

**APOLLO**  
GAS

Apollo Gas Limited  
ANNUAL REPORT

**2010**



ASX Code: AZO

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Listed on the Australian Securities Exchange (ASX)

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# DRILLING MILESTONES



**PEL 456 - CUAN AND BRAWBOY  
DRILLING RESULTS FURTHER QUALIFY  
THE POTENTIAL OF THE MURRURUNDI  
TROUGH: CUAN 1 RETURNS 78.5m COAL  
+ 99% METHANE**



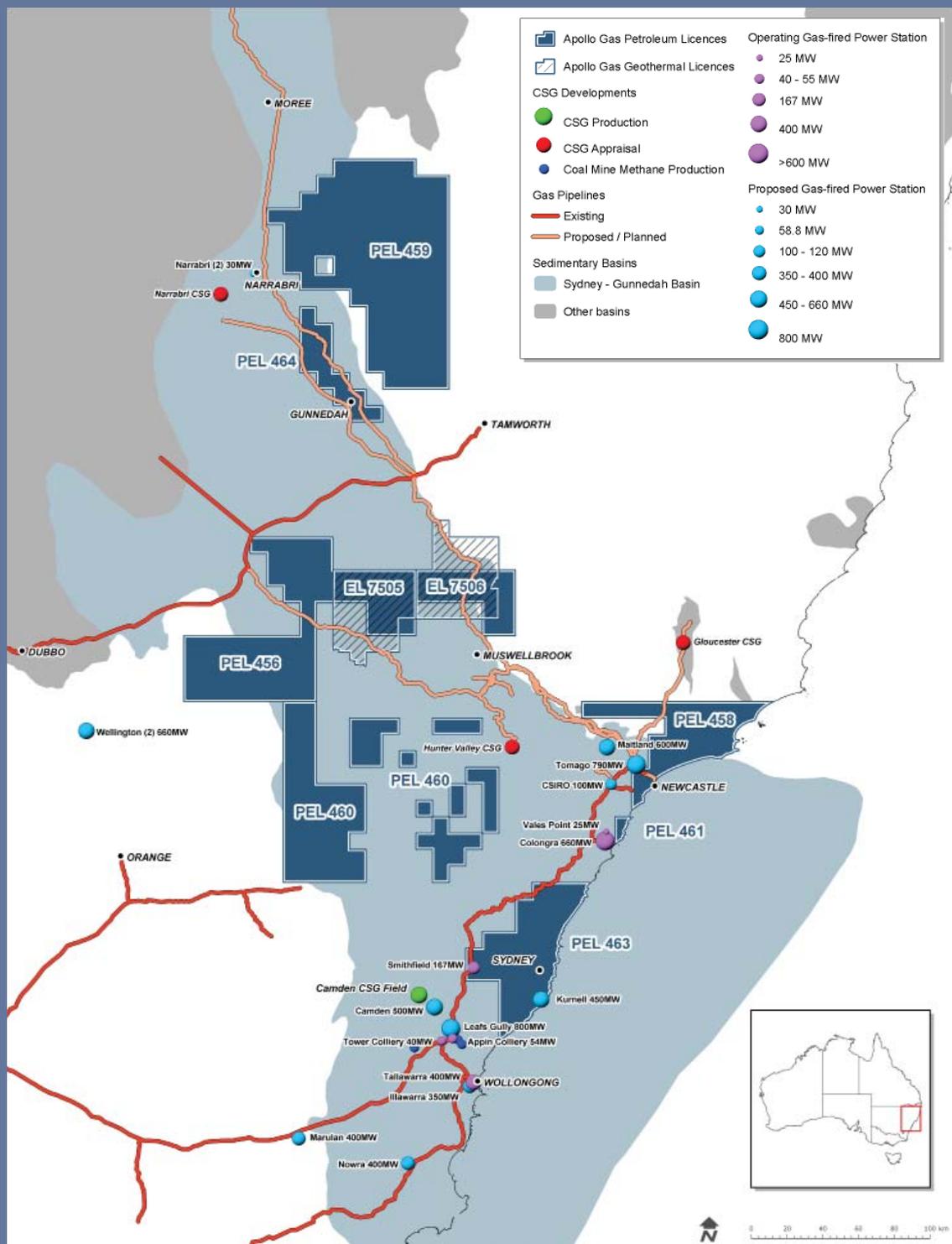
**PEL 458 - POTENTIAL MAJOR GAS  
RESOURCE IN THE NEWCASTLE REGION  
QUALIFIED BY NSAI REPORT**



**PEL 461 - CATHERINE HILL BAY  
DRILLING INTERSECTS 60m COAL  
+ 98% METHANE**



# ENERGY PORTFOLIO



# 2010 SNAPSHOT

**SEVEN PETROLEUM EXPLORATION LICENCES - 23,600 km<sup>2</sup>**

**PROSPECTIVE FOR COAL SEAM GAS, CONVENTIONAL  
HYDROCARBONS & SHALE GAS**

**READILY ACCESSIBLE MARKET**

**TWO GEOTHERMAL LICENCES - 3,500 km<sup>2</sup>**

**GEOTHERMAL EXPLORATION WILL LEVERAGE ON PETROLEUM  
EXPLORATION**

**POSITIONED TO MEET DEMAND FOR CLEANER ENERGY IN NSW**

**11 EXPLORATION HOLES COMPLETED**

**CASH AT 30 JUNE 2010 - \$12 MILLION**



PEL 456 - CUAN-1 DST GAS FLARE

# LETTER TO SHAREHOLDERS



## Dear Shareholder,

It is a pleasure to report to Apollo Gas ("Apollo") shareholders on a year of significant events for the company.

Since the IPO of Apollo in December 2009, Apollo has focused on exploring its seven NSW Petroleum Exploration Licences ("PELs") to further define gas reserves and conducting initial assessment of the two NSW geothermal exploration licences we acquired during the year.

The majority of work was concentrated on four PELs, 456, 458, 461, and 464 as follows:

### PEL 456 (Upper Hunter Valley)

Along with our farm-in partner and operator, Santos QNT Pty Ltd ("Santos"), six exploration holes were drilled during the year. Santos earned a 15% interest in PEL 456 by successfully completing the Phase 1 farm-in program commitments during the first quarter of 2010. Phase 2A of the farm-in program commenced in May 2010 and has focused on exploratory drilling in the Murrurundi Trough where coal seam gas potential was demonstrated in Phase 1. We have recently commissioned external consultants to review the resource potential.

### PEL 458 (Newcastle)

Along with our farm-in partner and operator, Dart Energy Ltd ("Dart") (formerly Arrow Energy Ltd), four exploration holes were drilled. Dart commissioned an independent assessment of contingent and unrisks prospective coal seam gas resources and reported a 2C resource estimate of 542 BCF (gross). On 22 July 2010, Dart announced that it had elected to commit to the second phase of the farm-in. We welcomed this decision and take confidence in the potential resource and the expertise that Dart brings to the development of this PEL.

### PEL 461 (Central Coast)

Apollo has drilled one exploration hole to date. Initial results are encouraging with 65m of gross coal, high gas contents and good permeability zones.

### PEL 464 (Gunnedah)

36km of 2D seismic work has been conducted, with strong indications for presence of coal. Dart, as farm-in partner and operator, is currently drilling two exploration holes to further define the potential resource.

In December 2009 Apollo was awarded two geothermal exploration licences in the Sydney-Gunnedah Basin which overlay a large portion of PEL 456. These licences have a combined area of approximately 3,500 km<sup>2</sup>. Apollo intends to explore for geothermal resources by leveraging off its coal seam gas exploration activities. These licences represent an exciting opportunity for Apollo to assess the potential for a renewable energy resource in NSW.

Apollo is fortunate to have a highly dedicated team managing the exploration and development programs. I would like to congratulate them for their hard work over the past year and in particular Andrew Mayo, the Managing Director.

### Subsequent Event to 30 June 2010 - Dart takeover offer

On 28 September 2010, Apollo announced that it has reached agreement with Dart under which Dart will make a takeover offer for all of the shares in Apollo which it does not already own. Dart currently owns approximately 21% of Apollo. The offer will comprise three Dart shares for every four Apollo shares. This represents a 29% premium to Apollo's closing share price of \$0.61 on 24 September 2010, being the last day of trading prior to this announcement, and a 32% premium to Apollo's one month volume weighted average price.

After detailed consideration, the Board believes that the takeover offer from Dart represents an attractive opportunity for Apollo shareholders and therefore, we believe shareholders should have the chance to consider this offer. An independent expert has been appointed to review the terms of the offer. Subject to the independent expert opining that the offer is fair and reasonable, the directors (excluding Mr Stephen Bizzell who is a Director of both companies) unanimously recommend shareholders accept the offer in the absence of a superior proposal. The Dart offer provides shareholders with the opportunity to diversify their interests beyond Apollo's existing portfolio of NSW only assets into Dart's quality international projects and become part of a global coal seam gas business.

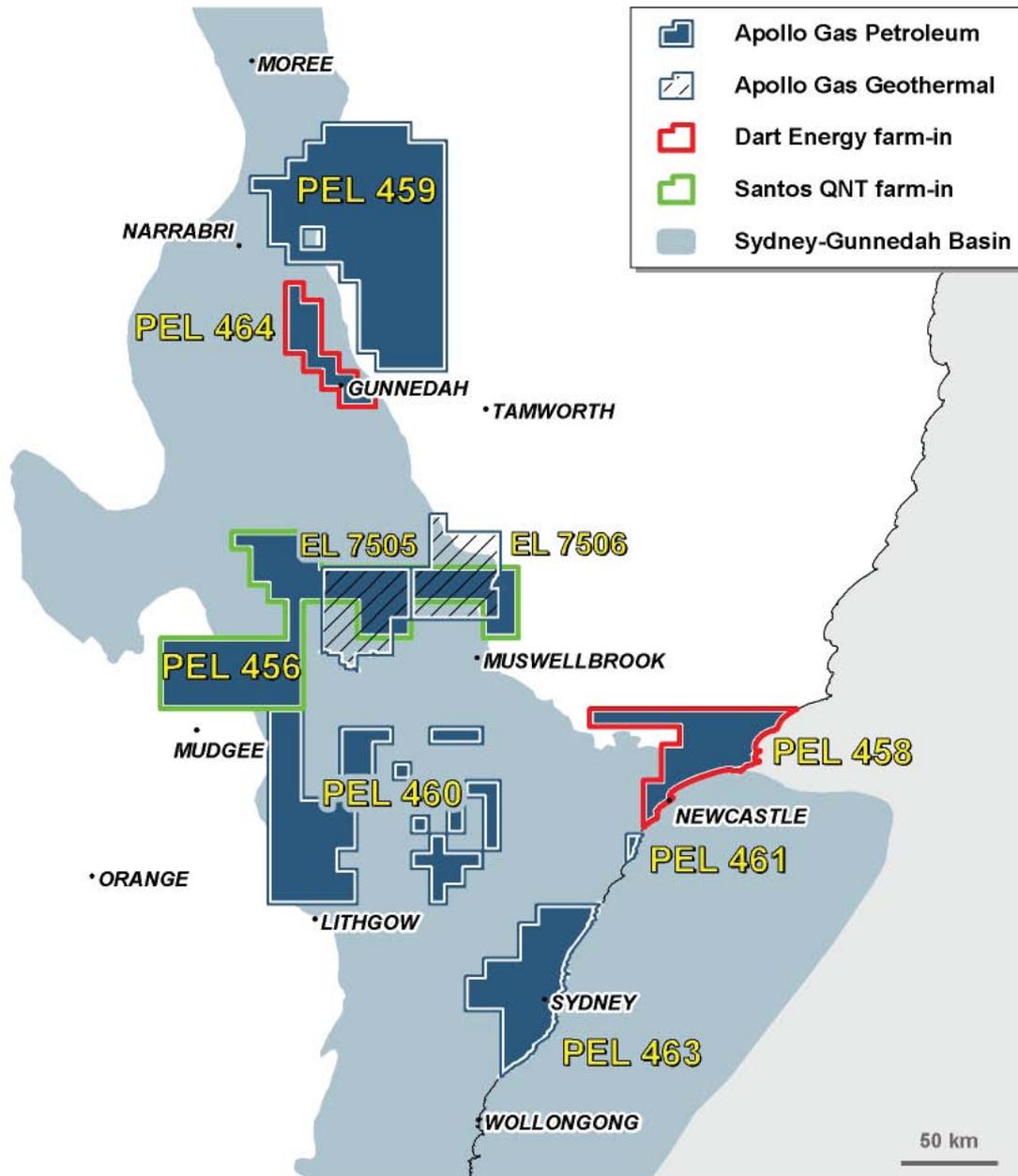
More detail around the Dart offer will be included in the Dart Bidder's Statement on or about 25 October 2010 and Apollo's Target's Statement on or about 9 November 2010. The Apollo Board has advised Apollo shareholders to take no further action until they receive these documents and you have carefully considered the contents of each.

It is of course the intention of Apollo to continue to develop the business until the outcome of the Dart acquisition offer is known. In addition to continued exploration and resource definition on its seven PELs, Apollo will seek acquisition opportunities to add new projects to its portfolio. It will also continue to define the opportunity for geothermal energy development.

I would like to conclude by personally thanking my fellow Directors for their contribution over the year as the Company continued to progress its strategic vision.

A handwritten signature in black ink, appearing to read "Peter Hood". The signature is written in a cursive style with a long horizontal line extending to the right.

**Peter Hood**  
Chairman



PEL NUMBER	PROJECT NAME	APOLLO GAS INTEREST %	AREA (km <sup>2</sup> )
PEL 456	Upper Hunter	85% (50% <sup>1</sup> )	5,953
PEL 458	Newcastle	85% (50% <sup>2</sup> )	2,000
PEL 459	Narrabri East	100%	7,488
PEL 460	Hunter West	100%	4,741
PEL 461	Central Coast	100%	73
PEL 463	Sydney	100%	2,385
PEL 464	Gunnedah	100% (50% <sup>3</sup> )	958
EL NUMBER	PROJECT	APOLLO GAS INTEREST %	AREA (km <sup>2</sup> )
EL 7505	Murrurundi Trough	100%	1,747
EL 7506	Murrurundi Trough	100%	1,749

1. Assumes completion of Stage 1 and Stage 2 Santos QNT farm-in work programs. Santos QNT interest applies to CSG rights only.
2. Assumes completion of Stage 2 Dart farm-in work program.
3. Assumes completion of Stage 1 and Stage 2 Dart farm-in work programs.

## PEL 456 - Upper Hunter

Operator: Santos QNT Pty Ltd

Interest: Apollo 85% | Santos 15% (Santos can earn up to 50%)

Under the farm-in agreement, Santos QNT is the operator of the CSG exploration program in PEL 456.

At the completion of Phase 1 of the farm-in in May 2010, Santos earned a 15% interest in the CSG rights of PEL 456. The Phase 1 work program included 3 coreholes: Brawboy-1, Rouchel Rouchel-2 (re-drilled due to hole stability conditions) and Oakdale-1.

Phase 2A of the farm-in commenced in May 2010, with continued exploration drilling in PEL 456. CSG potential identified in the Murrurundi Trough during Phase 1 was followed up with the drilling of Cuan-1, Brawboy-2 and Turill-1.

Cuan-1 and Brawboy-1 are located 7km apart, approximately 20km northeast or Merriwa. Brawboy-2 was drilled 700m south of Brawboy-1 with the aim of conducting drill stem tests (DSTs) which had not been run in Brawboy-1 due to hole stability issues.

