



**BOW ENERGY LTD**

**ANNUAL REPORT**

**FOR THE PERIOD ENDED 30 JUNE 2005**

# CORPORATE INFORMATION

## **DIRECTORS**

Ron Prefontaine  
Nicholas Mather  
Stephen Bizzell

## **COMPANY SECRETARY**

Duncan Cornish

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## **COUNTRY OF INCORPORATION**

Australia

## **STOCK EXCHANGE LISTING**

Australian Stock Exchange Ltd  
ASX Code: BOW

## **INTERNET ADDRESS**

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## **AUSTRALIAN BUSINESS NUMBER**

ABN 63 111 019 857

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## LETTER TO SHAREHOLDERS

Dear Shareholder

It is with great pleasure that I present the first Annual Report on behalf of the Board of Bow Energy Limited.

To begin with, I would like to thank all shareholders for the confidence shown in the Company's management and assets by their support of the initial public offering. After raising \$6 million, the Company was listed on the Australian Stock Exchange on the 20<sup>th</sup> of May 2005.

Since listing, Bow has participated in two wells, Gats-1 in the Carnarvon Basin, offshore WA and Pickabooba South-1 in the Clarence-Moreton Basin in northern NSW. Although both wells did not encounter commercial hydrocarbon accumulations, Pickabooba South-1 intersected several non-commercial gas zones and, more importantly, residual oil in a deeper secondary target outside structural closure. The residual oil show has upgraded the area from a gas only region to having oil potential in a new, deeper reservoir target. Three untested oil prospects and leads have since been identified up dip and in the immediate Pickabooba South area.

The Company has been mitigating exploration risk through farmouts and an acreage swap whilst still retaining sufficient equity in projects for substantial shareholder reward on exploration success. In the Eromanga Basin, Bow will be carried through a seismic and five well earning program in a permit the Company was previously required to spend almost \$1 million to earn and only one well was planned. In the Clarence-Moreton Basin, Bow was carried on a substantial portion of the drilling costs of Pickabooba South-1 and in the Surat Basin, Bow has swapped 20% of a permit and farmed out another portion but still retains a 50% working interest in the permit while only contributing 20% of the cost of the first exploration well. The acreage swap and farmouts give Bow exposure to more exploration wells at significantly reduced cost and exploration risk.

Bow plans to participate in the drilling of at least eight wells over the next 12 to 18 months, mostly in Bow's core areas in the Cooper-Eromanga and Surat-Bowen basins. The immediate drilling is in the Surat Basin where a drill rig has been contracted to drill two wells, Donga-3 and Pinnacle West-1, south of the town of Surat commencing in late September. The Donga and Pinnacle West prospects have a combined maximum recoverable oil potential of 11 million barrels. There are several other prospects located between the two wells which offer substantial follow-up oil potential on success.

Shortly after Bow listed, Mr. Keith Martens joined us as Bow's exploration manager and has since opened Bow's technical office in Perth. Prior to joining Bow, Keith was exploration manager for Tap Oil during a huge growth period for Tap. He has and continues to be meticulously developing oil prospects for our current and future drilling programs.

Finally, I would like to thank my fellow directors and management who made a significant contribution during the Company's capital raising and since listing.

Once again, thank you for your continued support and hopefully, with the continued hard work and dedication of Bow's staff and directors, the coming year will be a period of discovery and wealth creation for the Company.

Ron F. Prefontaine  
Managing Director

## REVIEW OF OPERATIONS AND FUTURE DEVELOPMENTS

### HIGHLIGHTS

- **Successful initial public offering completed and ASX listing achieved in May 2005 after raising \$6 million.**
- **Farmed out a Cooper-Eromanga Basin block whereupon the Company is carried in a multi-well earning program. The farmout gives the Company exposure to five times as many wells as previously planned and frees almost \$1 million in capital which was destined for the area. Bow retains 25% working interest after farmout.**
- **Farmed out the majority of exploration risk whilst retaining 50% direct working interest in the Surat Basin Donga-3 exploration well and the surrounding permit.**
- **Swapped adjacent Surat Basin acreage to earn 20% direct working interest in a block with several oil prospects mapped which allowed participation in the Pinnacle West-1 and Pinnacle-1 wells at no premium to Bow.**
- **Participation in four exploration wells – one well, Pickabooba South-1, upgraded the Clarence-Moreton Basin from gas prone to oil prone with several new prospects identified in the immediate area.**
- **Continued identification and detailing of oil prospects in Bow acreage and preparing for participation in eight wells over the next 12 to 18 months.**

### CORPORATE

During the year the Company successfully completed two capital raisings. Firstly \$1,250,000 was raised in November 2004, followed by an Initial Public Offering (IPO) in May 2005, raising \$6,000,000, and which resulted in the Company listing on the Australian Stock Exchange (“ASX”).

A head office was established in Brisbane and a technical office has been opened in Perth.

### OVERVIEW OF THE COMPANY’S BUSINESS

Bow’s main activity is the exploration for oil and gas. Bow’s primary assets are oil exploration tenements within proven oil and gas basins in Australia in the vicinity of commercial oil and gas fields. The tenements offer a diversified low to moderate risk portfolio of prospects and leads but with substantially high reward potential.

Risk management is fundamental to successful oil and gas exploration. Since listing, Bow has been building in-house geological expertise and an extensive geological database. Using its in-house expertise and database Bow then applies proven technology along with modern technical methods to help reduce technical risk. Furthermore Bow’s preference going forward is to have its geological team focus on oil play development and prospect generation rather than be burdened with the administrative and compliance requirements of drilling operations. To this end, Bow has been pro-active in seeking and finding partners which not only recognise Bow’s geological technical expertise and database but are also capable of conducting the drilling and field operations on behalf of the joint venture.

Bow has also been mitigating exploration risk by diversification through acreage swaps and farmouts whilst retaining sufficient equity in each project to ensure shareholder wealth creation on exploration success.

Bow plans to participate in eight oil exploration wells over the next 12 to 18 months starting with two wells in the Surat Basin scheduled to commence field operations in late September 2005.

**Table 1. Permit status with summary of work during the period and work in progress or planned**  
 (\* denotes Bow has the conventional oil and gas rights – no CSG rights)

