manner as that allowed in AASB 1022 – Accounting for the extractive industries, subject to any impairment testing requirements. Until such time as the International Accounting Standards Board (IASB) completes an extractive industries IFRS which will replace AASB 6, Northern Energy will continue to apply AASB 1022 for the 30 June 2005 financial year, and AASB 6 for the half year ended 31 December 2005. The current IASB exposure draft 6 is equivalent to AASB 6.

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**DIRECTORS' DECLARATION**

The directors of the company declare that:

- (1) the financial statements and notes to the financial statements:
  - (a) comply with Australian Accounting Standards, the Corporations Act 2001, and the Corporations Regulations 2001.
  - (b) give a true and fair view of the financial position as at 30 June 2005 and of the performance for the year ended on that date of the company and economic entity; and
- (2) the Chief Executive Officer and Chief Financial Officer have each declared that:
  - (a) the financial records of the Company for the financial year have been properly maintained in accordance with Section 286 of the Corporations Act 2001;
  - (b) the financial statements and notes for the financial year comply with the Accounting Standards in Australia; and
  - (c) the financial statements and notes for the financial year give a true and fair view.
- (3) in the directors' opinion there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the Board of Directors.

RP Seville  
Director

Brisbane  
Dated this 30<sup>th</sup> day of September 2005

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**INDEPENDENT AUDIT REPORT  
TO MEMBERS OF NORTHERN ENERGY CORPORATION 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 both Northern Energy Corporation Limited (the company and the consolidated entity) for the year ended 30 June 2005. The consolidated entity comprises both the company and the entities it controlled during that year.

The company has disclosed information about the remuneration of directors and executives ("remuneration disclosures"), as required by Accounting Standard AASB 1046 Director and Executive Disclosures by Disclosing Entities, under the heading "remuneration report" in the directors' report, as permitted by the Corporations Regulations 2001.

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

*Audit approach*

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

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

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

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

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

**Independence**

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

**Qualification**

The directors were unable to provide accounting records for the company for the period from 1 July 2003 to the appointment of the Administrator on 12 November 2003. As a result, we were unable to obtain all the information and

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explanations we required in order to form an opinion on the comparative financial information for the year ended 30 June 2004.

**Qualified Audit Opinion**

In our opinion, because of the existence of the limitation on the scope of our work as described in the qualification paragraph, and the effect of such adjustments, if any, as might have been determined to be necessary had the limitation on the scope of our work as discussed in the qualification paragraph not existed, we are unable to and do not express an opinion as to whether the comparative financial information for 2004 and the results of Northern Energy Corporation Limited's operations and cash flows for the year ended 30 June 2004 are presented fairly in accordance with applicable Accounting Standards and other mandatory professional reporting requirements.

In our opinion, except for the effects of the qualification identified above, the financial report of Northern Energy Corporation Limited for the year ended 30 June 2005 is in accordance with:

- (a) The Corporations Act 2001, including:
  - (i) giving a true and fair view of the Northern Energy Corporation Limited's financial position as at 30 June 2005 and of their performance for the year ended on that date; and
  - (ii) complying with Accounting Standards in Australia and the Corporations Regulations 2001; and
- (b) other mandatory financial reporting requirements in Australia.

**PKF**

Chartered Accountants

**IAN P OLSON**

Partner

Dated 30th day of September 2005



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