	Total Depth (m)	Net Coal Seam Thickness (m)	Gas Content (m <sup>3</sup> /t)	Average Gas Composition
Cuan-1	1,422	77.2	16.5	99% methane
Turill-1	1,110	30	19.5	57% methane 43% CO <sub>2</sub>
Brawboy-1	1,435	73.3	3-25 (daf)	92% methane 7.5% nitrogen
Brawboy-2	1,089	21.0	not measured	not measured
Rouchel Rouchel-1 & 2	1,000	78.0	3-10 (daf)	24% methane 76% CO <sub>2</sub>
Oakdale-1	892	9.9	1-2 (daf)	50% methane 50% CO <sub>2</sub>

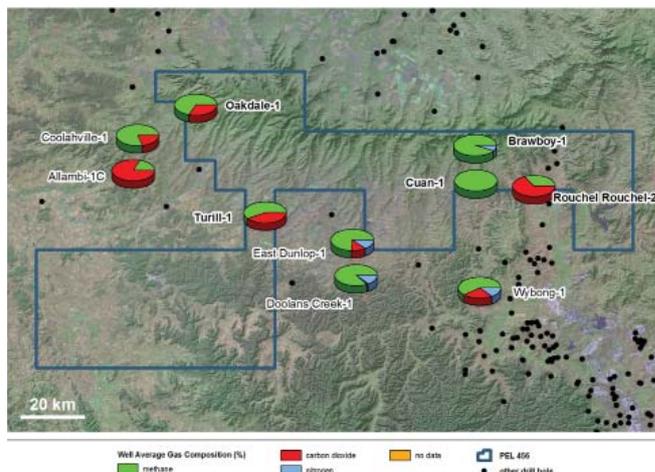
The best drilling results achieved to date have been from Cuan-1, which was spudded in May 2010. Drilling reached a total depth of 1,422m in July 2010 (1,008m by 30 June 2010) in the upper Watermark Formation.

Drilling intersected a total of 77.2m of net coal, of which 42.4m was sampled for gas desorption test work. Coal intersections at Cuan-1 are the best encountered in PEL 456 to date, with four major seams, each greater than 7m thick, including a 13m thick seam in the Pamboola Formation.

Average gas composition from sampled coal was 99% methane and <1% carbon dioxide, with a maximum preliminary gas content of 15m<sup>3</sup>/t (raw basis). Six DSTs, to evaluate formation permeability, were conducted at Cuan-1. Permeabilities ranging between 0.2 and 15 mD (milli-darcies) were recorded, with gas flared on circulation during one of the tests.

Brawboy-2 was drilled to a total depth of 1,089m. DSTs have been interpreted during the quarter. The DSTs returned low permeabilities across the Hoskissons and Melville coals. Gas contents were not measured.

Turill-1 reached a total depth of 1,110m on 6 September 2010. Drilling intersected 30m net coal including a 17m thick Hoskissons seam with a net coal thickness of 11m. Preliminary results from the Trinky coal seams returned gas contents of up to 9.5m<sup>3</sup>/t with gas compositions averaging 86.5% methane and 13.5% carbon dioxide. The Hoskissons seam returned preliminary gas content up to 19.5m<sup>3</sup>/t with gas compositions averaging 38% methane and 62% carbon dioxide. Despite the carbon dioxide (CO<sub>2</sub>) gas composition, these results confirm the development of the Hoskissons coal seam in the western portion of PEL 456. Future work will focus on identifying the CO<sub>2</sub> emplacement mechanisms to further define methane dominated areas.



Cuan-1 drill site

# REVIEW OF OPERATIONS

## PEL 458 – Newcastle

**Operator: Dart Energy Ltd**

**Interest: Apollo 85% | Dart 15% (Dart can earn up to 50%)**

Under the farm-in agreement, Dart is the operator of the exploration program in PEL 458.

Dart demerged from Arrow Energy in July 2010, with Dart taking up the operatorship of PEL 458.

Dart earned a 15% interest in PEL 458 at the completion of Phase 1 of the work program, which included coreholes Fullerton-1, Fullerton-3 and Fullerton-4, and the non-cored stratigraphic hole Fullerton-2. Dart committed to Phase 2 of the farm-in work program in July 2010 with a budget of approximately \$7m.

Exploration has focused on the Fullerton Cove CSG prospect north of Newcastle, and is aimed at evaluating the Tomago Coal Measures for CSG resource potential, particularly in the Medowie, Moffats Creek, Campvale and Borda seams. These Tomago coals are equivalent to coals in the Gloucester Basin to the north where CSG production appraisals are being conducted by a neighbouring company.

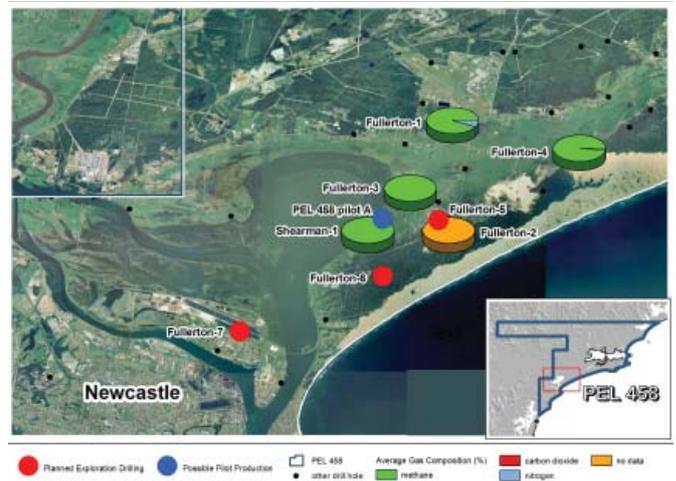
Drilling to date has returned average gas compositions in the 95-99% methane range.

Phase 1 Results	Total Depth (m)	Cumul. Coal Seam Thickness (m)	Average Gas Composition	Depth (m) as at 30/6/10
Fullerton-1	900.9	41.5	80 - 95% CH <sub>4</sub>	900.9
Fullerton-2	1,151.9	36.1	Not tested	1151.9
Fullerton-3	852.9	33.9	99.5% CH <sub>4</sub>	627.3
Fullerton-4	750.1	24.3	99.25% CH <sub>4</sub>	750.12

As part of the Dart demerger, Netherland, Sewell and Associates, Inc (NSAI) were commissioned to undertake an assessment of the contingent and unrisks prospective CSG resources in PEL 458, which are outlined below.

Category	Contingent CSG Resources (BCF)		
	OGIP (BCF)	Gross	Net <sup>1</sup>
Low Estimate (1C)	1,156	322	178
Best Estimate (2C)	1,342	542	299
High estimate (3C)	1,529	871	481

1. Net resources are after an deduction for shrinkage due to system use gas (8%).



Fullerton-4 drill site

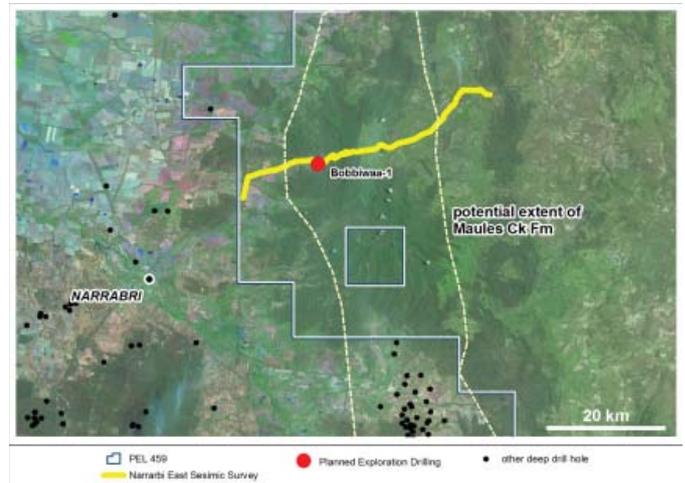
## PEL 459 Narrabri East

**Operator: Macquarie Energy Pty Ltd**

**Interest: Apollo 100%**

Planning is in progress for the Narrabri East Seismic Survey. 50km of 2D seismic will be acquired across the western part of PEL 459 and is scheduled to commence in December 2010.

The survey will be followed by drilling at Bobbiwaa-1 which has environmental and landholder approval.

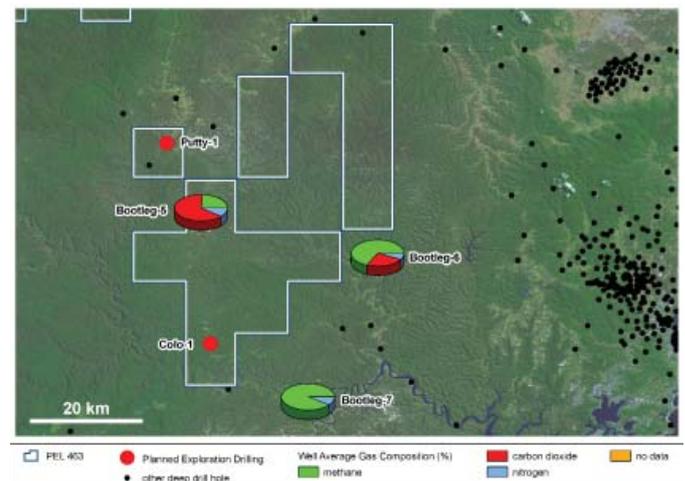


## PEL 460 Hunter West

**Operator: Macquarie Energy Pty Ltd**

**Interest: Apollo 100%**

Two cored exploration drill holes are planned. A review of environmental factors ("REF") has been prepared for environmental approval and land access negotiations are underway.



# REVIEW OF OPERATIONS

## PEL 461 – Central Coast

**Operator: Macquarie Energy Pty Ltd**

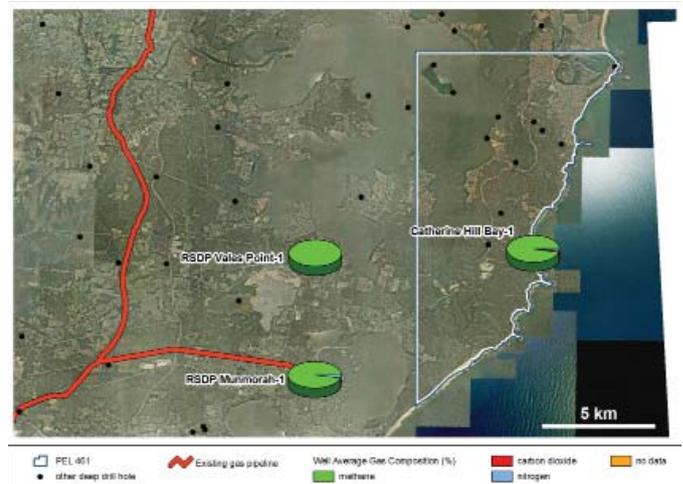
**Interest: Apollo 100%**

A single corehole was drilled to test the CSG potential of the Newcastle and Tomago coals in the area. Catherine Hill Bay-1 reached a total depth of 1,092m in March 2010, terminating at the top of the Kulnura Marine Tongue.

Drilling intersected a total of 60m of gross coal, of which 22m was sampled for gas desorption test work. Gas contents of up to 12m<sup>3</sup>/t (raw basis) were measured, with an average gas composition of 98% methane.

Interpretations have been made of 5 DSTs conducted at Catherine Hill Bay-1. Permeabilities range between 0.2 and 37 mD (milli-darcies).

	Total Depth (m)	Gross Coal Seam Thickness (m)	Avg Gas Composition
Catherine Hill Bay -1	1,092.3	60	>98% CH <sub>4</sub> & C <sub>2</sub> H <sub>6</sub>

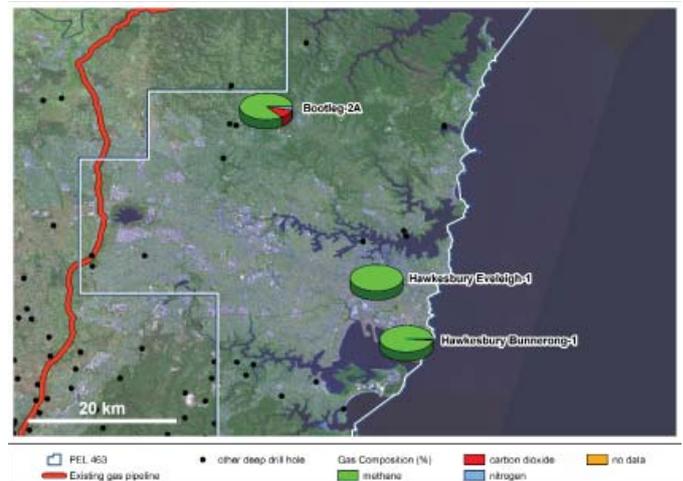


## PEL 463 – Sydney

**Operator: Macquarie Energy Pty Ltd**

**Interest: Apollo 100%**

Approval has been received for exploration drilling in PEL 463. The commencement of the program will follow the release of the City of Sydney's "Decentralised Energy Master Plan" and the "Sydney Sustainability 2030 Strategic Plan", both of which include provisions for the use of local CSG resources.



## PEL 464 – Gunnedah

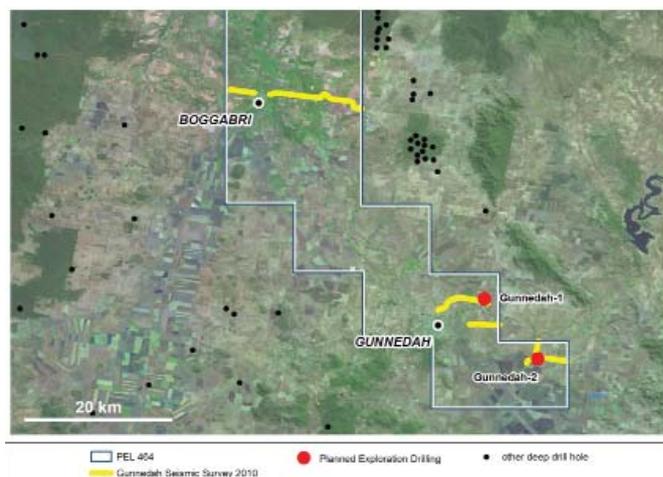
**Operator: Dart Energy Ltd**

**Interest: Apollo 100% (Dart can earn up to 50%)**

Under the farm-in agreement, Dart is the operator of the exploration program in PEL 464.

A 36km 2D seismic survey was conducted over 6 lines in February 2010. Interpretation of the seismic data has defined a number of strong horizontal reflectors which may indicate the presence of coals within the Maules Creek Formation or inter-volcanic coal packages.

Two drill holes are planned to provide geological control for the recently acquired Gunnedah Seismic Survey 2010.



## EL 7505 & EL 7506 Murrurundi Trough

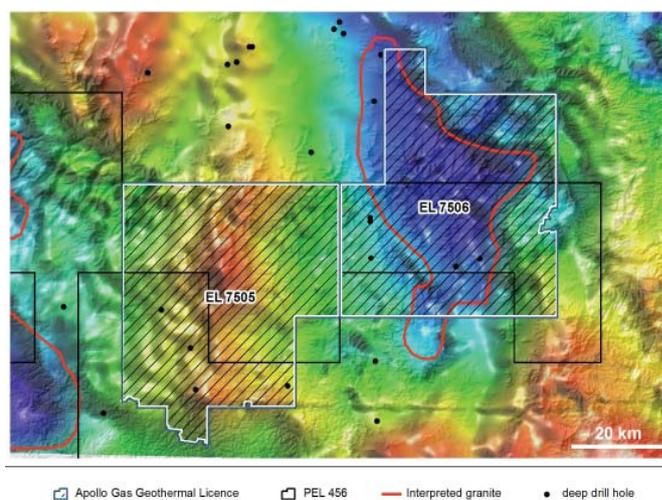
**Geothermal Project**

**Operator: Macquarie Energy**

**Interest: Apollo 100%**

The Murrurundi Trough Geothermal Project encompasses EL 7505 & EL 7506 and overlies Apollo's PEL 456.

The Geothermal Systems Assessment (GSA) undertaken by Hot Dry Rocks Pty Ltd will be followed up with thermal conductivity measurements and integration of new drilling data to better define 1D heat flow models. Preliminary modelling suggests an average heat flow of  $83 \pm 11 \text{mW/m}^2$  and that the  $150^\circ\text{C}$  isotherm may be present at 3,100m ( $\pm 200\text{m}$ ) depth.





PEL 461 - MECHB-1, CATHERINE HILL BAY

# ANNUAL FINANCIAL REPORT

Your directors present their report on the consolidated Group (referred to hereafter as the Group) consisting of Apollo Gas Limited (Apollo or the Company) and the Group it controlled at the end of, or during the period ended 30 June 2010.

The consolidated Group referred to hereafter as the Company consists of Apollo Gas Limited and the Group it controlled, Macquarie Energy Pty Ltd, at the end of the financial period.

## PRINCIPAL ACTIVITIES

The principal activities of the group during the year were the exploration and exploitation of coal seam gas, conventional gas and geothermal energy.