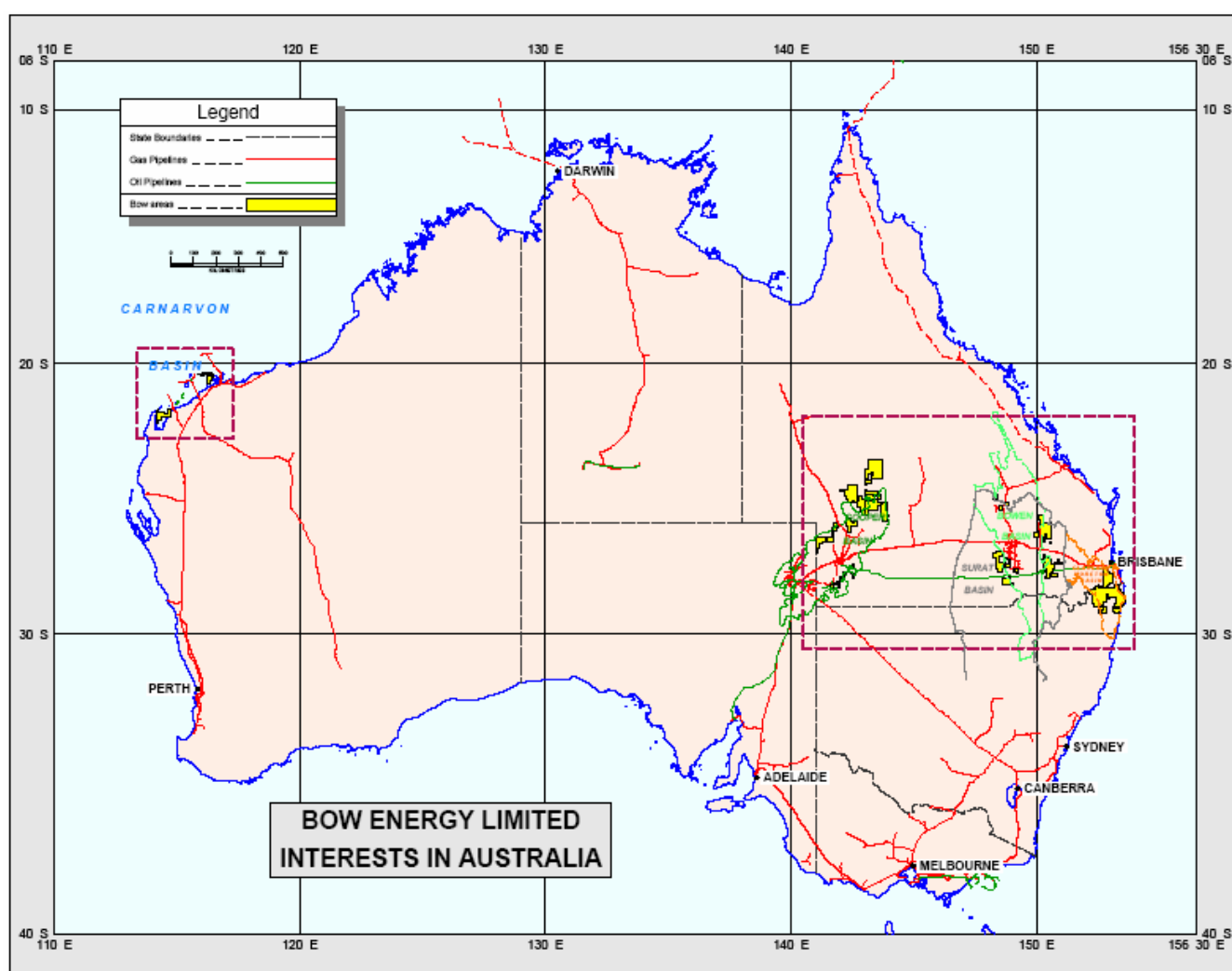
TENEMENT	BASIN	PERCENT INTEREST	AREA (SQ KM)	NOTES ON PERMIT STATUS, WORK DURING YEAR AND WORK IN PROGRESS AND/OR PLANNED
WA 261P	Carnarvon, WA	10%	335	Gats-1 was plugged and abandoned after failing to encounter hydrocarbons. Hesita-1 well planned.
TP 17	Carnarvon, WA	10%	143	Altastratus-1 was plugged and abandoned after encountering non-commercial oil shows. Permit renewed with first year data review in progress.
TP19	Carnarvon, WA	10%	140	New seismic planned 4 <sup>th</sup> quarter 2005 to define drilling prospect for 2006.
EP 421	Carnarvon, WA	10%	503	New seismic planned 4 <sup>th</sup> quarter 2005 to define drilling prospect for 2006.
EP 325	Carnarvon, WA	10%	1,664	Cooper-1 was plugged and abandoned after failing to encounter hydrocarbons. Permit renewed with first year data review in progress.
ATP 752P	Cooper –Eromanga, QLD	25%	3,889	Bow farmed out the permit in exchange for a staged multi-well and seismic program. The farmin includes \$300,000 option fee to be used for pre-drill technical work, 100 km seismic and five exploration wells. Bow retains 25% working interest after farmin completed. Drilling planned to commence 2 <sup>nd</sup> quarter 2006 contingent on granting. Permit to be granted after agreement with traditional owners is formalised.
ATP 794P Barcoo	Cooper –Eromanga, QLD	25%	5,688	Bow has an option to earn 25% working interest by funding 60% of a well on granting. Agreement was reached with traditional owners with granting awaiting final ministerial approval. Moothandella reprocessing program completed with remapping in progress. One well is planned for first half of 2006 contingent on granting and technical work.
ATP 736P	Cooper –Eromanga, QLD	20%	4,795	20% working interest to be assigned to Ocellaris (100% Bow) on granting. Data collation in progress.
ATP 737P	Cooper –Eromanga, QLD	20%	853	20% working interest to be assigned to Ocellaris (100% Bow) on granting. Data collation in progress.
ATP 738P	Cooper –Eromanga, QLD	20%	1,075	20% working interest to be assigned to Ocellaris (100% Bow) on granting. Data collation in progress.
ATP 809P	Eromanga Basin	100%	4,928	Permit to be granted. Data collation in progress. Oil shows in several wells to be investigated together with remapping using current data set.
ATP 574P	Surat – Bowen, QLD	6.25% to 12.5% *	307	Conloi-1 re-entry failed to flow oil. Operator is determining if deep perforations will improve flow. Work was farmed out at no cost to Bow.
ATP 746P	Surat – Bowen, QLD	100%*	2,809	Permit yet to be granted. Awaiting decision on status of exploration in state forests. Large portion subject to native title.
ATP 747P	Surat – Bowen, QLD	100%*	3,460	Permit yet to be granted. Awaiting decision on status of exploration in state forests. The Strathpine Prospect has oil in tight sandstones in a previously drilled well. Work is in progress to determine if better reservoir within mapped trap. The Strathpine area is not in state forest. A well is planned for 1 <sup>st</sup> half of 2006 contingent on positive results of the technical work and permit granting.
ATP 805P	Surat – Bowen, QLD	50%	556	Bow swapped 20% equity in ATP 805P for 20% equity in ATP 608P Stratton Block. Donga-3 updip of oil recovery is planned immediately after Pinnacle West-1. Farmed out 30% equity with farminee funding an extra 60% of the well. Bow to fund 20% of well cost and retain 50% working interest in permit.
ATP 608P Stratton	Surat – Bowen, QLD	20%	2,890	Swapped 20% of ATP 805P for 20% direct working interest in ATP 608P Stratton Block. Pinnacle West-1 is scheduled for late September.
PEL 432	Clarence – Moreton, NSW	87.5%	246	Pickabooba South-1 intersected non commercial gas and residual oil shows. Well was farmed out with Bow carried on the bulk of the drilling costs. Three structural leads and prospects have been identified in the area with the same target reservoir which contained the residual oil show in Pickabooba South-1
PEL 445	Clarence – Moreton, NSW	100%*	9,204	Data review to commence following the results of Pickabooba South-1. Area now regarded as having oil as well as gas potential.
ATP 644P	Clarence – Moreton, QLD	100%*	1,951	Investigated gas zone in Mt Lindesay-1 and determined target is approximately 920 metres deep. A seismic survey is required before drilling with seismic and well planned for 2006.

## REVIEW OF OPERATIONS

Bow has an extensive acreage portfolio in three of Australia's premier hydrocarbon basins, namely the prolific Carnarvon Basin in WA, the Cooper-Eromanga Basin in Queensland and the Surat-Bowen Basin also in Queensland. In addition, Bow has acquired interests in the Clarence-Moreton Basin adjacent to Brisbane and extending into northern NSW with its satellite centres of population. Since Bow's permits contain infrastructure, development costs could be relatively low when compared to less mature areas in the event of commercial discoveries.

Bow has participated in four exploration wells, two prior to listing and two since listing in May. The pre-listing wells and one of the post-listing wells were in the Carnarvon Basin, offshore WA and were plugged and abandoned after failing to encounter commercial hydrocarbons. The fourth well, Pickabooba South-1 which was drilled in the Clarence-Moreton Basin in northern NSW intersected several non-commercial gas zones and, more importantly, residual oil in a deeper secondary target outside structural closure. The residual oil show has upgraded the area from a gas only region to having oil potential in a new, deeper reservoir target. At least three untested oil prospects have since been identified updip and in the immediate Pickabooba South area.

A more detailed review of operations follows.



### *Surat-Bowen Basin*

#### **ATP 805P (BOW 50% after farmout)**

Bow carried out re-mapping of this permit and identified the east-west trending Donga-Pinnacle structural complex as having oil potential as evidenced by the oil recoveries and oil shows in the three wells drilled to date on the trend. The Donga-Pinnacle structural complex extends from eastern ATP 805P westwards into adjacent ATP 608P. Several oil prospects capable of containing commercial quantities of oil have been mapped along the trend.

Bow also completed detailed depth mapping of the Donga Oil Prospect located on the eastern end of the Donga-Pinnacle structural complex. Donga-1 and Donga-2 were drilled in 1965 and 1979 respectively and both recovered light oil along with large quantities of water from a very good sandstone reservoir. Bow has selected a Donga-3 location interpreted to be about 15 to 27 metres updip from the previously drilled wells. The Donga Oil Prospect has the potential to contain a maximum of 3 million barrels of recoverable oil. Two other prospects located on the Donga-Pinnacle structural complex within ATP 805P have up to 8 million barrels of recoverable oil potential.

Bow swapped 20% of ATP 805P for 20% of ATP 608P Stratton Block with Oilex NL. Bow then farmed out an additional 30% equity in the permit in exchange for 60% of additional funding of a well to Oilex. Oilex will operate the drilling of the Donga well and has contracted a rig with the well scheduled to be drilled immediately following Pinnacle West-1 in ATP 608P.

#### **ATP 608P Stratton Block (BOW 20%)**

Bow's technical work indicated the Donga-Pinnacle structural trend has oil potential and extended from ATP 805P westward into ATP 608P. Bow pursued and agreed on an acreage swap with Oilex to exchange 20% direct working interest in ATP 805P for 20% direct working interest in ATP 608P Stratton Block. Oilex will operate the wells and the Joint Venture plans to drill the Pinnacle West-1 prospect and, if successful, the nearby Pinnacle Prospect. The two prospects identified have a maximum combined oil potential of 11 million barrels recoverable.

Drilling operations for Pinnacle West-1 commenced on 29 September 2005.

#### **ATP 807P Wunger Block (BOW 100%)**

Bow is collating the available data in the permit to be followed by detailed mapping and prospect identification. ATP 807P contains the Wunger-1 well drilled in 1963 which flowed 740 barrels per day gross of which 10 barrels per day was oil along with 180,000 cubic feet per day of gas.

#### **ATP 747/746P (BOW 100% of conventional petroleum rights)**

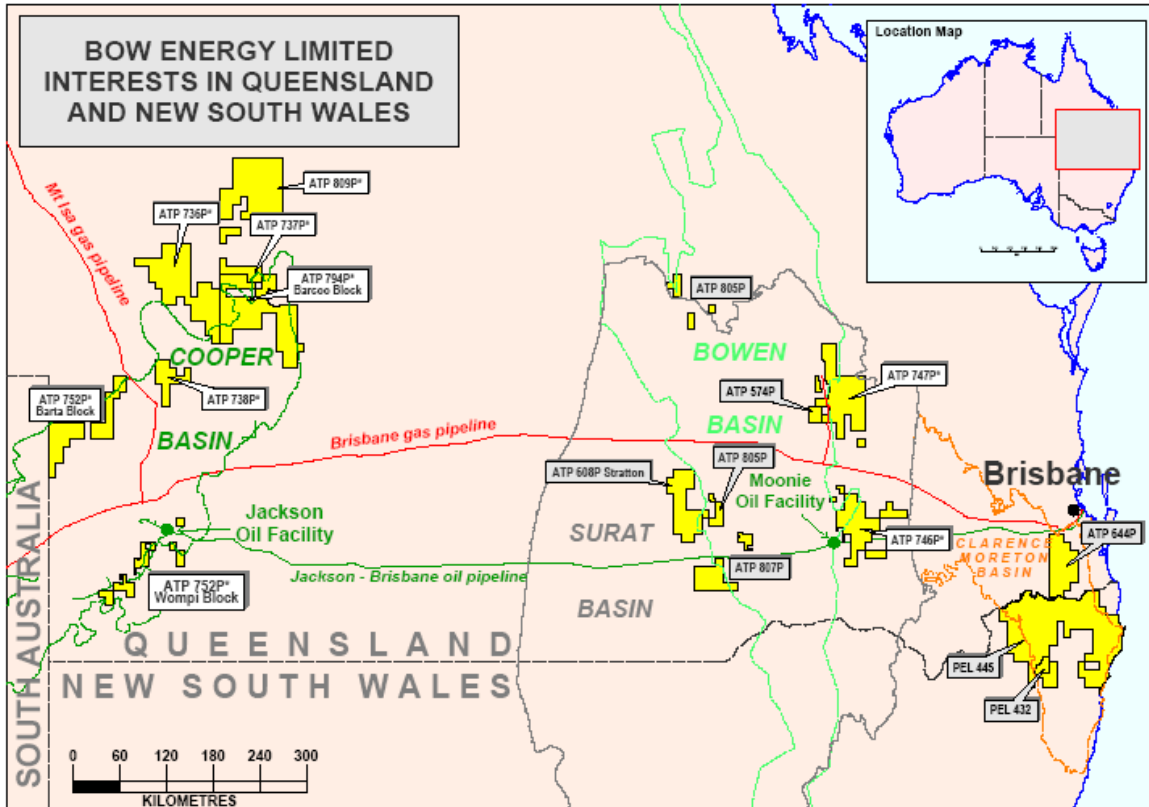
These permits are located on the eastern side of the Surat Basin adjacent to several oil fields including the Moonie Oil field, the largest oil field discovered to date in the Surat Basin.

Bow has commenced the initial mapping in the area. Several wells drilled by previous operators in the permits had oil shows including the Strathpine-1 and 2 wells in ATP 747P. The initial interpretation suggests there is a structural/stratigraphic trap at depths between 790 and 810 metres in the Strathpine area. Although there were excellent oil shows in the Strathpine wells, testing of the wells at the time failed to flow oil. The well test data suggests the oil reservoirs were damaged probably due to the drilling techniques which were not optimal for the reservoir.