## COMPANY INFORMATION

Apollo Gas Limited is a company limited by shares which is incorporated and domiciled in Australia. The Company was incorporated on 13 August 2009. On 15 December 2009 the Company became a publicly traded company on the Australian Securities Exchange.

## RESULTS OF OPERATIONS

The Group's net loss after tax for the period ended 30 June 2010 was \$1,472,754 (2009: Macquarie Energy loss of \$56,844).

## REVIEW OF OPERATIONS

Since listing of the Company on the ASX in December 2009 the Company has progressed, with its strategic partners, coal seam methane exploration, appraisal and development activities within its seven Petroleum Exploration Licences (PELs).

The exploration activities have yielded encouraging results in respect of the gas composition, quality and quantities. The Company is well funded to continue the exploration and appraisal program with the objective of establishing reserves and advancing the development of the pilot production testing.

## SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

Arrow Energy Limited held 21% of the issued capital of the company and was subject to a demerger and acquisition by Royal Dutch Shell Plc and Petro China Company Ltd during the period. Arrow's shareholdings in Apollo and farm-in agreements were transferred to a new company Dart Energy Limited. The Dart demerger scheme was approved by Arrow shareholders on the 14th July 2010 and by the Federal Court of Australia on the 16th July 2010. Apollo and Arrow entered into agreements to novate the farm-in agreements to Dart which have been demerged from Arrow. Dart Energy Limited is now the holder of shares in Apollo and the operator of the farm-in agreements in PEL 458 & 464.

Dart has elected to commit to Phase 2 of the farm in work program in PEL 458. During the demerger, Arrow Energy commissioned Netherland, Sewell and Associates (NSAI) to undertake an assessment of contingent and unrisks prospective coal seam gas resources. NSAI contingent original gas in place and contingent resource estimate for PEL 458 is 1,342 billion cubic feet (BCF) (Best Estimate (2C)).

Santos QNT completed the Phase 1 farm in work commitment in PEL 456 and earned a 15% interest in the coal seam methane rights. Santos QNT has elected to proceed to Phase 2A of the farm in work commitments.

The Company was awarded two geothermal exploration licences, EL 7505 and EL 7506. The new licences overlay PEL 456 in the Sydney Gunnedah basin.

## LIKELY DEVELOPMENTS AND EXPECTED RESULTS

Apollo will continue the exploration and appraisal program with the objective of establishing Reserves and advancing the development of the Exploration Licences. The exploration program is expected to reduce the uncertainty of Contingent Resources and allow for commercialisation of these resources to delineate Reserves.

Dart Energy, subject to regulatory approvals, will undertake pilot and production testing in PEL 458 and further exploration following encouraging results to date.

It is anticipated that Santos QNT will complete the initial Phase 2 farm in commitments and may elect to undertake a pilot production test in PEL 456.

## DIVIDENDS

No dividends have been paid or declared during the financial period, nor do the directors recommend the declaration of a dividend.

## NET TANGIBLE ASSETS PER SECURITY

The Group's net tangible assets per security are as follows:

	Cents
Net tangible assets per share at 30 June 2010	0.07
Net tangible assets per share at 30 June 2009	0.0043

## ENVIRONMENTAL REGULATION AND PERFORMANCE

Exploration and development activities are subject to State and Federal laws and regulations. Apollo has a policy of complying with its environmental performance obligations as a minimum, and during the reporting period, there has been no known breach of the environmental regulations.

The Group engages consultants to ensure compliance with environmental regulations in respect to its exploration and development activities. Apollo is committed to ensuring the activities of its business are conducted in a way so as to minimise adverse impacts on the environment and local communities.

## COMMUNITY CONSULTATION AND LAND ACCESS

In planning and executing its exploration activities, Apollo considers the sensitivity of the local environment and actively seeks consultation with local community groups in order to understand the views of all stakeholders. Dialogue is entered into on a transparent and timely basis, with a view to minimising disturbances caused by exploration activities.

# DIRECTORS' REPORT

## **INDEMNIFICATION AND INSURANCE OF DIRECTORS AND OFFICERS**

During the financial period, Apollo acquired insurance to cover the directors, officers and senior executives of the Company. This policy provides coverage until 31 October 2010 and will be renewed upon expiry.

The liabilities insured are legal costs that may be incurred in defending civil or criminal proceedings that may be brought against the officers in their capacity as officers of entities in the Group, and any other payments arising from liabilities incurred by the officers in connection with such proceedings. This does not include such liabilities that arise from conduct involving a wilful breach of duty by the officers or the improper use by the officers of their position or of information to gain advantage for themselves or someone else or to cause detriment to the company. It is not possible to apportion the premium between amounts relating to the insurance against legal costs and those relating to other liabilities.



**PETER HOOD** BE (Chem), MAusIMM, FI ChemE, FAICD  
Chairman  
Appointed 27 October 2009

Mr Hood is a Chemical Engineer with 39 years experience in senior management and the development of projects in the resources and energy sectors.

Mr Hood's early career was spent with WMC Ltd in nickel and gold production at Kwinana and Kambalda. His later career was as chief executive officer of Coogee Chemicals Pty Ltd and then Coogee Resources Ltd, an oil and gas operator. Both companies experienced significant growth during this time. In 2008 Mr Hood retired to further develop and manage a portfolio of his own private business interests.

Mr Hood is a graduate of the Harvard Business School Advanced Management Program and is currently Chairman of MAK Industrial Water Systems Pty Ltd, Chairman of Equip Health Systems Pty Ltd and President of the Chamber of Commerce and Industry of Western Australia. Mr Hood is a former Vice Chairman of the Australian Petroleum Production and Exploration Association (APPEA) and former Chairman of the APPEA Health Safety and Operations Committee and the Kwinana Industries Council. Mr Hood is a fellow of the Australian Institute of Company Directors and the Institute of Chemical Engineers.

**Special responsibilities**

Chairman of the Board of Directors  
Chairman of the Safety Committee  
Member of the Audit and Corporate Risk Committee  
Member of the Nominations and Remuneration Committee

**Other current directorships**

Mr Hood has no other directorships of any listed companies.

**DIRECTORS**

The following persons were directors of Apollo Gas Limited during the financial period (except where otherwise noted) and up to the date of this financial report are as follows:

Peter Hood	Chairman
Andrew Mayo	Managing Director
Stephen Bizzell	Non-Executive Director
Wayne Seabrook	Non-Executive Director

**Retired Directors**

Duncan Hardie	Non-Executive Director (retired 23 April 2010)
Stuart Rose	Non-Executive Director (retired 30 October 2009)
Alan Jessup	Non-Executive Director (retired 13 August 2009)

Steve Alperstein was Company Secretary during the financial period to 30 June 2010.

# DIRECTORS' REPORT



**ANDREW MAYO** BComm  
Managing Director  
Appointed 13 August 2009

Mr Mayo has a commerce degree majoring in accounting, finance and technology from the University of NSW and established Macquarie Energy along with the other Founders in 2005 and its parent company, Apollo Gas Limited in 2009.

Prior to this Mr Mayo was a director in his family business, the Mayo Group International, a distribution company specialising in the supply and servicing of medical products and equipment, security, engineering, architectural and general hardware products.

Mr Mayo was a founding director of Aconcagua Resources Limited, a mineral sands exploration company with concessions in Chile and is now the ASX Listed company South American Iron & Steel Corporation.

**Special responsibilities**  
Managing Director

**Other current directorships**  
Mr Mayo has no other directorships of any listed companies.



**WAYNE SEABROOK** BE (Chem, 1st Class Hons), MAusIMM, FFinsia  
Non-Executive Director Appointed  
15 September 2009

Mr Seabrook has 28 years experience in all aspects of the resource industry, including exploration management, project feasibility/evaluation, finance, construction and operation.

For the past decade he has held senior corporate finance roles with Wilson HTM, Challenger International and Macquarie Bank. He has been a lead manager on numerous capital raisings and corporate transactions for many resource companies. His development and operations background includes senior roles with Alcoa of Australia, Macraes Mining, Minproc Engineers, and as director of PMA Limited.

Mr Seabrook is a director of XLX Pty Ltd, a company that invests in resources and resources services business. Mr Seabrook is XLX's nominee on the Board of Apollo.

**Special responsibilities**  
Chairman of the Nominations and Remuneration Committee  
Member of the Safety Committee

**Other current directorships**  
Mr Seabrook has no other directorships of any listed companies.



**STEPHEN BIZZELL** BComm, ACA, MAICD  
Non-Executive Director  
Appointed 15 September 2009

Mr Bizzell is currently an executive director of Dart Energy Limited, and was an executive director of Arrow Energy from 1999 until its takeover by Royal Dutch Shell and Petrochina.

Mr Bizzell is a Chartered Accountant and early in his career was employed in the Corporate Finance division of Ernst & Young and the Corporate Tax division of Coopers & Lybrand. He has had considerable experience and success in the fields of corporate restructuring, debt and equity financing, and mergers and acquisitions and has over 15 years' corporate finance and public company management experience in the resources sector in Australia and Canada with various public companies. He is Chairman of boutique investment banking and funds management group Bizzell Capital Partners.

Following the demerger of Arrow Energy, Mr Bizzell is the Dart representative on the Board of Apollo.

**Special responsibilities**

Chairman of the Audit and Corporate Risk Committee

**Other current directorships**

Dart Energy Limited (and subsidiaries), Executive Director  
Bow Energy (and subsidiaries), Non-Executive Director  
Hot Rock Limited, Non-Executive, Director  
Renison Consolidated Mines NL, Chairman  
Stanmore Coal Limited, Non-Executive Director  
Diversa Limited, Non-Executive Director

**Former listed company directorships within the last 3 years**

Arrow Energy Limited, Executive Director  
Liquified Natural Gas Limited, Alternate Director



**STEVEN ALPERSTEIN** BComm, LLB, MBA  
Company Secretary  
Appointed 13 August 2009

Mr Alperstein is a solicitor and Fellow of the Chartered Institute of Secretaries. He has over 20 years experience providing company secretarial services to listed and unlisted companies including Canadian Imperial Bank of Commerce (Australia), Star City, TAB and Solution 6.

Prior to holding company secretary roles, Mr Alperstein has held various roles as finance manager and development manager for companies in Australia and Canada.

**Special responsibilities**

Company Secretary

**Other current directorships**

Mr Alperstein has no other directorships of any listed companies.

# DIRECTORS' REPORT

## INTERESTS IN THE SHARES AND OPTIONS OF THE COMPANY AND RELATED BODIES CORPORATE

As at the date of this report, the interests of the directors and their related parties in the shares and options of the Company were:

Director	Registered Holder	Number of Ordinary Shares fully paid	Apollo Gas	
			Number of Options over Ordinary Shares – Founders	Options over ordinary shares (ESOP) <sup>5</sup>
Mr Peter Hood <sup>1</sup>	Mossgrove Nominees Pty Ltd	1,290,180	-	-
	Peter Hood	-	-	1,000,000
Mr Andrew Mayo <sup>2</sup>	Santelle Pty Ltd	35,000,000	20,000,000	-
	Andrew Mayo	-	-	1,500,000
	Karissa Mayo	10,000	-	-
Mr Stephen Bizzell <sup>3</sup>	Bizzell Nominees Pty Ltd	625,000	-	-
	BCP Alpha Investments Pty Ltd	312,500	-	-
	Stephen Bizzell	30,000	-	1,000,000
	Pine Mountain Pty Ltd	100,000	-	-
	Bizzell Capital Partners Pty Ltd	30,000	-	-
	Sally Bizzell	50,000	-	-
Mr Wayne Seabrook <sup>4</sup>	XLX Capital Pty Ltd	19,753,610	-	-
	Wayne Seabrook	-	-	1,000,000

- Mr Hood is a director and 50% shareholder of Mossgrove Nominees Pty Ltd.
- Mr Mayo is the sole director and shareholder of Santelle Pty Ltd. Karissa Mayo is Mr Mayo's spouse.
- Mr Bizzell is a sole director and shareholder of Bizzell Nominees Pty Ltd, Pine Mountain Pty Ltd, Bizzell Capital Partners Pty Ltd and BCP Alpha Investments Pty Ltd. Mr Bizzell is a director of Dart Energy, which holds 42,087,570 Shares following the demerger from Arrow Energy. Mr Bizzell also has a beneficial interest in 1,290,180 Shares held by the XLX Apollo Trust. Sally Bizzell is Mr Bizzell's spouse.
- Mr Seabrook is a director of XLX Pty Ltd and a director of XLX Capital Pty Ltd. Mr Seabrook is a minority shareholder of XLX Pty Ltd. XLX Capital Pty Ltd is a 100% owned subsidiary of XLX Pty Ltd.
- ESOP = Employee share option plan

## DIRECTORS' MEETINGS

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

	Full Board of Directors Meetings				Committee Meetings			
			Corporate Audit & Risk		Safety		Remuneration & Nomination	
	Held <sup>1</sup>	Attended <sup>2</sup>	Held <sup>1</sup>	Attended <sup>2</sup>	Held <sup>1</sup>	Attended <sup>2</sup>	Held <sup>1</sup>	Attended <sup>2</sup>
Peter Hood	8	8	3	3	2	2	1	1
Andrew Mayo	12	12	-	-	-	-	-	-
Stephen Bizzell	11	9	3	3	-	-	-	-
Wayne Seabrook	11	11	-	-	2	2	1	1
Duncan Hardie	10	10	-	-	2	2	-	-
Stuart Rose	5	4	-	-	-	-	-	-

- Number of meetings held during the time the director held office or was a member of the committee during the period; and
- Number of meetings attended
- Duncan Hardie retired 23 April 2010 / Stuart Rose retired 30 October 2010

## REMUNERATION REPORT

Directors, Key Management Personnel and the five highest remunerated specified executives for the period ended 30 June 2010:

2010 Financial Period	Short-Term			Post Employment	Share Based Payments	Long Service leave	Total	Percentage Performance Related
	Salary & Fees	Bonus	Non Monetary Benefits	Superannuation	Options	Other		
	\$	\$	\$	\$	\$	\$	\$	%
<b>Directors</b>								
Peter Hood	43,794	-	-	4,331	71,714	-	119,839	59.8%
Stephen Bizzell <sup>1</sup>	26,250	-	-	-	71,714	-	97,964	73.2%
Wayne Seabrook	27,708	-	-	2,494	71,714	-	101,916	70.4%
Duncan Hardie <sup>2</sup>	18,750	-	-	1,687	71,714	-	92,151	77.8%
Stuart Rose <sup>3</sup>	-	-	-	-	21,514	-	21,514	100%
	116,502	-	-	8,512	308,370	-	433,384	-
<b>Executives/Employees</b>								
Andrew Mayo	198,367	-	-	17,253	107,572	-	323,192	33.2%
Steven Alperstein <sup>4</sup>	72,500	-	-	-	10,757	-	83,257	12.9%
Jason Needham	119,383	-	-	10,745	26,686	-	158,814	18.1%
Melissa Harrison	87,198	-	-	7,848	32,271	-	127,317	25.3%
Sam DuToit	86,283	-	-	7,765	-	-	94,048	-
	563,731	-	-	43,611	117,286	-	786,628	

2009 Financial Period	Short-Term			Post Employment	Share Based Payments	Long Service leave	Total	Percentage Performance Related
	Salary & Fees	Bonus	Non Monetary Benefits	Superannuation	Options	Other		
	\$	\$	\$	\$	\$	\$	\$	%
<b>Directors</b>								
Nil	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-
<b>Executives/Employees</b>								
Andrew Mayo <sup>5</sup>	201,182	-	-	-	107,572	-	323,192	33.2%
	201,182	-	-	-	107,572	-	323,192	33.2%

1. Stephen Bizzell directors' fees were paid to his company, Bizzell Capital Partners Pty Ltd, during the 2010 financial period.
2. Duncan Hardie retired as director on 23 April 2010.
3. Stuart Rose retired as director on 30 October 2009.
4. Fees were paid to the Rose Group as reimbursement for Company Secretarial services provided by Steven Alperstein
5. Consulting fees were paid to a director related entity of Andrew Mayo during the 2009 financial period.

# DIRECTORS' REPORT

## CONTRACT FOR SERVICES

The table and notes below summarise current executive employment contracts with the Company as at the date of this report:

Executive	Commencement date per latest contract	Duration	Notice Period – Company*	Notice Period – Executive*
Andrew Mayo	1.11.09	12 months	4 months	4 months

\* A six month notice period applies where the termination is due to a change of control of Apollo.

## COMPENSATION PHILOSOPHY

The objective of the Group's compensation framework is to ensure reward for performance is competitive and appropriate for the results delivered. The framework aligns executive reward with achievement of strategic objectives and the creation of value for shareholders, and confirms with market practice for delivery of reward. The Board ensures that executive rewards satisfy the following key criteria for good reward governance practices:

- all operations and work conducted with the highest regard for safety;
- competitiveness and reasonableness;
- acceptability to shareholders; and
- performance linkage/alignment of executive compensation.

The Group has structured an executive remuneration framework that is market competitive and complimentary to the reward strategy of the organisation.

Alignment to shareholders' interests:

- has economic profit as a core component of plan design;
- focuses on sustained growth in shareholder wealth, consisting of dividends and growth in share price, and delivering constant return on assets as well as focusing the executive on key non financial drivers of value; and
- attracts and retains high calibre executives.

Alignment to program participants' interests:

- rewards capability and experience;
- reflects competitive reward for contribution to growth in shareholder wealth;
- provides a clear structure for earning rewards;
- provides recognition for contribution.

The framework provides a mix of fixed and variable pay, and a blend of short- and long-term incentives.

## REMUNERATION DECISIONS

The Board has established a Nominations and Remuneration committee which provides advice on remuneration and incentive policies and practices and specific recommendations on remuneration packages and other terms of employment for executive directors, other senior executives and non-executive directors. The Corporate Governance Statement provides further information on the role of this committee.

## COMPENSATION STRUCTURE

The constitution of the Company provides that the directors may be paid, as remuneration for their services as directors, a sum determined from time to time by Apollos' Shareholders in general meeting, with that sum to be divided amongst the directors in such manner and proportion as they agree.

## SHARE OPTIONS

### Unissued shares

A total of 3,150,000 ESOP options remain unissued at 30 June 2010. The unissued options may be issued to new employees as part of their employment contracts.

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

There have been no shares issued in the period 13 August 2009 to 30 June 2010 as a result of the exercise of options.

## EMPLOYEE SHARE OPTION PLAN (ESOP)

Apollo has adopted an Employee Share Option Plan (ESOP) for its directors and employees (Eligible Persons). The purpose of the ESOP is to provide an opportunity for all eligible persons of Apollo to participate in the growth and development of Apollo through participation in the equity of Apollo. Apollo believes it is important to provide incentives to directors and employees in the form of options which provide the opportunity to participate in the share capital of Apollo.

The grant of options under the plan to eligible person is subject to receipt of any necessary shareholder or other approvals under:

- a. the Corporations Act or any other law application to Apollo; and
- b. the applicable ASX Listing Rules for a listed Company.

## EMPLOYEE SHARE OPTION PLAN (ESOP): OPTIONS GRANTED DURING THE PERIOD ENDED 30 JUNE 2010

### Terms and Conditions for each Grant

Director	Number of Options Issued	Grant date	Fair value per option at grant date	Knock-in Vesting Trigger Price	Exercise Price	Number of Options vested	Expiry date
<b>Peter Hood</b>							
Tranche 1	500,000	05/11/2009	\$0.0753	\$0.40	\$0.30	500,000	15/12/2014
Tranche 2	300,000	05/11/2009	\$0.0712	\$0.60	\$0.30	300,000	15/12/2014
Tranche 3	200,000	05/11/2009	\$0.0636	\$0.80	\$0.30	-	15/12/2014
<b>Stephen Bizzell</b>							
Tranche 1	500,000	05/11/2009	\$0.0753	\$0.40	\$0.30	500,000	15/12/2014
Tranche 2	300,000	05/11/2009	\$0.0712	\$0.60	\$0.30	300,000	15/12/2014
Tranche 3	200,000	05/11/2009	\$0.0636	\$0.80	\$0.30	-	15/12/2014
<b>Wayne Seabrook</b>							
Tranche 1	500,000	05/11/2009	\$0.0753	\$0.40	\$0.30	500,000	15/12/2014
Tranche 2	300,000	05/11/2009	\$0.0712	\$0.60	\$0.30	300,000	15/12/2014
Tranche 3	200,000	05/11/2009	\$0.0636	\$0.80	\$0.30	-	15/12/2014
<b>Duncan Hardie<sup>1</sup></b>							
Tranche 1	500,000	05/11/2009	\$0.0753	\$0.40	\$0.30	500,000	15/12/2014
Tranche 2	300,000	05/11/2009	\$0.0712	\$0.60	\$0.30	300,000	15/12/2014
Tranche 3	200,000	05/11/2009	\$0.0636	\$0.80	\$0.30	-	15/12/2014
<b>Total</b>	<b>4,000,000</b>					<b>3,200,000</b>	

1. Duncan Hardie retired as director on 23 April 2010

No shares have been issued during the period or to the date of this report as a result of the exercise of options granted.

Executive/ Employee	Number of Options Issued	Grant date	Fair value per option at grant date	Knock-in Vesting Trigger Price	Exercise Price	Number of Options vested	Expiry date
<b>Andrew Mayo</b>							
Tranche 1	750,000	05/11/2009	\$0.0753	\$0.40	\$0.30	750,000	15/12/2014
Tranche 2	450,000	05/11/2009	\$0.0712	\$0.60	\$0.30	450,000	15/12/2014
Tranche 3	300,000	05/11/2009	\$0.0636	\$0.80	\$0.30	-	15/12/2014
<b>Steven Alperstein</b>							
Tranche 1	75,000	05/11/2009	\$0.0753	\$0.40	\$0.30	75,000	15/12/2014
Tranche 2	45,000	05/11/2009	\$0.0712	\$0.60	\$0.30	45,000	15/12/2014
Tranche 3	30,000	05/11/2009	\$0.0636	\$0.80	\$0.30	-	15/12/2014
<b>Melissa Harrison</b>							
Tranche 1	225,000	05/11/2009	\$0.0753	\$0.40	\$0.30	225,000	15/12/2014
Tranche 2	135,000	05/11/2009	\$0.0712	\$0.60	\$0.30	135,000	15/12/2014
Tranche 3	90,000	05/11/2009	\$0.0636	\$0.80	\$0.30	-	15/12/2014
<b>Jason Needham</b>							
Tranche 1	200,000	05/11/2009	\$0.0753	\$0.40	\$0.30	200,000	15/12/2014
Tranche 2	120,000	05/11/2009	\$0.0712	\$0.60	\$0.30	120,000	15/12/2014
Tranche 3	80,000	05/11/2009	\$0.0636	\$0.80	\$0.30	-	15/12/2014
<b>Jacqueline Molina</b>							
Tranche 1	25,000	05/11/2009	\$0.0753	\$0.40	\$0.30	25,000	15/12/2014
Tranche 2	15,000	05/11/2009	\$0.0712	\$0.60	\$0.30	15,000	15/12/2014
Tranche 3	10,000	05/11/2009	\$0.0636	\$0.80	\$0.30	-	15/12/2014
<b>Stuart Rose<sup>1</sup></b>							
Tranche 1	300,000	05/11/2009	\$0.0753	\$0.40	\$0.30	300,000	15/12/2014
<b>Total</b>	<b>2,850,000</b>					<b>2,340,000</b>	

1. Stuart Rose retired as a director on 30 October 2009

End of remuneration report – Audited.

# DIRECTORS' REPORT

## **SIGNIFICANT EVENTS AFTER THE BALANCE DATE**

There has not arisen in the interval since 30 June 2010 and up to the date of this report, any matter that, in the opinion of the directors, would require an adjustment to, or disclosure in, these financial statements.

## **AUDITOR INDEPENDENCE AND NON-AUDIT SERVICES**

The directors received an auditor's independence declaration from the auditor of the Company, Ernst and Young, copy of which is included on page 19 of the financial report.

## **NON-AUDIT SERVICES**

Ernst & Young provided consulting services totalling \$64,865 during the financial period ended 30 June 2010. 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 2001. The nature and scope of the non-audit service provided means that auditor independence was not compromised.

Signed in accordance with a resolution of the directors.



**ANDREW MAYO**  
**MANAGING DIRECTOR**  
Sydney, 23 September 2010

## CORPORATE GOVERNANCE

The Board of Apollo Gas Limited is committed to achieving the highest standards of corporate governance and to ensuring that its corporate governance practices comply with the ASX Corporate Governance Principles.

### Principle 1: Companies should establish and disclose the respective roles and responsibilities of board and management

The Board's roles and responsibilities are set out in the Board's Charter. The Board is committed to recognise its overriding responsibility to act honestly, fairly, diligently and in accordance with the law in serving the interests of the Company, its employees, customers, the community and the environment.

The Board delegates responsibility for the day to day management of the Company to the Managing Director who is responsible for implementing the Company's strategies and policies.

The Board's key responsibilities include:

- setting the direction, financial objectives and goals for management;
- reviewing and approving strategies for the Company;
- monitoring management's performance against these goals and objectives;
- ensuring there are appropriate standards of Corporate Governance and ethical standards;
- evaluating the performance and determining the remuneration of the Managing Director and senior executives;
- risk oversight of material business risks and satisfying itself that management has developed and implemented a sound system of risk management and internal controls, reporting systems and compliance frameworks and that they are operating effectively; and
- ensuring there are plans and procedures for recruitment, training, remuneration and succession planning for senior executives.

### Principle 2: Companies should have a board of an effective composition, size and commitment to adequately discharge its responsibilities and duties

The Board operates in accordance with the principles set out in the Charter. The Charter sets out the Boards composition and responsibilities.

#### Composition

The Board must be comprised of both executive and non-executive directors with a majority of non-executive directors. The directors shall be from different backgrounds with complementary skills and experience.

Details of the members of the Board and independence status are as follows. There are three non-executive directors, one of whom is deemed independent and one executive director.

Director	Independent	Non executive
Peter Hood	Yes	Yes
Andrew Mayo	No	No
Stephen Bizzell	No	Yes
Wayne Seabrook	No	Yes

#### Board Committees

The Board may from time to time establish committees to assist in the execution of its responsibilities, and each committee, with the approval of the Board, shall adopt written charters setting out the roles and responsibilities, composition, structure, membership requirements and the manner in which they are to operate.

Subject to any delegation by the Board to a committee, all matters determined by committees are to be submitted to the Board as recommendations for Board decision, and minutes of committee meetings are to be tabled at the immediately subsequent Board meeting.

The Board has established the following committees:

- Audit and Corporate Risk Committee;
- Safety Committee; and
- Remuneration and Nominations Committee.

The Chairman of any Board committee will be a non-executive director.

#### Performance Evaluation

The Board shall undertake regular performance evaluation of itself that:

- evaluates the effectiveness of the Board as a whole, and that of individual directors;
- compares the performance of the Board with the requirements of its Charter;
- sets forth the goals and objectives of the Board for the upcoming year; and
- effects any improvements to the Board Charter deemed necessary or desirable.

The performance evaluation shall be conducted in such manner as the Board deems appropriate and may involve the use of an external consultant.

### Principle 3: Companies should actively promote ethical and responsible decision making

The Company conducts its business according to the highest standards of ethical behaviour.

The Company has established a Code of Ethics which sets out the basis upon which staff and management are expected to act with integrity towards those with whom they have business dealings and towards each other.

### Principle 4: Companies should have a structure to independently verify and safeguard the integrity of their financial reporting

The Audit and Corporate Risk Committee has been established to assist the Board to fulfil its corporate governance and oversight responsibilities.

One of the objectives of the Committee is to safeguard the integrity of financial reporting.

The Committee is authorised to seek any information it requires from any employee and it may seek or obtain any professional advice to fulfil its responsibilities with all costs being borne by the Company.

The Committee is comprised of two non-executive directors of the Company.

The Committee ensures a financial reporting system is in place to enable the Managing Director to give a written declaration to the Board in respect of the financial statements in accordance with section 295(A) of the Corporations Act and Recommendations 4.1 and 7.2 of the ASX Corporate Governance Council Principles of Good Governance and Best Practice Recommendations.

The Committee reviews and recommends to the Board the acceptance of the terms of engagement with the external auditor and monitors and evaluates on a regular basis the performance of the external auditor.

The Committee is required to obtain a written declaration from the external auditor prior to the announcement of the Company's results each half year certifying that it has complied with all professional and regulatory

# DIRECTORS' REPORT

requirements relating to auditor independence including those contained in the Corporations Act and the Code of Professional Conduct issued by the Institute of Chartered Accountants.

## **Principle 5: Companies should promote timely and balanced disclosure of all material matters concerning the Company**

The Company has adopted policies and procedures to ensure compliance with its continuous disclosure obligations and to ensure accountability of senior management for that disclosure.

The Company has established a Continuous Disclosure Policy and all material information is disclosed to the ASX immediately as required by the ASX Listing Rules.

The Audit and Corporate Risk Committee monitors compliance with the Continuance Disclosure Policy.

## **Principle 6: Companies should respect the rights of shareholders and facilitate the effective exercise of these rights**

The Company is committed to providing effective and timely communication to shareholders and other investors so that they have all the available information required to make informed decisions relating to their investments or potential investment in the Company.

The Company's website contains all recent announcements and Quarterly, Half Yearly and Annual Reports. The Company provides shareholders with a choice to receive a hard copy or electronic version of the Annual Report.

The external auditor is required to attend the Annual General Meeting and be available to answer shareholder questions about the conduct of the audit, and preparation and content of the auditor's report.

## **Principle 7: Companies should establish a sound system of risk oversight and management and internal control systems**

The Board is responsible for ensuring there are appropriate policies in place in relation to risk management and internal control systems.

The Board has delegated responsibility for financial risk management and internal controls to the Audit and Corporate Risk Committee and for operational risk management to the Safety Committee.

The Audit and Corporate Risk Committee is responsible for:

- a) reviewing the Company's risk profile ensuring a regular update including an assessment and prioritisation of risks;
- b) reporting on the effectiveness of the Company's risk management, internal compliance and control systems; and
- c) monitoring and reviewing risks of a financial nature to which the Company has exposure.

The Safety Committee is responsible for assisting the Board in fulfilling its responsibilities in relation to the Company's policies, management systems and performance with respect to environmental, physical risk and occupational health and safety and:

- a) requires management to ensure that the Company has proper systems for implementing the Corporation's policies with respect to environmental, physical risk and occupational health & safety matters, such systems to involve appropriate standards, education, supervision and inspection and to take into account risk management practices in the industry to which they are to apply;
- b) requires management to ensure that employees are:
  - i. aware of the Company's policies with respect to environmental, physical risk and occupational health & safety;
  - ii. expected to deal with environmental, physical risk and occupational health & safety problems expeditiously or to bring such problems to

the attention of appropriate management personnel;

- iii. receives and reviews periodic reports from management and such independent consultants, if any, as the Committee shall consider appropriate, such reports to note in particular any significant government requests for action and the manner of dealing with the same;
- iv. requires management to keep it apprised of current and emerging issues and proposed legislation in environmental, physical risk and occupational health & safety matters as they may affect the Company's operations and shall bring to the attention of the Board such issues as it shall think appropriate;
- v. brings to the attention of the Board any serious problems or deviations that management cannot deal with expeditiously or within reasonable economic bounds, and shall submit to the Board periodic reports as to the Committee's activities;
- vi. ensures that it is informed as soon as possible of any major incidents, including any involving a breach or violation of the Company's policies and any safety and environmental crises. The Committee will ensure that the proper action is taken by management to rectify the situation and to proactively minimise any risks of such incident occurring at other locations or facilities; and
- vii. undertakes such additional activities within the scope of its responsibilities as it shall deem appropriate in its discretion.

The Safety Committee is comprised of two non-executive directors of the Company.

## **Principle 8: Companies should ensure that the level and composition of remuneration is sufficient and reasonable and that its relationship to performance is clear**

The Board has established a Nomination and Remuneration Committee to assist in ensuring that appropriate remuneration policies are in place which is designed to meet the needs of the Company and to enhance corporate and individual performance.

The Committee is comprised of two non-executive directors of the Company.