Granting of these tenements has been placed on hold by the Department pending a decision by the Minister on exploration within state forests.

#### **ATP 574P – Conloi (BOW 6.25% to 12.5% of conventional petroleum rights)**

White Sands Petroleum carried out a workover of the pump on Conloi-1 (a well drilled in 1963) which resulted in no flow of oil to surface. The current interpretation is that the perforations into the oil reservoir are blocked. The work has been suspended while White Sands investigates the risk of carrying out deep penetration, modern re-perforations in a 42 year old well and other factors.



**Carnarvon Basin**

**WA 261P (BOW 10%)**

The Gats-1 exploration well was drilled in WA 261P and was plugged and abandoned after failing to encounter commercial hydrocarbons. The primary reservoir target sandstone was not present.

Hestia-1 is a test of Jurassic aged Athol Formation sandstones subcropping the overlying Cretaceous marine sequence. The prospect has up to 23 million barrels of recoverable oil potential. The operator is currently integrating the results of Gats-1 into the current data set to determine if there is additional exploration risk for the Hestia Prospect prior to mobilising a rig to drill the well.

WA 261P contains the Chamois Oil field located on the western side of the permit which could become economic to develop if the Hestia-1 exploration well is successful.

**TP/17 (Bow 10%)**

Bow earned its equity in TP/17 by participating in the Altostratus-1 exploration well prior to listing. The well was plugged and abandoned after failing to encounter commercial hydrocarbons. Although the target reservoirs intersected in the well were poor quality sandstones, minor oil and gas shows were observed in these intervals suggesting hydrocarbons have migrated into the permit.



The permit has been renewed for another 5 years and is located south and adjacent to WA 261P. Any success in drilling within WA 261P will enhance the prospectivity of TP/17. A detailed review of the permit will be carried out

with three play types being investigated. The three play types are the structural stratigraphic traps similar to the nearby Stag Oil field, Jurassic aged Athol Formation subcrops similar to the Hestia Prospect and Late Triassic/Early Jurassic structural traps.

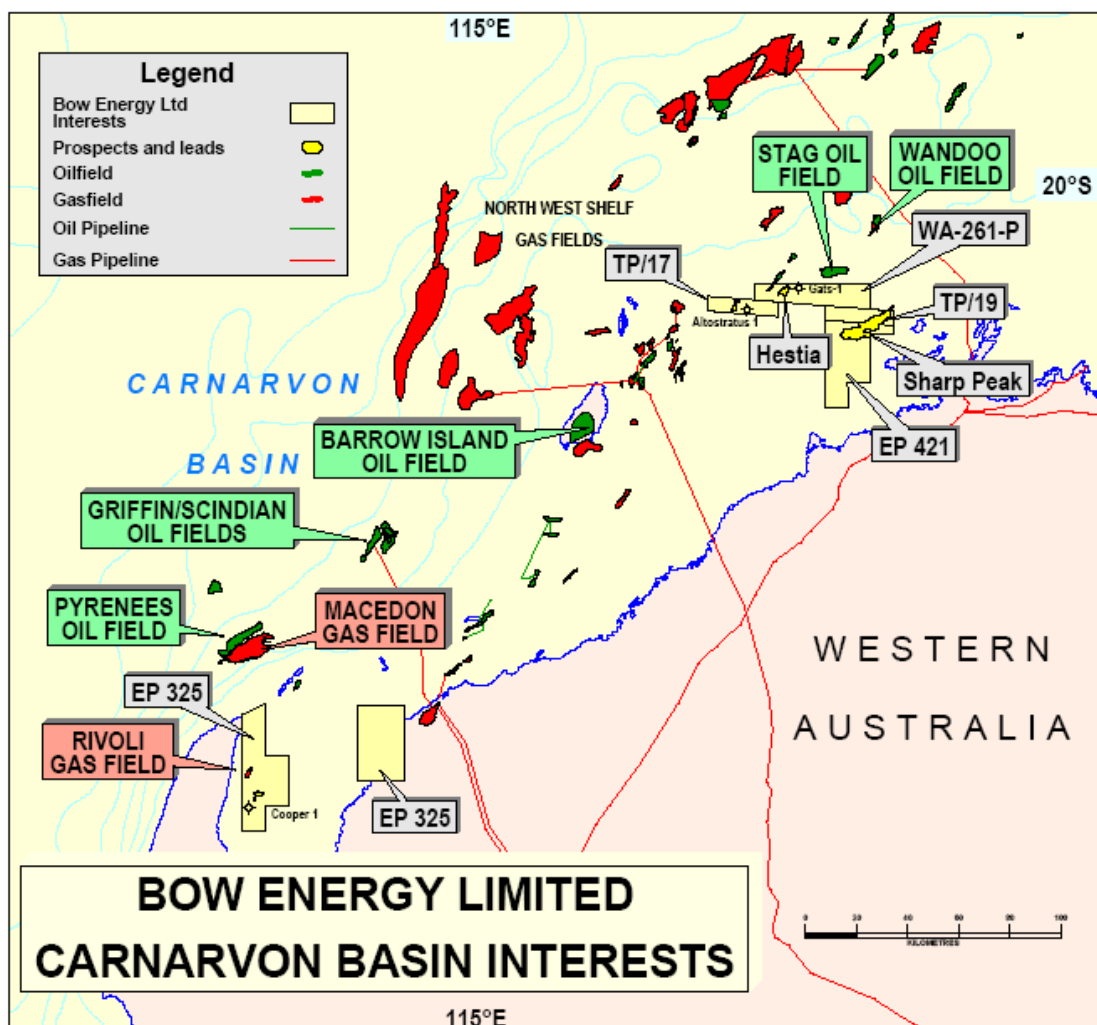
The permit contains the Cumulus complex which consists of four prospects with a combined mean oil potential of 26.5 million barrels and the Nimbus prospects with a mean oil potential of 5.3 million barrels. Drilling of these prospects will be determined after the integration of the results of Gats-1 and Hestia-1.

**TP/19, EP 421 (Bow 10%)**

Planning is underway for a 2D seismic survey in these permits during the fourth quarter of 2005. The permit contains the Sharp Peak lead which has up to 83 million barrels of oil potential.

**EP 325 (Bow 10%)**

Bow participated in the drilling of Cooper-1 which was plugged and abandoned after failing to encounter commercial hydrocarbons. The permit contains the sub-commercial Rivoli Gas field which is interpreted to have 15 PJ of gas reserves. Exploration will focus on structural trends west and east of Rivoli. The permit is currently being renewed for another five years with a detailed technical review of the permit planned for the first year.



## ***Cooper-Eromanga Basin***

### **ATP 794P Barcoo Block (Bow farming in for 25%)**

Bow funded the reprocessing of seismic data over the giant Moothandella structure for an option to earn 25% in this block by funding 60% of a well within 12 months of the granting of the permit. Three wells drilled to date on the Moothandella structure had oil shows and/or oil recoveries. Remapping using the reprocessed data is nearing completion.