The Committee is responsible for reviewing and recommending to the Board:

- a) the Company's remuneration, superannuation and incentive policies for senior management. These policies must be designed to:
  - i. recognise an individual's contribution to the Company's performance;
  - ii. motivate senior management to pursue the long term growth and success of the Company within an appropriate control framework;
  - iii. demonstrate a clear relationship between executive performance and remuneration; and
  - iv. provide a balance between fixed and incentive pay reflecting short and long term performance objectives appropriate to the Company's circumstances and goals.
- b) the remuneration packages of senior management including the Managing Director and other staff (including base pay, incentive payments, equity awards, retirement rights and service contracts) having regard to the need to attract and retain a highly motivated and professional staff;
- c) succession plans for key managers;
- d) incentive schemes; and
- e) superannuation arrangements.

The Committee is also responsible for recommending to the Board:

- a) all equity based plans; and
- b) the remuneration framework for non-executive directors.

## **Independent advice**

Apollo permits any director to obtain advice about transactions or matters of concern at Apollo's cost. Approval for directors seeking independent advice is subject to the approval of the Chairperson acting reasonably. Where appropriate, directors share such independent advice with other directors. Company policy and practice for dealing in Shares

The freedom of all officers and employees to deal in the Shares is restricted in a number of ways namely by statute, by common law and by the requirements of the Listing Rules. In addition to these restrictions, Apollo has adopted an insider trading policy for dealing in Shares. The insider trading policy provides that officers and employees may deal in Shares provided that, at all times, they are not in possession of material non-public information, in the 30 days following Apollo's quarterly, half-year and full-year financial results announcements and, if relevant, any Shareholders' meeting. Officers and employees may only deal in Shares outside of these times with the express prior approval of the Chairman or the Managing Director.

### **Shareholder communications**

The Board aims to ensure that Shareholders are informed of all information necessary to assess the performance of Apollo.

Information is communicated to the Shareholders through:

- the annual report, which is distributed to all Shareholders (other than those who elect not to receive it);
- the AGM and other Shareholder meetings called to obtain approval for Board action as appropriate;
- making available all information released to the ASX on Apollo's website immediately following confirmation of receipt by the ASX;
- ensuring all press releases issued by Apollo are posted on Apollo's website as soon they are disclosed to the ASX;
- encouraging active participation by Shareholders at Shareholder meetings;
- encouraging all Shareholders who are unable to attend general meetings to communicate issues or ask questions by writing to Apollo.

### **Company commitment to continuous disclosure**

The Board has approved a continuous disclosure policy to ensure the fair and timely disclosure of price sensitive information to the investment community as required by applicable law.

The Company Secretary of Apollo has been appointed the disclosure officer of Apollo and is required to keep abreast of all material information and where appropriate, ensure disclosure of share price sensitive information.

### **External audit independence**

Apollo's policy is to appoint external auditors who demonstrate quality and independence. The performance of the auditor is reviewed annually and applications for tender of external audit services are requested as deemed appropriate, taking into account an assessment of performance, existing value and tender costs.

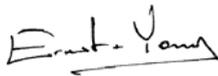
# AUDITOR'S INDEPENDENCE



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## Auditor's Independence Declaration to the Directors of Apollo Gas Limited

In relation to our audit of the financial report of Apollo Gas Limited for the financial period ended 30 June 2010, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the *Corporations Act 2001* or any applicable code of professional conduct.



Ernst & Young



Anton Ivanyi  
Partner  
23 September 2010

Liability limited by a scheme approved  
under Professional Standards Legislation

## STATEMENT OF COMPREHENSIVE INCOME

PERIOD ENDED 30 JUNE 2010	NOTES	CONSOLIDATED	
		2010	Macquarie Energy <sup>1</sup> 2009
		\$	\$
Tenement management fees		210,000	355,000
Interest revenue		499,711	1,907
Other revenue		6,073	414,280
Total Revenue		715,784	771,187
Employee benefits expense	3(ii)	(540,636)	(53,480)
Depreciation and amortisation	3(iii)	(8,862)	(8,678)
Share based payments/employee share option plan	3(ii)	(491,243)	-
Other expenses	3(i)	(1,147,797)	(765,873)
Loss before income tax		(1,472,754)	(56,844)
Income tax expense	4	-	-
Loss after income tax		(1,472,754)	(56,844)
Other comprehensive Income			
Total comprehensive income for the period		-	-
Loss for the period is attributable to:			
Owners of the parent		(1,472,754)	(56,844)
Loss per share for profit attributable to the ordinary equity holders of the parent:			
Basic loss per share (cents)		(0.0090)	-
Diluted loss per share (cents)		(0.0090)	-

1. Refer to Note 2(f)

The above statement of comprehensive income should be read in conjunction with the accompanying notes.

# FINANCIAL STATEMENTS

## STATEMENT OF FINANCIAL POSITION

AT 30 JUNE 2010	NOTES	CONSOLIDATED	
		2010	Macquarie Energy <sup>1</sup> 2009
		\$	\$
<b>CURRENT ASSETS</b>			
Cash and cash equivalents	15(b)	660,922	10
Term deposit	23	11,553,237	-
Trade and other receivables	7	142,498	80,571
Other financial assets	23	52,000	-
<b>TOTAL CURRENT ASSETS</b>		<b>12,408,657</b>	<b>80,581</b>
<b>NON-CURRENT ASSETS</b>			
Other assets	8	120,000	110,000
Property, plant and equipment	9	23,318	14,122
Exploration and evaluation capitalised costs	10	2,130,489	496,476
<b>TOTAL NON-CURRENT ASSETS</b>		<b>2,273,807</b>	<b>620,598</b>
<b>TOTAL ASSETS</b>		<b>14,682,464</b>	<b>701,179</b>
<b>CURRENT LIABILITIES</b>			
Trade and other payables	11	504,649	203,597
Bank overdraft	15(b)	-	1,549
Provisions	12	18,205	9,512
<b>TOTAL CURRENT LIABILITIES</b>		<b>522,854</b>	<b>214,658</b>
<b>NON-CURRENT LIABILITIES</b>			
Loans and borrowings	13	-	400,000
<b>TOTAL NON-CURRENT LIABILITIES</b>		<b>-</b>	<b>400,000</b>
<b>TOTAL LIABILITIES</b>		<b>522,854</b>	<b>614,658</b>
<b>NET ASSETS</b>		<b>14,159,610</b>	<b>86,521</b>
<b>EQUITY</b>			
Contributed equity	14	15,141,121	700,010
Pooling of interest reserve	14	672,826	-
Reserves	14	491,243	-
Accumulated losses		(2,145,580)	(613,489)
<b>TOTAL EQUITY</b>		<b>14,159,610</b>	<b>86,521</b>

1. Refer to Note 2(f)

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

## STATEMENT OF CASH FLOW

PERIOD ENDED 30 JUNE 2010	NOTES	CONSOLIDATED	
		2010 \$	Macquarie Energy <sup>1</sup> \$
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Tenement management fees and other income		210,000	355,000
Other income		22,616	492,878
Interest received		271,090	1,907
Cash paid to suppliers and employees		(1,593,441)	(663,231)
NET CASH FLOWS FROM/(USED IN) OPERATING ACTIVITIES	15(a)	(1,089,735)	186,554
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Acquisition of property, plant and equipment		(13,440)	(22,728)
Investment in term deposits		(11,324,617)	-
Exploration and evaluation costs capitalised	10	(1,558,123)	(294,760)
Payment for security deposits		(62,000)	-
NET CASH FLOWS FROM/(USED IN) INVESTING ACTIVITIES		(12,958,180)	(317,488)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Cash proceeds from issue of shares – Private placement	14	7,998,000	-
Share raising costs under private placement		(330,000)	-
Cash proceeds from issue of shares IPO		8,000,000	-
Share raising costs under IPO		(554,063)	-
Proceeds from borrowings		-	127,000
Repayment of borrowings		(400,000)	-
Advances to subsidiary		-	-
NET CASH FLOWS FROM FINANCING ACTIVITIES		14,713,937	127,000
<b>NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS</b>		666,022	(3,934)
Cash and cash equivalents at the beginning of the period		-	2,395
Macquarie Energy cash acquired as part of the reorganisation		(5,100)	-
<b>CASH AND CASH EQUIVALENTS/(OVERDRAFT) AT THE END OF THE FINANCIAL PERIOD</b>		660,922	(1,539)

1. Refer to Note 2(f)

The above statement of cash flows should be read in conjunction with the accompanying notes.

# FINANCIAL STATEMENTS

## STATEMENT OF CHANGES IN EQUITY

PERIOD ENDED 30 JUNE 2010	NOTES	CONSOLIDATED				Total
		Contributed equity	(Accumulated Losses)	Pooling of interests reserves	Share based payments reserves	
		\$	\$	\$	\$	
As at 13 August 2009		-	-	-	-	-
Shares issued to founders in Apollo as replacement shares in Macquarie Energy		27,184	-	-	-	27,184
Pooling of interest reserve		-	(672,826)	672,826	-	-
Shares issued – Private placement		7,998,000	-	-	-	7,998,000
Share raising costs for private placement		(330,000)	-	-	-	(330,000)
Shares issued under the IPO		8,000,000	-	-	-	8,000,000
Share raising costs for the IPO		(554,063)	-	-	-	(554,063)
Share based payments		-	-	-	491,243	491,243
Transactions with owners in their capacity as owners:		15,141,121	(672,826)	672,826	491,243	15,632,364
Loss for the period		-	(1,472,754)	-	-	(1,472,754)
Other comprehensive income net of tax		-	-	-	-	-
Total comprehensive loss for the period		-	(1,472,754)	-	-	(1,472,754)
As at 30 June 2010		15,141,121	(2,145,580)	672,826	491,243	14,159,610

The above statement of changes in equity should be read in conjunction with the accompanying notes.

## STATEMENT OF CHANGES IN EQUITY

PERIOD ENDED 30 JUNE 2009  MACQUARIE ENERGY	NOTES	CONSOLIDATED				Total
		Contributed equity	(Accumulated Losses)	Pooling of interests reserves	Share based payments reserves	
		\$	\$	\$	\$	
As at 1 July 2008		700,010	(556,645)	-	-	143,365
Loss for the period		-	(56,844)	-	-	(56,844)
Other comprehensive income net of tax		-	-	-	-	-
Total comprehensive loss for the period		-	(56,844)	-	-	(56,844)
As at 30 June 2009		700,010	(613,489)	-	-	86,521

# FINANCIAL STATEMENTS

## 1. CORPORATE INFORMATION

The financial report of Apollo Gas Limited (the Company) for the period ended 30 June 2010 was authorised for issue in accordance with a resolution of the directors on 23 August 2010.

Apollo Gas Limited is a company limited by shares incorporated and domiciled in Australia whose shares are publicly traded on the Australian stock exchange. Apollo Gas Limited was incorporated on 13 August 2009 as the holding company for its wholly owned trading subsidiary, Macquarie Energy Pty Ltd which owns seven Petroleum Exploration Licences (PELs) and two geothermal licences in New South Wales (NSW).

At the period ended 30 June 2009 the Parent Company ("Apollo Gas Limited") was not yet incorporated. The comparative balances at 30 June 2009 represent Macquarie Energy Pty Ltd results and balances only.

The nature of the operations and principal activities of the Group are described in the Directors' Report.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### (a) Basis of preparation

The financial report is a general-purpose financial report, which has been prepared in accordance with the requirements of the Corporations Act 2001 and Australian Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards Board. The financial report has also been prepared on a historical cost basis.

The financial report is presented in Australian dollars and all values are rounded to the nearest dollar unless otherwise stated.

As a result of the Corporate Reporting Reform Act 2010, effective for 30 June 2010 year end financial reporting, the Company is relieved of the requirement to present financial statements for the parent entity. A summary of the parent-entity financial information has been disclosed in note 25 of the financial statements.

### (b) Going concern

The financial statements have been prepared on a going concern basis which contemplates the continuity of normal business activities and the realisation of assets and discharge of liabilities in the ordinary course of business. The Group has sufficient cash reserves to meet its debts as and when they fall due over the next 12 months, including its commitments as outlined in note 16 assuming the farm-in partners continue to meet the work program commitments on certain Petroleum Exploration Licences. In financial periods beyond 30 June 2011 the Group may require successful raising of funding through debt, equity or farm-out, or the successful exploration and subsequent exploitation of the company's tenements.

### (c) Statement of compliance

This financial report complied with Australian Accounting Standards as issued by the Australian Accounting Standards Board. This financial report also complied with the International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board.

New/revised standards and interpretations applicable for the period commencing 13 August 2009 have been reviewed and it was determined that changes were not required to the existing accounting policies adopted by Apollo.

### (d) New Australian accounting standards

The following Australian Accounting Standards and Interpretation have been issued or amended and are applicable and effective to the Consolidated entity. They have been adopted in preparation of the financial statements at the reporting date.

The group has not elected to early adopt any new standards or amendments that have been issued but are not effective.

Australian Accounting Standards and Interpretation beginning on or after	Effective for annual reporting periods
AASB 8 Operating Segments	1 January 2010
AASB 101 Presentation of financial statements (Amended)	1 January 2010
AASB 107 Statement of cash flows	1 January 2010
AASB 117 Lessees	1 January 2010
AASB 136 Impairment of Assets	1 January 2010
AASB 2009-8 Share based payment transactions	1 January 2010

AASB 8 will result in a change in segment disclosures presented in the financial report such that the segments presented will not be based on primary and secondary segments but reflect those segments and amounts regularly reviewed by the Group's chief operating decision maker. While the amounts presented in the financial statements will not change the amounts presented in the segment reporting note may differ to those currently presented as a result of AASB 8 requiring the amounts presented to be based on those seen by the Group's chief operating decision maker.

AASB 101 (Amended) changes how an Group presents changes in equity and especially how it reports changes in equity that arise from transactions with owners in their capacity as owners. The amended standard also changes presentation and terminology of the primary financial statements. The new rules do not change the recognition, measurement or disclosure of specific transactions and other events.

The introduction of AASB 101 (Amended) will not have a material impact on the amounts presented within the financial statement but it likely to result in a substantial change in the presentation and terminology of the primary financial statements.

These Standards and Interpretation will be first applied in the financial report of the Group that relates to the annual reporting period beginning after the effective date of each pronouncement.

Certain Australian Accounting Standards and interpretations have recently been issued or amended but are not yet effective and have not been adopted by Apollo for the current reporting period. The directors have not yet assessed the impact of these new or amended standards (to the extent relevant to Apollo) and interpretations.

### (e) Basis of consolidation

The consolidated financial statements comprise the financial statements of Apollo Gas Limited and its subsidiary ('the Group'). The financial statements of the subsidiary are prepared for the same reporting period as the parent company, using consistent accounting policies. Adjustments are made to bring into line any dissimilar accounting policies that may exist. All intercompany balances and transactions, including unrealised profits arising from intra-group transactions, have been eliminated in full. Unrealised losses are eliminated unless costs cannot be recovered. Subsidiaries are consolidated from the date on which control is transferred to the Company and cease to be consolidated from the date on which control is transferred out of the Company. Where there is loss of control of a subsidiary, the consolidated financial statements include the results for the part of the reporting period during which Apollo Gas Limited has control.

# NOTES TO THE

Subsidiaries are all those entities (including special purpose entities) over which the Group has the power to govern the financial and operation policies, generally accompanying a shareholding of more than one-half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

## (f) Group Reorganisation

Apollo was incorporated on 13 August 2009 and inserted as a holding company above the existing trading company, Macquarie Energy. The founding Shareholders of Macquarie Energy ('Founders') entered into an arrangement whereby their shares in Macquarie Energy were exchanged for Shares and Options in Apollo in the same proportion as their original shareholdings in Macquarie Energy.

In accordance with AASB 127 Consolidated and Separate Financial Statements, Apollo measures its investment in Macquarie Energy at cost, being the carrying amount of its share of the equity items shown in the separate financial statements of Macquarie Energy at the date of the reorganisation. The cost of that investment is considered to be \$27,184.

This reorganisation does not represent a business combination under AASB 3 Business Combinations as there has been no combination with any other business and there was no economic substance in terms of any alteration to the composition of ownership of Macquarie Energy.

As such the consolidated financial statements are presented as a continuation of Macquarie Energy using the pooling of interests method of accounting. Under the pooling of interest method as applied in this situation the consolidated financial statements of Apollo are effectively presented as a continuation of Macquarie Energy as follows:

- The consolidated balance sheet is issued under the name of the legal parent (Apollo);
- The assets and liabilities of the combining entities are reflected at their carrying amounts. No adjustments are made to reflect fair values, or recognise any new assets or liabilities, including goodwill, as a result of the combination; and
- The cost of investment held by the legal parent (Apollo) in the legal subsidiary (Macquarie Energy) is eliminated on consolidation. The consolidated share capital reflects the share capital of Apollo, and to the extent that this is different to Macquarie Energy, then this is recognised in equity as 'pooling of interest reserve.' The remaining consolidated reserves reflect those of Macquarie Energy at the date of the combination.

## (g) Significant accounting judgements, estimates and assumptions

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected. In particular information about significant areas of estimation, uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amount recognised in the financial statements are:

## (h) Comparative figures

The consolidated financial statements are presented using the pooling of interest method of accounting. The consolidated comparatives reflect the balances of Macquarie Energy at 30 June 2009 and for the period then ended.

## (i) Exploration and evaluation

The group's policy for exploration and evaluation expenditure is discussed in note (2t). The application of this policy requires management to make certain estimates and assumptions as to future events and circumstances, particularly in relation to the assessment of whether economic quantities of reserves have been certified and established. Any such estimates and assumptions may change as new information becomes available. If, after having capitalised exploration and evaluation expenditure, management concludes that the capitalised expenditure is unlikely to be recovered by future exploitation or sale, then the relevant capitalised amount will be written off to the statement of comprehensive income.

The carrying amount of exploration and evaluation assets is disclosed in note 10.

## (j) Provision for restoration

There is no provision raised for restoration.

The Group estimates the future removal and restoration costs of exploration activities, wells, pipelines and related assets at the time of installation of the assets. In most instances the removal of these assets will occur many years in the future. The estimate of future removal costs therefore requires management to make judgements regarding the removal date, future environmental legislation, the extent of restoration activities required and future removal technologies.

## (k) Impairment of petroleum assets

The group assesses whether petroleum assets are impaired on a semi annual basis. If impairment exists, the recoverable amount of the asset, being the higher of the asset's net a fair value less costs to sell and value in use, is compared to the assets carrying value on the balance sheet. Any excess of the asset's carrying value over its recoverable amount is expensed to the statement of comprehensive income.

Where it is not possible to estimate recoverable amount for an individual asset, the economic entity estimates the recoverable amount of the cash-generating unit to which the asset belongs.

## (l) Principles of consolidation

The consolidated accounts have been prepared by combining the financial statements of all the entities that comprise the Group, being Apollo (Parent Entity) and its subsidiary as defined in Accounting Standard AASB127 'Consolidated and Separate Financial Statements'. The subsidiary details appear in note 9. Consistent accounting policies have been applied in the preparation and presentation of the consolidated accounts.

## (m) Revenue Recognition

Revenue is measured at the fair value of the consideration received or receivable. Revenue is recognised for significant revenue streams as follows:

### Tenement Management Fees

Apollo through its fully owned subsidiary Macquarie Energy has farm-in arrangements with Santos QNT Pty Ltd and Dart Energy Limited. These require the farm-inee (Santos or Dart Energy) to incur certain levels of expenditure in return for a set percentage interest in the tenement.

Macquarie Energy does not record any direct expenditure incurred by the farmee partners. Macquarie Energy will not recognise a gain or loss on the farm-out arrangements in future periods, but rather re-designate any cost previously capitalised in relation to the whole interest as relating to the partial interest retained and any cash consideration received is credited against costs previously capitalised in relation to the whole interest with any excess accounted for by Macquarie Energy as a gain on disposal.

# FINANCIAL STATEMENTS

The tenement management fee recognised in the current year was payable by Santos at the start of Phase 1 and on election to Phase 2 of the work program. The management fee represents administrative costs incurred by the Group in managing the farm-in.

## Interest Revenue

Interest revenue is recognised on an accrual basis using the effective interest method.

## (n) Income Tax

The income tax expense or revenue for the period is the tax payable on the current period's taxable income, based on the income tax rate adjusted by changes in deferred tax assets and liabilities attributable to temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Current tax losses for current and prior periods are not recognised as an asset as the future income tax benefit can be carried forward only as an asset where realisation of the benefit can be regarded as being probable.

Deferred income tax is provided on all temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred income tax liabilities are recognised for all taxable temporary differences except:

- when the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and that, at the time of the transaction, affects neither the accounting profit or loss; or
- When the taxable temporary difference is associated with investments in subsidiaries, associates or interests in joint ventures, and the timing of the reversal of the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognised for all the deductible temporary differences, carry forward tax credits and unused tax losses, to the extent it is probable that taxable profit will be available against which the deductible temporary differences and the carry forward of unused tax credits and tax losses can be utilised, except:

- When the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and that, at the time of the transaction, affects neither the accounting profit or loss; or
- when the deductible temporary difference is associated with investments in subsidiaries, associates or interests in joint ventures, and the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future and taxable profit will be available against which the temporary difference can be utilised.

The carrying amount of deferred income tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

Unrecognised deferred income tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax assets and deferred tax liabilities are offset only if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to the same taxable entity and the same taxation authority.

## Tax consolidation legislation

Apollo and its wholly-owned Australian controlled entity implemented the tax consolidation legislation as at 14 August 2009 and are therefore taxed as a single entity from that date. Apollo Gas Limited is the head entity of the tax consolidated group.

## (o) Petroleum Resource Rent Tax

The Groups' operations are conducted in parts of Australia which are not currently exposed to PRRT. There is no current PRRT Payable or deferred PRRT liabilities recognised as a result.

## (p) Cash and cash equivalents

Cash and cash equivalents in the statement of financial position comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

## (q) Trade and other receivables

Trade receivables represent exploration costs recharged to the farm-in partners, Santos and Dart. These generally have 30-60 day terms, are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less an allowance for impairment.

Collectability of trade receivables is reviewed on an ongoing basis at an operating unit level. Individual debts that are known to be uncollectible are written off when identified. An impairment provision is recognised when there is objective evidence that the Group will not be able to collect the receivable. Financial difficulties of the debtor, default payments or debts more than 60 days overdue are considered objective evidence of impairment. The amount of the impairment loss is the receivable carrying amount compared to the present value of estimated future cash flows, discounted at the original effective interest rate.

## (r) Impairment of assets

At each reporting date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at each reporting date and whenever there is an indication that the asset may be impaired. Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

## (s) Property, plant and equipment

Plant and equipment is stated at historical cost less accumulated depreciation and any accumulated impairment losses.

Depreciation is calculated on a straight line basis over the estimated useful life of the specific assets as follows:

- Plant and office equipment – 2-5 years

The assets residual values, useful lives and depreciation periods are reviewed, and adjusted if appropriate, at each financial period end.

# NOTES TO THE

## (t) Exploration and evaluation expenditures

Exploration and evaluation expenditures incurred are accumulated in respect of each identifiable area of interest. These costs are carried forward only if they relate to an area of interest for which rights of tenure are current and in respect of which:

- (i) Such costs are expected to be recouped through successful development and exploitation or from sale of the area; or
- (ii) Exploration and evaluation activities in the area have not, at balance date, reached a stage which permit a reasonable assessment of the existence or otherwise of economically recoverable reserves, and active operations in, or relating to, the area are continuing.

Accumulated costs in respect of areas of interest which are abandoned are written off in full against profit in the year in which the decision to abandon the area is made. A regular review is undertaken of each area of interest to determine the appropriateness of continuing to carry forward costs in relation to that area of interest.

Indirect costs relating to exploration and evaluation in areas of interest are capitalised in the period they are incurred. A regular review is undertaken of each area of interest to determine the appropriateness of continuing to carry forward costs in relation to that area of interest. At such regular review the indirect costs arising during the early stages of a project are written off when deemed inappropriate to continue to be carried forward. Accumulated expenditure on areas which have been abandoned, or are considered to be of no value, is written off in the year in which such a decision is made.

## (u) Trade and other payables

These amounts represent liabilities for goods and services to the company prior to the end of the financial period which is unpaid. The amounts are unsecured and are usually paid within 30 days of recognition or upon the completion of a contract.

## (v) Losses per share

### Basic losses per share

Basic losses per share is determined by dividing the operating loss after income tax attributable to members of the Parent Entity by the weighted average number of ordinary shares outstanding during the financial period.

### Diluted losses per share

Diluted losses per share adjusts the figures used in the determination of basic losses per share to take into account:

- The after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares, and
- The weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

## (w) Employee Benefits

### Wages, salaries and annual leave

The following liabilities arising in respect of employee benefits are measured at their nominal amounts:

- Salaries and annual leave regardless whether they are expected to be settled within 12 months of the reporting date; and
- Other employee benefits expected to be settled within 12 months of the reporting date.

### Long service leave

Long service leave is recognised in the provision for employee benefits and measured at the present value of expected future payments to be made in respect of services provided by employees at the reporting date using the projected unit credit method by taking into account the expected rates of

salary increases. Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity that match closest to the estimated future cash outflows.

## (x) Leases

Lease payments for operating leases, where substantially all the risks and benefits remain with the lessor, are charged as expenses in the periods in which they are incurred.

## (y) Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST) except:

- where the amount of GST incurred is not recoverable from the Australian Taxation Office (ATO). In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expenses.
- Receivables and payables are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the ATO is included as a current asset or liability in the statement of financial position.

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

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

## (z) Business Combinations

The purchase method of accounting is used to account for all business combinations. Cost is measured as the fair value of the assets given, equity instruments issued or liabilities incurred or assumed at the date of exchange plus costs directly attributable to the acquisition. Transaction costs arising on the issue of equity instruments are recognised directly in equity.

## (aa) Share based payments

Apollo has adopted an Employee Share Option Plan (ESOP) for its directors and employees. The options may be exercised where the knock in trigger price is satisfied according to rules in the option plan agreement.

A 'knock in' trigger price is a set price for exercise of a tranche of options. Where the ASX share price exceeds the stipulated trigger price by a period set out in the options contract, the employee may exercise their options.

The cost of these equity-settled transactions is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using a binomial model.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the option ('vesting date').

The cumulative expense recognised for equity-settled transactions at each reporting date until vesting date reflects (i) the extent to which the vesting period has expired and (ii) the number of options that, in the opinion of the directors of the Company, will ultimately vest. This opinion is formed based on best available information at balance date. No adjustment is made for the likelihood of market performance conditions being met as the effect of these conditions is included in the determination of fair value at grant date.

Where an equity-settled option is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the option

# FINANCIAL STATEMENTS

is recognised immediately. However, if a new option is substituted for the cancelled option, and designated as a replacement option on the date that it is granted, the cancelled option and new option are treated as if they were a modification of the original option, as described in the previous paragraph.

## **(bb) Intangible assets**

Intangible assets are recognised only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably.

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful life and tested for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with finite useful life is reviewed at least at each annual reporting period. If the expected useful life of the asset is different from previous estimates, the amortisation period shall be changed accordingly. Intangible assets with indefinite useful lives will not be amortised and their useful lives are reviewed at each period to determine whether events and circumstances continue to support an indefinite useful life assessment for that asset. Intangible assets with indefinite useful lives are tested for impairment annually.

The amortisation expense on intangible assets with finite lives for each period will be charged to profit or loss.

## **(cc) Segment reporting**

An operating segment is component of an entity that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity), whose operating results are regularly reviewed by the entity's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance and for which discrete financial information is available. This includes exploration activities which have yet to be exploited.

The group aggregates two or more operating segments when they have similar economic characteristics, and the segments are similar in each of the following respects:

- Nature of the licences held;
- Nature of the resource held; and
- Nature of the regulatory environment.

Operating segments that meet the quantitative criteria as prescribed by AASB 8 'Operating Segments' are reported separately where information about the segment would be useful to users of the financial statements.

Information about other business activities and operating segments that are below the quantitative criteria are combined and disclosed in a separate category for "all other segments".

# NOTES TO THE

## 3. EXPENSES

	NOTES	CONSOLIDATED	
		2010	Macquarie Energy 2009
		\$	\$
<b>(i) Other expenses</b>			
Administration support		29,539	97,217
Advertising		29,388	18,882
ASX listing fees		37,688	-
Audit & accounting fees		101,175	30,938
Consultants		156,437	200,961
Field expenses		30,564	-
Insurance		114,575	11,650
Legal fees		192,927	201,205
Office costs		2,618	99,365
Other costs		142,978	45,407
Rent		66,206	36,758
Research costs		75,000	-
Share listing costs		114,064	-
Telephone		25,943	8,616
Travel		28,695	14,874
Total other expenses		1,147,797	765,873
<b>(ii) Employee benefit expense</b>			
Salaries and wages (including on-costs)		522,428	53,480
Employee provisions		18,208	-
		540,636	53,480
Share based payment expense	17(b)	491,243	-
Total employee benefit expense		1,031,879	53,480
<b>(iii) Depreciation expense</b>			
Depreciation of non-current assets:			
- Plant and office equipment		8,862	8,678
Total depreciation expense		8,862	8,678

# FINANCIAL STATEMENTS

## 4. INCOME TAX

	NOTES	CONSOLIDATED	
		2010	Macquarie Energy 2009
		\$	\$
A reconciliation between tax expense and the product of accounting profit before income tax multiplied by the Company's applicable income tax rate is as follows:			
Accounting loss before income tax		(1,472,754)	(56,844)
At the Company's statutory income tax rate of 30% (2009: 30%)		(441,826)	(17,053)
Share based payment expense		147,373	-
Other		(25,668)	-
Capitalised exploration costs		(484,175)	-
Current tax expense		(804,296)	(17,053)
Deferred tax liability attributable to capitalised exploration costs		639,147	17,053
Deferred tax asset attributable to current year tax loss not recognised		165,149	-
Income tax expense		-	-

The group has estimated an unrecognised net deferred tax asset of \$413,993. This is comprised of estimated gross tax losses of \$3,510,467 (DTA at 30%: \$1,053,140). This is offset by the deferred tax liability of \$639,147, which is in respect of the capitalised exploration and evaluation costs.

The availability of the tax losses disclosed is subject to the group continuing to meet relevant statutory tests.

## 5. LOSSES PER SHARE

	NOTES	2010
		\$
Net loss attributable to equity holders		(1,472,754)
		Number of shares
Weighted average number of ordinary shares for basic earnings per share		162,739,726
Effect of dilution		-
		162,739,726

No loss per share is shown in respect of 2009 as Apollo Gas was incorporated on 13 August 2009, and listed on the ASX on 15 December 2009.

Share options totalling 56,850,000 are not included in the weighted average number at ordinary shares noted above as they are anti-dilutive in nature.

# NOTES TO THE

## 6. DIVIDENDS PROPOSED OR PAID

There were no dividends paid or proposed during or subsequent to the financial reporting period end.

## 7. TRADE AND OTHER RECEIVABLES (CURRENT)

	NOTES	CONSOLIDATED	
		2010	Macquarie Energy 2009
		\$	\$
Trade debtors		71,588	-
Allowance for impairment loss (a)		-	-
		<hr/>	<hr/>
Other debtors		70,909	80,571
		<hr/>	<hr/>
		142,498	80,571

### (a) At 30 June the ageing analysis of trade receivables is as follows:

\$	Total	0-60 days NI*	0-60 days CI*	61-120 days NI*	61-120 days CI*	121+ days NI*	121+ days CI*
2010 Consolidated	71,588	71,588	71,588	-	-	-	-
2009 Consolidated	-	-	-	-	-	-	-

\* Not impaired (NI)  
Considered impaired (CI)

## 8. OTHER ASSETS

	NOTES	CONSOLIDATED	
		2010	Macquarie Energy
		\$	\$
Security deposits		120,000	110,000
		<hr/>	<hr/>
		120,000	110,000

Security deposits represent cash paid to the Department of Industry and Investment and will be repaid to Apollo on expiry of the Petroleum Exploration Licence when the Department is satisfied all obligations under the Licence have been met.