A landmark agreement with traditional owners on ATP 794P was completed. The new agreement could form a template for future agreements with traditional owners and should result in faster turnaround of subsequent native title agreements.

Regional and detailed mapping in the Barcoo Block will be extended over several other strong leads identified in the Block including the Ethel East (up to 37 million barrels of oil potential) and Barcoo Junction South (up to 27 million barrels of oil potential) which could be firmed as potential drilling targets.

### **ATP 752P Barta and Wompi Blocks (Bow/Ocellaris to have 25% carried interest)**

The Barta Block is located 10km east of the James-1 oil discovery which flowed 1,810 barrels of oil per day and immediately adjacent to the Cook Oil Field where the Cook-1 oil discovery flowed 979 barrels of oil per day.

Bow commenced detailed mapping the Barta area with preliminary work indicating there are several large untested structures. The largest structure identified to date is the Vancouver Prospect which has over 27 square kilometres of closure and 29 million barrels of recoverable oil potential. The Vancouver Prospect is located between the James and Cook oil fields. Several other prospects and leads have been identified in the Barta Block.

Detailed mapping in the Wompi Block will commence when data collation in progress is complete. A preliminary review of the well data indicates at least two wells located in the Wompi Block have oil columns in Jurassic aged sandstones which were considered uneconomic when initially drilled by the previous operator. In conjunction with the detailed mapping, Bow plans to estimate the potential size of these untested accumulations to decide if they can be developed economically.

Bow will have 20% equity through the purchase of 100% of Ocellaris Oil on granting of the permit and was to fund 500 kilometres of seismic reprocessing to earn an option to acquire an additional 30% equity in all of ATP 752P from Victoria Petroleum NL (Vicpet) by funding a total of 80% of cost of a well to completion (20% Ocellaris, 60% Bow). This work was budgeted to cost in excess of \$1 million.

Bow has since accepted a staged farmin offer from Avery Resources (Australia) Pty Ltd, a wholly owned subsidiary of Avery Resources Inc (Avery) from Calgary, Alberta, Canada to drill five wells and acquire 100 kilometres of seismic data to earn an interest in the Barta and Wompi Blocks (Blocks) in Cooper-Eromanga Basin permit ATP 752P. The terms of the farmin offer are as follows:

1. Avery to pay an option fee of A\$300,000 (non refundable) to be spent on seismic reprocessing and technical work as required to confirm drilling prospects in the Blocks.
2. Avery has until December 31, 2005 to elect to acquire 100 kilometres of seismic data and drill three exploration wells to earn 30% equity in the Blocks. The seismic and wells must be completed within 12 months of the granting of ATP 752P.
3. Avery will then have an option to acquire an additional 20% interest in the Blocks by drilling two additional exploration wells within 18 months of the granting of ATP 752P.

Bow and Vicpet have agreed that Bow's farmin obligations will be met when Avery completes the drilling of first well and in the event the first well is a discovery, Bow and Ocellaris will only have to contribute 50% of the cost for casing and suspending the discovery well.

On completion of the farmin, Bow and Ocellaris will be fully carried through the seismic program and drilling of five exploration wells and retain a total of 25% direct working interest in the permit.

ATP 752P is to be granted following a successful conclusion of a Right to Negotiate (RTN) Agreement with traditional owners. The Queensland Natural Resources and Mines (NR&M) has included ATP 752P as one the priority tenements for RTN. Assuming a speedy RTN agreement can be reached, Bow believes drilling in ATP 752P could commence as early as the first half of 2006.

### **ATP 809P (Bow 100%)**

ATP 809P in the Central Eromanga Basin was offered and accepted and is waiting endorsement from the Minister so that the permit can be granted. Several wells in the permit had oil shows including a minor oil recovery in a nearby well. Collation of data for the permit has commenced

### **ATP 736P, ATP 737P, ATP 738P (Bow 20% through Ocellaris Oil)**

These permits are subject to native title and will be granted following a successful conclusion of a Right to Negotiate (RTN) Agreement with traditional owners. Negotiations will not commence until an agreement in ATP 752P is reached. Bow is currently collating data in and around the permits and will be mapping the areas as part of regional study on the Cooper-Eromanga Basin in Queensland.

### ***Clarence-Moreton Basin***

#### **PEL 432 (BOW 87.5%)**

Pickabooba South-1 was drilled to 1,152 metres into the Ipswich Coal Measures in the Clarence-Moreton Basin in northern NSW. The well intersected several non-commercial gas zones and, more importantly, an oil show in a deeper secondary target outside structural closure. Subsequent testing flowed a small amount of water indicating the oil was residual. The residual oil show in Pickabooba South-1 has upgraded the area from a gas only potential region to having oil potential in a basal Jurassic reservoir target.

Three untested structural leads and prospects with oil potential have since been identified updip and in the immediate Pickabooba South area.

#### **PEL 445 (Bow 100% of conventional petroleum rights)**

Future conventional oil and gas exploration work in PEL 445 will be contingent on the results of the follow-up work on Pickabooba South-1.

#### **ATP 644P (Bow 100% of conventional petroleum rights)**

Bow has been integrating the pressure data from Mt Lindesay-1 with the regional geological data from the area. The well was a CSG (coal seam gas) exploration test which encountered over-pressured gas at less than 600 metres. The interpretation of the data suggested there may be a conventional gas accumulation at a depth of 920 metres interpreted to be within the Heifer Creek Sandstone (Hutton Sandstone equivalent) and the CSG well intersected a fault that extended into the deeper gas zone. Bow is considering a 60 kilometre seismic survey in the Mt Lindesay area designed to detail a conventional drilling prospect for subsequent drilling.

### **PERSONNEL**

Keith Martens, previously Exploration Manager for Tap Oil, was appointed Exploration manager for Bow and has set up the Bow technical office in Perth.

Keith is a geophysicist with over 28 years international and domestic oil and gas exploration experience. His primary focus will be Bow's existing tenements and new project opportunities in the Carnarvon and Cooper-Eromanga Basin.

Bow is also actively pursuing other qualified and proven oil finders to add to its technical team.

### **FUTURE DEVELOPMENTS**

In addition to the active exploration programs in progress and to be undertaken in its existing tenements, Bow continues to assess exploration, appraisal and corporate opportunities in proven petroleum basins in Australia.

## **DIRECTORS' REPORT**

Your directors submit their report for the period ended 30 June 2005.

### **DIRECTORS**

The names of the Directors of the Company in office during the period and until the date of this report are as follows.

**Ron Prefontaine**  
**BSc**  
**(Managing Director)**

Mr Prefontaine was appointed on 17 September 2004 at the time of registration of the Company, and is the Managing Director. Mr Prefontaine has over 26 years exploration and production experience in the petroleum industry.

Mr Prefontaine initially explored the Arctic and Western Canadian sedimentary basins before moving to Australia in 1981 where he carried out development and exploration work in the Cooper-Eromanga Basin and other areas for Santos Ltd. After leaving Santos in 1984 and until 1994 he held several senior positions including Chief Geophysicist for Oil Company of Australia NL. During this period he was directly responsible for several successful commercial petroleum discoveries and appraisal programs.