# FINANCIAL STATEMENTS

## 9. PROPERTY, PLANT & EQUIPMENT

	NOTES	CONSOLIDATED	
		2010	Macquarie Energy 2009
		\$	\$
Plant and Office equipment			
At cost		40,786	22,728
Accumulated depreciation		(17,468)	(8,606)
<b>Total written down amount</b>		<b>23,318</b>	<b>14,122</b>
Carrying amount – opening balance		14,122	-
Additions		18,058	22,728
Depreciation		(8,862)	(8,606)
<b>Carrying amount – closing balance</b>		<b>23,318</b>	<b>14,122</b>

## 10. EXPLORATION AND EVALUATION CAPITALISED COSTS AND INTANGIBLE ASSETS

	NOTES	CONSOLIDATED	
		2010	Macquarie Energy 2009
		\$	\$
Cost (gross carrying amount)		2,130,489	496,476
Accumulated amortisation		-	-
Net carrying amount		<b>2,130,489</b>	<b>496,476</b>
<b>Period ended 30 June</b>			
At 1 July, net of accumulated amortisation and impairment		496,476	311,717
Additions		1,634,013	184,759
Amortisation		-	-
At 30 June, net of accumulated amortisation and impairment		<b>2,130,489</b>	<b>496,476</b>

The recoverability of the carrying of the capitalised exploration costs shown above is dependent on the successful development, commercial exploitation and/or the sale of the respective areas of interest. The areas of interest are represented by each of the PEL's granted to the Company.

## 11. TRADE AND OTHER PAYABLES (CURRENT)

	NOTES	CONSOLIDATED	
		2010	Macquarie Energy
		\$	\$
Trade creditors		424,503	203,597
Other creditors		80,146	-
		<b>504,649</b>	<b>203,597</b>

Trade creditors are non-interest bearing and are normally settled on 30 day terms. Due to the short term nature of these payables, their carrying value is assumed to approximate their fair value.

# NOTES TO THE

## 12. PROVISIONS (CURRENT)

NOTES	CONSOLIDATED	
	2010	Macquarie Energy 2009
	\$	\$
Employee benefits	18,205	9,512
Movement in annual leave provision:		
Carrying amount at the beginning of the period	9,512	-
Utilised	(9,512)	-
Arising during the period	18,205	9,512
Carrying amount at the end of the period	18,205	9,512

## 13. LOANS & BORROWINGS (NON-CURRENT)

NOTES	CONSOLIDATED	
	2010	Macquarie Energy 2009
	\$	\$
Loans from shareholders	-	400,000

Loans to the founding shareholders were repaid during the period.

## 14. CONTRIBUTED EQUITY AND RESERVES

	CONSOLIDATED			
	2010		2009	
	Number of Shares	\$	Number of Shares	\$
Ordinary shares	200,000,000	15,141,121	20,000,000	700,010
Opening share capital	-	-	20,000,000	700,010
Share issued to founders in Apollo as replacement shares in Macquarie Energy	100,000,000	27,184	-	-
Shares issued under the private placement	60,000,000	7,998,000	-	-
Share raising costs for the private placement	-	(330,000)	-	-
Shares issued under the IPO	40,000,000	8,000,000	-	-
Share raising costs under the IPO	-	(554,063)	-	-
<b>At 30 June 2010</b>	<b>200,000,000</b>	<b>15,141,121</b>	<b>20,000,000</b>	<b>700,010</b>

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

### Capital Management

When managing capital, the company's objective is to ensure the Group continues as a going concern as well as to maintain optimal returns to shareholders and benefits for other stakeholders.

The group is not subject to any externally imposed capital requirements.

# FINANCIAL STATEMENTS

## Employee equity benefits reserve

This reserve is used to record the value of equity benefits provided to employees and directors as part of their compensation. Refer to note 18 for further details.

## Pooling of Interests Reserve

The pooling of interests reserve represents the difference between the consolidated share capital of Apollo and that of Macquarie Energy at the date of the business re-organisation, being 13 August 2009.

## 15. CASH FLOW RECONCILIATION STATEMENT

NOTES	CONSOLIDATED	
	2010	Macquarie Energy 2009
	\$	\$
<b>(a) Reconciliation of loss after tax to the net cash flows from operations</b>		
Loss from ordinary activities after income tax expense	(1,472,754)	(56,844)
Depreciation of non-current assets	8,862	8,606
Share based payments	491,243	-
(Increase)/decrease in trade and other debtors	(231,432)	78,609
Increase/(decrease) in trade and other creditors	96,141	156,183
Increase/(decrease) in provision for employee entitlements	18,205	-
Net cash flow used in operating activities	(1,089,735)	186,554
<b>(b) Reconciliation of cash</b>		
Cash balance comprises:		
Cash at bank	660,922	10
Bank overdraft	-	(1,549)
	660,922	(1,539)

## 16. COMMITMENTS & CONTINGENCIES

	CONSOLIDATED	
	2010	Macquarie Energy
	\$	\$
<b>Lease expenditure commitments</b>		
Operating leases (non-cancellable):		
Minimum lease payments		
- not later than one year	124,330	43,412
- later than one year and not later than five years	-	86,827
- aggregate operating lease expenditure contracted for at balance date	124,330	130,239

Operating lease commitments are for office accommodation in MLC Building, Australia. Apollo Gas has entered into a commercial property sub lease with GPT RE Limited & GIC Limited. The non-cancellable lease has a remaining term of one year and five months with no upward revision of rental charges.

# NOTES TO THE

## Exploration Expenditure Commitments

Macquarie Energy has lodged applications with the Department of Primary Industries for Petroleum Exploration Licenses. These applications were granted in the 2009 financial period committing the Company to estimated exploration work program expenditure over a two to three year period. Commitment is not a dollar investment, but a physical work program. The estimated value of Apollo's exploration expenditure commitments which have not been recognised as a liability are as follows:

	\$
Less than twelve months	2,000,000
Twelve months or longer and not longer than five years	4,500,000
Greater than five years	-
<b>Total</b>	<b>6,500,000</b>

The amounts disclosed above represents Apollo's expenditure which is required to be incurred and excludes expenditure which the farmin partners, Santos and Dart Energy may incur as the farmin partner on PEL 456, PEL 458 and PEL 464 on behalf of Apollo where they elect to proceed to completion of exploration work programs. In this instance the expenditure will be incurred by Santos or Dart Energy rather than Apollo. In the event the farmin partners do not elect to proceed to Phase 2 of the work program Apollo will incur the expenditure. This is summarised in the table below:

Estimated expenditure commitments	Total expenditure commitments	Farmin partners estimated expenditure	Apollo Gas estimated expenditure
PEL 456 – Santos <sup>1</sup>	7,000,000	7,000,000	-
PEL 458 - Dart Energy <sup>1</sup>	7,000,000	7,000,000	-
PEL 459	2,000,000	-	2,000,000
PEL 460	2,000,000	-	2,000,000
PEL 461	500,000	-	500,000
PEL 463	2,000,000	-	2,000,000
PEL 464 – Dart Energy <sup>1</sup>	6,000,000	6,000,000	-
<b>Total</b>	<b>26,500,000</b>	<b>20,000,000</b>	<b>6,500,000</b>

1. For PELs 456, 458 and 464, a farmin agreement exists with Santos and Dart Energy. For PEL 456 and 458, they have elected to proceed to Phase 2 of the work program.

## 17. SHARE BASED PAYMENT PLANS

### Employee Share Option Plan (ESOP)

Apollo has adopted an Employee Share Option Plan (ESOP) for its directors and employees (Eligible Persons). The purpose of the ESOP is to provide an opportunity for all eligible persons of Apollo to participate in the growth and development of Apollo through participation in the equity of the company.

The options will be issued in three tranches. The options are exercisable within five years of the quotation date if the 10 trading-day VWAP of the shares of Apollo on the ASX has been at or above the knock-in vesting trigger price for that tranche.

There were 6,850,000 options (2009: NIL) issued under the Employee Share Option Plan (ESOP) during the current year at an average exercise price of \$0.30 (2009:Nil). There were a further 50,000,000 options issued to the founders of Macquarie Energy as part of the group re-organisation prior to listing on the ASX (45,400,000 issued to key management personnel of Apollo).

NOTES	2010		2009	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
		\$		\$
<b>Balance at beginning of period</b>	-	-	-	-
- granted under employee share option plan	6,850,000	0.30	-	-
- granted to key management personnel (founders of Macquarie Energy) <sup>1</sup>	42,400,000	0.30	-	-
- expired	-	-	-	-
- exercised	-	-	-	-
<b>Balance at end of period</b>	<b>52,250,000</b>	<b>0.30</b>	-	-

1. 50,000,000 Series 1 and Series 2 Founder options were issued prior to listing on the ASX to the founders of Macquarie Energy Pty Ltd. 45,400,000 of these options are to key management personnel of Apollo.

# FINANCIAL STATEMENTS

## (a) Options granted during the period

The following table summarises information about options granted under the employee share option plan during the period.

Tranche	Number of options	Grant date	Earliest vesting date	Expiry date	Weighted average exercise price
Tranche 1 – Knock in trigger price 0.40 cents	3,575,000	05/11/2009	14/12/2009	15/12/2014	0.30
Tranche 2 – Knock in trigger price 0.60 cents	1,965,000	05/11/2009	14/12/2009	15/12/2014	0.30
Tranche 3 – Knock in trigger price 0.80 cents	1,310,000	05/11/2009	14/12/2009	15/12/2014	0.30

## (b) Other details regarding employee share options

The weighted average fair value of options granted during the period was \$491,243 (2009 Nil).

The fair value of the equity-settled options granted under the option plan is estimated as at the grant date using a binomial model taking into account the terms and conditions upon which the options were granted. Details regarding Series 1 and 2 founder options are disclosed in note 19(a).

The following table lists the inputs to the model used for the period:

	Granted 05/11/2009
Dividend yield (%)	-
Expected volatility (%)	50%
Risk free rate (%)	0%
Option exercise price	0.30
Weighted average share price at grant date	0.20

## 18. PENSIONS AND OTHER POST-EMPLOYMENT PLANS

### Superannuation commitments

Contributions are made by the Company in accordance with the relevant statutory requirements. Contributions by the Company for the period ended 30 June 2010 were \$53,901 (2009: \$4,813) of employee's wages and salaries which are legally enforceable in Australia. The superannuation plans provide accumulation benefits.

## 19. KEY MANAGEMENT PERSONNEL DISCLOSURES

### (a) Compensation of key management personnel

	CONSOLIDATED	
	2010	2009
	\$	\$
Directors and executives salaries	314,969	201,182
Post-employment	25,765	-
Other long-term	-	-
Share-based payments	415,942	-
Total	756,576	201,182

# NOTES TO THE

## (b) Options held by key management personnel

30 June 2010	Balance at beginning of period 13 August 2009 <sup>4</sup>	Granted as compensation <sup>3</sup>	Options exercised/ expired	Balance at end of period		Vested at 30 June 2010	
				30 June 2010	Total	Not exercisable	Exercisable
<b>Directors</b>							
Peter Hood	-	1,000,000	-	1,000,000	1,000,000	200,000	800,000
Stephen Bizzell	-	1,000,000	-	1,000,000	1,000,000	200,000	800,000
Wayne Seabrook	-	1,000,000	-	1,000,000	1,000,000	200,000	800,000
Duncan Hardie <sup>1</sup>	15,400,000 <sup>4</sup>	1,000,000	-	16,400,000	16,400,000	200,000	16,200,000
Stuart Rose <sup>2</sup>	10,000,000 <sup>4</sup>	300,000	-	10,300,000	10,300,000	10,000,000	300,000
<b>Executive</b>							
Andrew Mayo	20,000,000 <sup>4</sup>	1,500,000	-	21,500,000	21,500,000	300,000	21,200,000
Steven Alperstein	-	150,000	-	150,000	150,000	30,000	120,000
<b>Total</b>	<b>45,400,000</b>	<b>5,950,000</b>	<b>-</b>	<b>51,350,000</b>	<b>51,350,000</b>	<b>11,130,000</b>	<b>40,220,000</b>

1. Duncan Hardie resigned as a director on 23 April 2010.
2. Stuart Rose resigned as a director on 30 October 2009.
3. Option holdings are treated as restricted securities by the ASX and are subject escrow until 15 November 2011.
4. Founding shareholders were granted options prior to the listing on the ASX. The options were issued in two tranches:

### Series 1 Founder Options terms and conditions

Key terms and conditions of the Series 1 Founder Options are as follows:

- (i) The grantee is able to exercise the Options on the eleventh day after the volume weighted average price (VWAP) of the Shares of Apollo Gas on the ASX have been \$0.40 or above for a period of ten consecutive trading days;
- (ii) The Options can be exercised for a period of five years from the Quotation Date being the period referred to in item (i) above;
- (iii) The Options have an exercise price of 30 cents; and
- (iv) These Options were not provided to Founder Option Holders in an employment capacity or in their capacity as key management personnel or directors of Apollo Gas, and were in the same proportion as their original shareholdings and as such no expense is recognised.

### Series 2 Founder Options terms and conditions

Key terms and conditions of the Series 1 Founder Options are as follows:

- (i) The grantee is able to exercise the Options on the eleventh day after the volume weighted average price (VWAP) of the Shares of Apollo Gas on the ASX have been \$0.40 or above for a period of ten consecutive trading days;
- (ii) The Options can be exercised for a period of five years from the Quotation Date being the period referred to in item (i) above;
- (iii) The Options have an exercise price of 30 cents; and
- (iv) These Options were not provided to Founder Option Holders in an employment capacity or in their capacity as key management personnel or directors of Apollo Gas, and were in the same proportion as their original shareholdings and as such no expense is recognised.

## (c) Shareholdings of key management personnel (consolidated)

30 June 2010 Number of shares held in Apollo	Balance 13 August 2009	Shares issued to directors as part of the Group re-organisation	Shares issued to directors prior to listing on the ASX <sup>1</sup>	On exercise of options	Balance 30 June 2010
Peter Hood	-	-	1,290,180	-	1,290,180
Andrew Mayo	-	35,000,000	10,000	-	35,010,000
Stephen Bizzell	-	-	937,500	-	937,500
Wayne Seabrook	-	-	19,753,610	-	19,753,610
Steven Alperstein	-	-	164,726	-	164,726
Duncan Hardie	-	30,800,000	1,614,334	-	32,414,334 <sup>2</sup>
<b>Total</b>	<b>-</b>	<b>65,800,000</b>	<b>23,770,350</b>	<b>-</b>	<b>89,570,350</b>

1. Shares held by directors/key management personnel or their related party entities.
2. Balance as at retirement date, 23 April 2010 and the balance at 30 June 2010 is 30,670,975.

All equity transactions with key management personnel other than those arising from the exercise of compensation options and compensation shares have been entered into under terms and conditions no more favourable than those the Group would have adopted if dealing at arm's length.

# FINANCIAL STATEMENTS

## (d) Loans to key management personnel

There were no loans during or at the end of the reporting period to key management personnel. As outlined in note 13 there was a loan from shareholders to Macquarie Energy of \$400,000 at 30 June 2009. This loan was repaid prior to the listing of Apollo Gas on the ASX in December 2009.

The founding shareholders in Macquarie Energy were:

	Share percentage	Amount repaid \$
Santelle Pty Ltd (Andrew Mayo)	40%	160,000
Rhowhan No1 Pty Ltd (Stuart Rose)	20%	80,000
Hardie Holdings Pty Ltd (Duncan Hardie)	20%	80,000
Hardie Energy Pty Ltd <sup>1</sup>	20%	80,000
<b>Total</b>	<b>100%</b>	<b>400,000</b>

1. Hardie Energy Pty Ltd is an entity controlled by Duncan Hardie, Garbis Simonian, Hilton Grugeon and Graham Burns.

## 20. AUDITOR'S REMUNERATION

The auditor of Apollo Gas Limited is Ernst & Young.

	CONSOLIDATED		PARENT	
	2010 \$	2009 \$	2010 \$	2009 \$
Amounts received or due and receivable by the Ernst & Young (Australia):				
• an audit or review of the financial report of the Group and any other entity in the consolidated entity	41,295	-	41,295	-
• other services in relation to the Group and any other entity in the consolidated Group	64,865	18,545	36,195	-
	<u>106,160</u>	<u>18,545</u>	<u>77,490</u>	

## 21. RELATED PARTY DISCLOSURES

Transactions with related parties were as follows:

- Repayment of founding shareholders (note 20(d)) loans of \$400,000 using Pre-IPO funds;
- Santelle Pty Ltd, a director related entity of Mr Andrew Mayo received \$47,300 in consulting fees prior to the inception of his employment agreement;
- Dart Energy holds a 21% shareholding in Apollo and has farm in agreements in two PELs – 458 and 464;
- Bizzell Capital Pty Ltd, a director related entity of Mr Stephen Bizzell received \$26,250 for directors fees for the period ended 30 June 2010; and
- Apollo Gas advanced \$2,303,441 to Macquarie Energy, its wholly owned subsidiary, during the period. The intercompany loan is non interest bearing, non recourse and not repayable on demand.

## 22. SEGMENT INFORMATION

The Group has one reportable segment being the exploration of coal seam gas, conventional gas and geothermal energy in New South Wales, Australia.

The Group has seven Petroleum and Exploration Licences (PELs) and two geothermal Licences in the state of New South Wales. The exploration is at an early stage. Due to the fact the PELs and Geothermal Licences are in NSW and at a similar exploration stage, it is considered that they share similar economic characteristics. On this basis the seven PELs and two geothermal licences have been aggregated as one reportable operating statement.

Management will continue to assess the reporting format in future periods and if reporting changes to a different basis, additional segment information will be included.

Apollo has identified its operating segments based on internal reports that are reviewed and used by the executive management team in assessing performance. The accounting policies and amounts reported for internal reporting are consistent with the AIFRS financial information reported in this document.

# NOTES TO THE

30 JUNE 2010	NOTES	Exploration & drilling for coal seam gas	Unallocated <sup>1</sup>	Total
		\$	\$	\$
<b>BUSINESS SEGMENTS</b>				
Revenue				
Segment revenue		211,528 <sup>2</sup>	4,545	216,073
Finance revenue		15,036	484,675	499,711
Consolidated revenue		226,564	489,220	715,784
Depreciation		7,415	1,447	8,862
Consolidated loss before income tax		(76,432)	(1,396,322)	(1,472,754)
Income tax expense	4	-	-	-
Consolidated loss after income tax		<b>(76,432)</b>	<b>(1,396,322)</b>	<b>(1,472,754)</b>
Segment current assets				
Cash and cash equivalents		123,329	537,593	660,922
Term deposits		-	11,553,237	11,553,237
Trade and other receivables		71,588	70,910	142,498
Other financial assets		-	52,000	52,000
Segment total current assets		<b>194,917</b>	<b>12,213,740</b>	<b>12,408,657</b>
Segment non-current assets				
Other assets		120,000	-	120,000
Property, plant and equipment		16,004	7,314	23,318
Exploration and evaluation capitalised costs		2,130,489	-	2,130,489
Segment total non-current assets		2,146,493	7,314	2,273,807
Segment total assets		2,341,410	12,221,054	14,682,466

1. Unallocated amounts represent corporate activities such as administration and office costs. The cash is held by the parent company.
2. Revenue represents PEL 456 Santos management fees.

# FINANCIAL STATEMENTS

30 JUNE 2010	NOTES	Exploration & drilling for coal seam gas	Unallocated <sup>1</sup>	TOTAL
		\$	\$	\$
<b>BUSINESS SEGMENTS</b>				
Liabilities				
Trade and other payables		428,372	76,277	504,649
Provisions		5,188	13,017	18,205
<b>Segment total current liabilities</b>		<b>433,560</b>	<b>89,294</b>	<b>522,854</b>
Cash flow information				
Net cash flow from operating activities		(43,964)	(1,045,772)	(1,089,735)
Net cash flow from investing activities		(1,572,802)	(11,385,378)	(12,958,180)
Net cash flow from financing activities		14,713,937	14,713,937	-
30 June 2009				
Revenue				
Segment revenue		634,280	135,000	769,280
Finance revenue		-	1,907	1,907
<b>Consolidated revenue</b>		<b>634,280</b>	<b>136,907</b>	<b>771,187</b>
Depreciation		8,678	-	8,678
Income tax expense	4	-	-	-
<b>Consolidated profit after income tax</b>		<b>360,785</b>	<b>(417,629)</b>	<b>(56,844)</b>
Cash and cash equivalents		-	10	10
Trade and other receivables		32,571	48,000	80,571
<b>Segment total current assets</b>		<b>32,571</b>	<b>48,010</b>	<b>80,581</b>
<b>Segment non-current assets</b>				
Other assets		110,000	-	110,000
Property, plant and equipment		14,122	-	14,122
Exploration and evaluation capitalised costs		496,476	-	496,476
<b>Segment total non-current assets</b>		<b>620,598</b>	<b>-</b>	<b>620,598</b>
<b>Segment total assets</b>		<b>653,169</b>	<b>48,010</b>	<b>701,179</b>
<b>Segment current liabilities</b>				
Trade and other payables		203,597	-	203,597
Bank overdraft		1,549	-	1,549
Provisions		9,512	-	9,512
<b>Segment total current liabilities</b>		<b>214,658</b>	<b>-</b>	<b>214,658</b>
Segment non-current liabilities				
Loans & borrowings		-	400,000	400,000
<b>Segment total non-current liabilities</b>		<b>-</b>	<b>400,000</b>	<b>400,000</b>
<b>Segment total liabilities</b>		<b>214,658</b>	<b>400,000</b>	<b>614,658</b>

1. Unallocated amounts represent corporate activities such as administration and office costs. The cash is held by the parent company.

# NOTES TO THE

30 JUNE 2010	NOTES	Exploration & drilling for coal seam gas	Unallocated <sup>1</sup>	TOTAL
		\$	\$	\$
<b>BUSINESS SEGMENTS</b>				
<b>Capital Expenditure</b>				
<b>Cash flow information</b>				
Net cash flow from operating activities		355,000	(1,68,456)	186,544
Net cash flow from investing activities		(317,487)	-	(317,488)
Net cash flow from financing activities		-	127,000	127,000

1. Unallocated amounts represent corporate activities such as administration and office costs. The cash is held by the parent company.

## 23. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Groups' principal financial instruments comprise receivables, payables, overdrafts and cash and short-term deposits.

### Risk exposures and responses

The Group manages its exposure to key financial risks, including interest rate and currency risk in accordance with the Groups' financial risk management policy. The objective of the policy is to support the delivery of the Groups' financial targets while protecting future financial security.

The board reviews and agrees policies for managing each of these risks as summarised below.

#### (a) Interest rate risk

The Group's exposure to market interest rates is minimal, term deposits have fixed interest rates ranging from 4.29% to 6.80%. The term deposits will mature will mature in less than one year.

At balance date, the Group had the following mix of interest bearing financial assets and liabilities:

	CONSOLIDATED	
	2010	Macquarie Energy 2009
	\$	\$
<b>Financial Assets</b>		
Cash and cash equivalents	660,922	10
Term Deposits	11,553,237	-
	<u>12,214,159</u>	<u>10</u>
<b>Financial Liabilities</b>		
Bank overdrafts	-	1,549
Intercompany loans and borrowings	-	-
	<u>-</u>	<u>1,549</u>
Net exposure	<u>12,214,159</u>	<u>1,539</u>

The Group constantly analyses its interest rate exposure. Within this analysis consideration is given to potential renewals of existing positions and alternative financing. The company is not sensitive to the fluctuation of variable interest rates as fixed interest rates are available on all term deposits.

# FINANCIAL STATEMENTS

## b) Foreign currency risk

The Group has no exposure to foreign currency risk as operations are carried out in Australian and transactions denominated in AUD.

## c) Price risk

The Group's exposure to commodity and equity securities price risk is minimal at the current time. The company may become exposed, in the future to gas pricing and sales risk.

## d) Credit risk

Credit risk arises from the financial assets of the Group, which comprise cash and cash equivalents, trade and other receivables. The Group's exposure to credit risk arises from potential default of the farm in partners, who reimburse the Group for exploration expenses relating to the PEL.

The Group trades only with recognised, creditworthy third parties, and as such collateral is not requested nor is it the Group's policy to securitise its trade and other receivables.

In addition, receivable balances are monitored on an ongoing basis with the result that the Group's experience of bad debts has not been significant.

Cash and the term deposits are held with Australian banks with minimum AA credit ratings and above.

## e) Liquidity risk

Liquidity risk arises from the financial liabilities of the Group and the Group's subsequent ability to meet their obligations to repay their financial liabilities as and when they fall due.

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of cash, term deposits and committed available credit lines. At 30 June 2010, 100% the maturity dates of the Group's term deposits range from September 2010 to June 2011. The maturity profiles of all liabilities is disclosed at Note 11 of the financial statements.

The Group manages its liquidity risk by monitoring the total cash inflows and outflows expected on a monthly basis. The Group has established comprehensive risk reporting covering its operations that reflect expectations of management of the expected settlement of financial assets and liabilities.

## f) Fair value

Set out below is a comparison by category of carrying amounts and fair values of all of the Company's financial instruments recognised in the financial statements.

CONSOLIDATED	CARRYING AMOUNT		FAIR VALUE	
	2010	2009	2010	2009
	\$	\$	\$	\$
<b>Financial assets</b>				
Cash and cash equivalents	660,922	10	660,922	10
Term Deposits	11,553,237	-	11,553,237	-
Trade and other debtors	142,498	80,571	142,498	80,571
Other financial assets (current)	52,000	-	52,000	-
Other financial assets (non current)	120,000	110,000	120,000	110,000
<b>Financial liabilities</b>				
Trade and other creditors	504,649	203,597	504,649	203,597
Bank overdraft	-	1,549	-	1,549
Loans and borrowings	-	400,000	-	400,000

Carrying amounts of financial assets and liabilities are representative of fair value due to the nature and short time to maturity of the assets and liabilities.

## 24. SUBSEQUENT EVENTS

There has not arisen in the interval since 30 June 2010 and up to the date of this report, any matter that, in the opinion of the directors, requires adjustment to, or disclosure in, these financial statements.

## 25. PARENT ENTITY INFORMATION

As a result of the Corporate Reporting Reform Act 2010, effective for 30 June 2010 year end financial reporting, the Company is relieved of the requirement to present financial statements for both the parent entity and the consolidated entity. A summary of the parent-entity financial information is below. Apollo Gas was incorporated on 13 August 2009 and as such there are no comparative balances.

	Parent Entity	
	2010	2009
	\$	\$
Current assets	12,145,644	-
Total assets	14,483,583	-
Current liabilities	89,296	-
Total liabilities	89,296	-
Contributed equity	15,141,121	-
Accumulated losses	(1,238,077)	-
Reserves	491,243	-
Total shareholders' equity	14,394,287	-
Profit or/loss of the parent entity	(1,238,077)	-
Total comprehensive income of the parent entity	-	-

# DIRECTORS' DELCARATION

In accordance with a resolution of the directors of Apollo Gas Limited, I state that in the opinion of the directors:

- (a) The financial statements and notes of the consolidated Group are in accordance with the Corporations Act 2001, including:
  - i. Giving a true and fair view of the consolidated Group's financial position as at 30 June 2010 and performance for the period ended on that date; and
  - ii. Complying with Accounting Standards and the Corporations Regulations 2001; and
- (b) the financial statements and notes also comply with International Financial Reporting Standards as disclosed in note 2(c).
- (c) There are reasonable grounds to believe that the consolidated Group will be able to pay its debts as and when they become due and payable.
- (d) This declaration has been made after receiving the declarations required to be made to the directors in accordance with section 295A of the Corporations Act 2001 for the financial period ending 30 June 2010.

On behalf of the Board,



**ANDREW MAYO**  
**MANAGING DIRECTOR**

Sydney, 23 September 2010

# AUDITOR'S OPINION



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## Independent auditor's report to the members of Apollo Gas Limited

### Report on the Financial Report

We have audited the accompanying financial report of Apollo Gas Limited, which comprises the statement of financial position as at 30 June 2010, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the period ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial period.

#### *Directors' Responsibility for the Financial Report*

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with the Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 2c, the directors also state that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards as issued by the International Accounting Standards Board.

#### *Auditor's Responsibility*

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, we consider internal controls relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### *Independence*

In conducting our audit we have met the independence requirements of the *Corporations Act 2001*. We have given to the directors of the company a written Auditor's Independence Declaration, a copy of which is included on page 16 of the financial report. In addition to our audit of the financial report, we were engaged to undertake the services disclosed in note 20 of the financial statements.

#### *Auditor's Opinion*

In our opinion:

1. the financial report of Apollo Gas Limited is in accordance with the *Corporations Act 2001*, including:

Liability limited by a scheme approved under  
Professional Standards Legislation

# AUDITOR'S OPINION



- i giving a true and fair view of the consolidated entity's financial position at 30 June 2010 and of its performance for the period ended on that date; and
  - ii complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*.
2. the financial report also complies with International Financial Reporting Standards as issued by the International Accounting Standards Board.

## Report on the Remuneration Report

We have audited the Remuneration Report included on pages 6 to 9 of the directors' report for the period ended 30 June 2010. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the Corporations Act 2001. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

### *Auditor's Opinion*

In our opinion the Remuneration Report of Apollo Gas Limited for the period ended 30 June 2010, complies with section 300A of the Corporations Act 2001.

Ernst & Young

Anton Ivanyi  
Partner  
Sydney  
23 September 2010

# ASX ADDITIONAL INFORMATION

Additional information required by the Australian Securities Exchange Ltd and not shown elsewhere in this report is as follows. The information is current as at 9 August 2010.

## a) Distribution of equity securities

### (i) Ordinary share capital

- 83,488,660 fully paid ordinary shares are held by 1,148 individual shareholders.

All issued ordinary shares carry one vote per share and carry the rights to dividends.

### (ii) Options

- 56,850,000 options are held by 13 individual option holders.

Options do not carry a right to vote.

The holding distributions in each class are:

	Fully paid ordinary shares	Redeemable preference shares	Options
1 – 1,000	50,024	-	-
1,001 - 5,000	871,346	-	-
5,001 – 10,000	2,016,765	-	-
10,001 – 100,000	17,182,422	-	50,000
100,001 and over	63,368,103	-	56,800,00
Holding less than a marketable parcel	14,380	-	-

## b) Substantial shareholders

Ordinary shareholders	Fully paid	
	Number	Percentage
Dart Energy Limited	42,087,570	21.04%
Santelle Pty Ltd	35,000,000	17.50%
Hardie Energy Pty Ltd	29,004,360	14.50%
XLX Capital Pty Ltd	19,753,610	9.88%
Rhowhan No1 Pty Ltd	19,198,000	9.60%

# ASX ADDITIONAL INFORMATION

## c) Twenty largest holders of quoted equity securities

Ordinary shareholders	Fully Paid	
	Number	Percentage
Dart Energy Limited	42,087,570	21.04%
Santelle Pty Ltd	35,000,000	17.50%
Hardie Energy Pty Ltd	29,004,360	14.50%
XLX Capital Pty Ltd	19,753,610	9.88%
Rhowhan No 1 Pty Ltd	19,198,000	9.60%
Watou Holdings Pty Ltd	6,780,240	3.39%
Cogent Nominees Pty Ltd	2,600,000	1.30%
Sunrise Investment Management Pty Ltd	2,500,000	1.25%
Mossgrove Nominees Pty Ltd	1,290,180	0.65%
Gilby Resources Pty Ltd	1,249,592	0.62%
Hardie Oceanic Pty Ltd	1,237,740	0.62%
Hilton Ross Grugeon & Beverley Clare Grugeon	1,000,000	0.50%
Focus Asset Management Pty Ltd	1,000,000	0.50%
Airlie Beach Holdings Pty Ltd	941,700	0.47%
Rosecorp Marketing Pty Ltd	802,896	0.40%
Watou Holdings Pty Ltd	777,450	0.39%
Wilson HTM Corporate Finance Limited	750,563	0.38%
Bizzell Nominees Pty Ltd	625,000	0.31%
ANZ Nominees Limited	512,500	0.26%
Anna Mayo	502,126	0.25%
Ian Lindsay Campbell	500,000	0.25%

## d) Unquoted equity securities shareholdings greater than 20%

Ordinary shareholders	Number
Santelle Pty Ltd	34,999,995
Hardie Energy Pty Ltd	29,004,360
Rhowhan No 1 Pty Ltd	18,833,335
Dart Energy Ltd	11,228,966