Since 1994 he has consulted to the industry in technical and management positions, which included Chief Geophysicist for Mosaic Oil Limited and Executive Director for Arrow Energy NL. At Arrow, Mr Prefontaine was in charge of their early successful coal seam gas exploration program. Prior to joining Bow Energy, he managed an exploration program in the Cooper-Eromanga Basin which had a 50% successful oil well strike rate.

Mr Prefontaine founded Australian CBM Pty Ltd (now owned by Arrow Energy NL), Permian Oil Pty Ltd (now owned by Roma Petroleum NL), SEQOil Pty Ltd (now owned by Oilex NL) and Ocellaris Oil Pty Ltd (being purchased by Bow).

Mr Prefontaine is a Non-Executive Director of Arrow Energy NL and is past President of the Petroleum Exploration Society of Australia (Queensland).

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

- Arrow Energy NL \*

\* denotes current directorship.

**Nicholas Mather**  
**BSc (Hons, Geol)**  
**(Non-Executive Director)**

Mr Mather was appointed on 17 September 2004 at the time of registration of the Company. Mr Mather has over 24 years technical and corporate experience. He is also the Managing Director of D'Aguilar Gold Ltd, a listed gold exploration company. Mr Mather has focused his attention on the identification of, and investment in, large resource exploration projects.

During his tenure as an Executive Director of Arrow Energy NL from 2000 to 2004, Mr Mather drove the acquisition and business development of Arrow's large coal seam gas projects in South East Queensland.

Mr Mather was Managing Director of BeMaX Resources NL from 1997 until 2000 and was instrumental in the discovery of the world class Gingko mineral sand deposit in the Murray Basin in 1998.

Mr Mather is a member of the Audit and Risk Management Committee.

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

- Arrow Energy NL
- Ballarat Gold Ltd
- D'Aguilar Gold Ltd \*

\* denotes current directorship.

**Stephen Bizzell**  
**BCom, ACA**  
**(Non-Executive Director)**

Mr Bizzell was appointed on 17 September 2004 at the time of registration of the Company. He is a Chartered Accountant and has corporate finance and management experience in the resource sector in Australia and Canada with a variety of public companies.

Mr Bizzell has had considerable experience and success in the fields of corporate restructuring, debt and equity financing and mergers and acquisitions and is currently an Executive Director of both Arrow Energy NL and Renison Consolidated Mines NL.

Mr Bizzell is a member of the Audit & Risk Management Committee.

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

- Arrow Energy NL \*
- Renison Consolidated Mines NL \*

\* denotes current directorship.

## **SECRETARY**

Mr Duncan Cornish was the secretary of the Company during the period and until the date of this report.

**Duncan Cornish**  
**BBus (Acctcy), ACA**  
**(Company Secretary and Chief Financial Officer)**

Mr Cornish was appointed on 17 September 2004 at the time of registration of the Company. Mr Cornish has more than ten years experience in the accountancy profession both in England and Australia, mainly with the accountancy firms Ernst & Young and PriceWaterhouseCoopers. He has extensive experience in all aspects of company financial reporting, corporate regulatory and governance areas, business acquisition and disposal due diligence, capital raising and company listings and company secretarial responsibilities.

Mr Cornish holds a Bachelor of Business (Accounting) and is a member of the Australian Institute of Chartered Accountants. He is also the Company Secretary of several other ASX listed companies.

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

As at the date of this report, the interests of the Directors in the shares and options of Bow Energy Ltd are shown in the table below:

	<b>Ordinary Shares</b>	<b>\$0.20 options exercisable on or before 31 March 2008</b>
Ron Prefontaine	*1,657,133	428,566
Nicholas Mather	600,583	272,791
Stephen Bizzell	1,678,548	676,774

\* 300,000 shares were purchased after 30 June 2005.

## **CORPORATE INFORMATION**

### **Corporate structure**

Bow Energy Ltd is a company limited by shares that is incorporated and domiciled in Australia. Bow Energy Ltd does not have any subsidiaries.

### **Nature of operations and principal activities**

The principal activities of the Company during the financial period were oil and gas exploration. There were no significant changes in the nature of the Company's principal activities during the financial period.

## **Employees**

As at 30 June 2005, the Company employed 1 full-time employee plus a further 1 part-time and casual staff (excluding the Directors and the Secretary). The Company also engages external consultants, particularly for geological work, as required.

## **REVIEW OF FINANCIAL CONDITION**

### **Capital structure**

On 17 September 2004, when the Company was incorporated, one share was issued.

On 20 December 2004 a further 30,000,000 ordinary shares and 15,000,000 20 cent options, exercisable on or before 31 March 2008, were issued to Arrow Energy NL in consideration for the transfer of various mining tenements and interests to the Company.

In addition, on 24 December 2004 10,000,000 ordinary shares were issued to various investors to raise \$1,250,000 capital.

Through a public equity raising, the Company also issued 30,000,000 ordinary shares at 20 cents each to raise \$6,000,000. The shares were issued and allotted in May 2005.

At 30 June 2005, and at the date of this report, the Company had 70,000,001 ordinary shares and 15,000,000 listed options on issue.

### **Treasury policy**

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

### **Liquidity and funding**

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

## **OPERATING RESULTS**

For the period ended 30 June 2005, the loss from ordinary activities for the Company after providing for income tax was \$169,502.

## **DIVIDENDS PAID OR RECOMMENDED**

There were no dividends paid or recommended during the financial period.

## **REVIEW OF OPERATIONS**

Detailed comments on operations and exploration programs up to the date of this report are included separately in the Annual Report under Review of Operations and Future Developments.

## **SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS**

The following significant changes in the state of affairs of the Company occurred in the financial period:

- On 17 September 2004, the Company was incorporated and one share was issued.
- Bow Energy Limited was a subsidiary of Arrow Energy NL. On 29 September 2004, Arrow announced it would separate its conventional oil and gas prospects by separately listing Bow Energy on the ASX. This would enable Arrow to maintain the focus of its management and financial resources on the developments of its coal seam gas resources in Queensland.
- On 20 December 2004 the Company issued 30,000,000 shares and 15,000,000 options to Arrow Energy NL in consideration for the transfer of various mining tenements and interests to the Company pursuant to the Sale Agreement described in the Company's prospectus dated 30 March 2005.
- On 24 December 2004, 10,000,000 ordinary shares were issued to various investors at 12.5c per share, to raise \$1,250,000 capital.

- On 30 March 2005 the Company issued a prospectus for the issue of 30,000,000 fully paid ordinary shares to be offered for subscription at 20 cents each to raise \$6,000,000. Having closed the Initial Public Offering fully subscribed (\$6,000,000), the Company was admitted to the Australian Stock Exchange (“ASX”) on 20 May 2005. 30,000,000 ordinary shares were allotted and issued on 17 May 2005.
- Official quotation of the Company’s shares on the ASX commenced on 20 May 2005.

## **SIGNIFICANT EVENTS AFTER BALANCE DATE**

On 26 July 2005 the Company and Oilex NL agreed to swap 20% interest in adjacent tenements ATP 608P Stratton Block and ATP 805P. Following the swap, Bow will have 20% direct working interest in the ATP 608P Stratton Block and 80% direct working interest in ATP 805P.

On 9 August 2005 the Company accepted a staged farm-in offer from Avery Resources (Australia) Pty Ltd whereupon Avery must drill five wells and acquire 100km of seismic data to earn 50% direct working interest in ATP 752P. On completion of the farm-in, Bow is fully carried on the exploration program and retains 25% working interest in all of ATP 752P.

On 24 August 2005 Oilex NL entered into an agreement with the Company to farm-in to acquire a further 30% interest in ATP 805P by funding an additional 60% of the drilling of the Donga-3 well. Bow is required to pay 20% of the costs of the well whilst still retaining a 50% direct working interest in the well and ATP 805P following the drilling of the Donga-3 well.

## **FUTURE DEVELOPMENTS**

Likely developments in the operations of the Company and the expected results of those operations in subsequent financial years have been discussed where appropriate in the Annual Report under Review of Operations and Future Developments.

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

## **ENVIRONMENTAL REGULATION AND PERFORMANCE**

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

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

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

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

The Company has not indemnified its auditor.

## **REMUNERATION REPORT**

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

### **Remuneration policy**

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

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

The Board, in carrying out the functions of the Remuneration and Nomination Committee, assess the appropriateness of the nature and amount of emoluments of such officers on a periodic basis by reference to relevant employment market conditions with the overall objective of ensuring maximum stakeholder benefit from the retention of a high quality Board and Executive team. Such officers are given the opportunity to receive their base emolument in a variety of forms including cash and fringe benefits. It is intended that the manner of payments chosen will be optimal for the recipient without creating undue cost for the Company.

The Company aims to reward the Executive Director and Senior Management with a level and mix of remuneration commensurate with their position and responsibilities within the Company. The Board's policy is to align Director and Executive objectives with shareholder and business objectives by providing a fixed remuneration component and offering long-term incentives.

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

### **Non-Executive Director remuneration**

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

The Constitution of the Company and the ASX Listing Rules specify that the Non-Executive Directors are entitled to remuneration as determined by the Company in General Meeting to be apportioned among them in such manner as the Directors agree and, in default of agreement, equally. The aggregate remuneration currently determined by the Company is \$250,000 per annum. Additionally, Non-Executive Directors will be entitled to be reimbursed for properly incurred expenses.

If a Non-Executive Director performs extra services, which in the opinion of the Directors are outside the scope of the ordinary duties of the Director, the Company may remunerate that Director by payment of a fixed sum determined by the Directors in addition to or instead of the remuneration referred to above. However, no payment can be made if the effect would be to exceed the maximum aggregate amount payable to Non-Executive Directors. A Non-Executive Director is entitled to be paid travel and other expenses properly incurred by them in attending Director's or General Meetings of the Company or otherwise in connection with the business of the Company.

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

### **Executive Director and Senior Management remuneration**

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

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

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

The level of fixed remuneration is set so as to provide a base level of remuneration which is both appropriate to the position and is competitive in the market. Fixed remuneration is reviewed annually by the Board, in carrying out the functions of the Remuneration and Nomination Committee, and the process consists of a review of company wide and individual performance, relevant comparative remuneration in the market and internal, and where appropriate, external advice on policies and practices. Senior Management are given the opportunity to receive their fixed remuneration in a variety of forms including cash and fringe benefits such as motor vehicles and expense payment plans. It is intended that the manner of payment chosen will be optimal for the recipient without creating undue cost for the Company.

Long-term incentives are provided in the form of options and/or the issue of shares following the completion of satisfactory time periods of service and subject to shareholder approval. The Company uses employee continuity of service and the future share price to align comparative shareholder return and reward for Executives. Long-term incentives are only made to Executives who are able to influence the generation of shareholder wealth and thus have a

direct impact on the Company's performance.

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

## **Employment contracts**

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

### *Managing Director*

The Managing Director, Mr Ron Prefontaine is employed under an Executive Service Contract with Prefontaine Consulting Pty Ltd. The current Executive Service Contract commenced on 20 May 2005 for an initial two year term, at which time the Company may choose to commence negotiation to enter into a new contract with Mr Prefontaine. Under the terms of the present contract:

- Both Bow Energy Ltd and Prefontaine Consulting Pty Ltd are entitled to terminate the contract upon giving three (3) months written notice, but not before the expiration of twelve (12) months from the commencement of the contract.
- Bow Energy Ltd is entitled to terminate the agreement upon the happening of various events in respect of Prefontaine Consulting Pty Ltd's solvency or other conduct or if Ron Prefontaine ceases to be a Director of Bow Energy Ltd.
- The contract provides for a six monthly review of performance by Bow Energy Ltd.

### *Senior Management*

The Exploration Manager, Mr Keith Martens, is employed under an employment agreement. The current agreement commenced on 20 May 2005. Under the terms of the present agreement:

- After one continuous year of satisfactory service, and subject to shareholder approval, Mr Martens or a nominee will be granted 350,000 fully paid shares.
- Subject to shareholder approval at the Annual General Meeting of the Company, Mr Martens is also entitled to participate in an Option Incentive Plan whereby he will be awarded three series of options as follows:
  - 1,000,000 options to take up one ordinary share in Bow Energy Ltd at an issue price of \$0.30. The options expire 20 May 2008.
  - 1,000,000 options to take up one ordinary share in Bow Energy Ltd at an issue price of \$0.40. The options expire 20 May 2009.
  - 1,000,000 options to take up one ordinary share in Bow Energy Ltd at an issue price of \$0.50. The options expire 20 May 2010.
- Mr Martens may resign from his position and thus terminate this employment agreement by providing four weeks written notice. On resignation any unvested options will be forfeited.
- The Company may terminate this employment agreement by providing four weeks written notice. On termination for cause any unvested options will be forfeited.
- The Company may terminate this employment agreement immediately in the case of negligence, breach of confidentiality and/or dereliction. On termination for cause any unvested options will be forfeited.

## **(a) Details of specified Directors and specified Executives**

### (i) Specified Directors

Ron Prefontaine	Managing Director (appointed 17 September 2004)
Nicholas Mather	Non-Executive Director (appointed 17 September 2004)
Stephen Bizzell	Non-Executive Director (appointed 17 September 2004)

### (ii) Specified Executives

Keith Martens	Exploration Manager (appointed 20 May 2005)
Duncan Cornish	Company Secretary and Chief Financial Officer (appointed 17 September 2004)

**(b) Remuneration of specified Directors and specified Executives**

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

**Table 1**

2005	Salary & Fees	Primary Cash Bonus	Non-cash benefits	Post-Employment Superannuation	Retirement benefits	Equity Options	Other	Total
<b>Specified Directors</b>								
Ron Prefontaine	42,851	-	-	-	-	-	2,232	45,083
Nicholas Mather	26,667	-	-	-	-	-	2,232	28,899
Stephen Bizzell	26,667	-	-	-	-	-	2,232	28,899
<b>Total</b>	<b>96,185</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>6,696</b>	<b>102,881</b>
<b>Specified Executives</b>								
Keith Martens	19,054	-	-	1,715	-	-	2,232	23,001
Duncan Cornish	42,883	-	-	-	-	-	2,232	45,115
<b>Total</b>	<b>61,937</b>	<b>-</b>	<b>-</b>	<b>1,715</b>	<b>-</b>	<b>-</b>	<b>4,464</b>	<b>68,116</b>

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

There were no options granted as part of remuneration during the period ended 30 June 2005.

**(d) Shares issued on exercise of remuneration options**

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

**(e) Shareholdings holdings of specified Directors and specified Executives**

	Balance 17 Sept 2004 *	Return of Capital Distribution	Granted as Remuneration	On Exercise of Options	Net Change Other	Balance 30 June 2005
<b>Specified Directors</b>						
Ron Prefontaine	-	857,133	-	-	500,000	1,357,133
Nicholas Mather	-	545,583	-	-	55,000	600,583
Stephen Bizzell	-	1,353,548	-	-	325,000	1,678,548
<b>Specified Executives</b>						
Keith Martens	-	-	-	-	-	-
Duncan Cornish	-	13,000	-	-	120,000	133,000
<b>Total</b>	<b>-</b>	<b>2,769,264</b>	<b>-</b>	<b>-</b>	<b>1,000,000</b>	<b>3,769,264</b>

\* The Company was incorporated on 17 September 2004.

**(f) Option holdings of specified Directors and specified Executives**

**Listed options (\$0.20 @ 31/03/08)**

	Balance 17 Sept 2004 *	Return of Capital Distribution	Granted as Remuneration	On Exercise of Options	Net Change Other	Balance 30 June 2005
<b>Specified Directors</b>						
Ron Prefontaine	-	428,566	-	-	-	428,566
Nicholas Mather	-	272,791	-	-	-	272,791
Stephen Bizzell	-	676,774	-	-	-	676,774
<b>Specified Executives</b>						
Keith Martens	-	-	-	-	-	-
Duncan Cornish	-	6,500	-	-	-	6,500
<b>Total</b>	<b>-</b>	<b>1,384,631</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,384,631</b>

\* The Company was incorporated on 17 September 2004.

**(g) Loans to specified Directors and specified Executives**

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

## (h) Other transactions to specified Directors and specified Executives

Other transactions with (specified) Directors are set out in Note 16. There were no other transactions or balances with specified executives during the period.

### DIRECTORS' MEETINGS

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

Directors' Meetings	
<b>Number of meetings held:</b>	3
<b>Number of meetings attended:</b>	
Ron Prefontaine	3
Nicholas Mather	3
Stephen Bizzell	3

#### Note

The Company was incorporated on 17 September 2004 and listed on the ASX on 20 May 2005.

### NON-AUDIT SERVICES

The following non-audit services were provided by the entity's auditor BDO Kendalls. The Directors are satisfied that the provision of non-audit services is compatible with the general standard of independence for auditors imposed by the Corporations Act. The nature and scope of each type of non-audit service provided means that auditor independence was not compromised.

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

Independent Accountants' Report for the Prospectus	\$17,660
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### AUDITOR'S INDEPENDENCE DECLARATION

The Auditor's Independence Declaration forms part of the Directors' Report and can be found on page 22.

### SHARE OPTIONS

#### Unissued shares

As at the date of this report (and at the balance date) there were 15,000,000 unissued ordinary shares under options as follows:

- 15,000,000 listed options to take up one ordinary share in Bow Energy Ltd at an issue price of 20 cents. The options expire 31 March 2008.

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

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

### PROCEEDINGS ON BEHALF OF THE COMPANY

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

## **CORPORATE GOVERNANCE**

In recognising the need for the highest standards of corporate behavior and accountability, the directors of Bow Energy Ltd support and have adhered to the principles of corporate governance. The Company's Corporate Governance Statement is contained can be found on page 26.

Signed in accordance with a resolution of the directors.

Ronald Prefontaine  
Director

Brisbane  
29 September 2005

29 September 2005

The Directors  
Bow Energy Ltd  
Level 5  
60 Edward Street  
Brisbane QLD 4000

Dear Sirs

**AUDITOR INDEPENDENCE DECLARATION TO BOW ENERGY LTD**

As the lead auditor for the audit of Bow Energy Ltd for the period ended 30 June 2005, I declare that, to the best of my knowledge and belief, there have been:

- a) No contravention of the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and
- b) No contravention of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Bow Energy Ltd.

Yours faithfully  
**BDO Kendalls**

**Damian Wright**  
Partner

## SHAREHOLDER INFORMATION

Additional information required by the Australian Stock Exchange Ltd and not shown elsewhere in this report is as follows. The information is current as at 26 September 2005.

(a) Distribution of equity securities

The number of holders, by size of holding, in each class of security are:

	Ordinary shares		\$0.20 options exercisable on or before 31 March 2008	
	Number of holders	Number of shares	Number of holders	Number of options
1 – 1,000	302	192,485	781	475,906
1,001 – 5,000	779	2,165,857	982	2,373,649
5,001 – 10,000	495	4,322,302	194	1,478,829
10,001 – 100,000	670	22,169,713	192	5,806,921
100,001 and over	108	41,149,644	14	4,864,695
Total	<u>2,354</u>	<u>70,000,001</u>	<u>2,163</u>	<u>15,000,000</u>

The number of shareholders holding less than a marketable parcel of shares is 774 (1,136,305 ordinary shares).

(b) **Twenty largest holders**

The names of the twenty largest holders, in each class of security are:

**Ordinary shares:**

1	ANZ Nominees Ltd	3,657,957	5.23%
2	Tricom Nominees Ltd	2,777,722	3.97%
3	Arrow Energy NL	2,240,104	3.20%
4	Tenstar Trading Ltd	2,027,500	2.90%
5	JP Morgan Nominees Australia Ltd	1,906,036	2.72%
6	Lujeta Pty Ltd	1,700,000	2.43%
7	Chimaera Capital Ltd	1,642,364	2.35%
8	Tranco Pty Ltd	1,525,000	2.18%
9	Hubbard Churcher Trust Management Ltd	1,400,000	2.00%
10	Prepet Pty Ltd	1,024,570	1.46%
11	TSN Pty Ltd	840,000	1.20%
12	Fortis Clearing Nominees Pty Ltd	839,166	1.20%
13	Rex Jones	815,129	1.16%
14	Planet Capital Pty Ltd	767,500	1.10%
15	Richard Baber	737,300	1.05%
16	Forty Traders Pty Ltd	625,000	0.89%
17	Andrew Haldane	575,300	0.82%
18	Nicholas Davies	515,006	0.74%
19	Joan Jones	500,000	0.71%
20	Primdonn Nominees Pty Ltd	500,000	0.71%
	Top 20	<u>26,615,654</u>	<u>38.02%</u>
	Total	<u>70,000,001</u>	<u>100.00%</u>

**\$0.20 options exercisable on or before 31 March 2008:**

1	Arrow Energy NL	1,120,145	7.47%
2	Tricom Nominees Pty Ltd	960,336	6.40%
3	Tenstar Trading Ltd	400,000	2.67%
4	ANZ Nominees Pty Ltd	393,909	2.63%
5	JP Morgan Nominees Australia Pty Ltd	328,017	2.19%
6	Andrew Haldane	287,650	1.92%
7	Nicholas Davies	257,503	1.72%
8	Tranco Pty Ltd	205,000	1.37%
9	Paul Bennett	203,500	1.36%
10	Mervyn Wood	200,000	1.33%
11	Ian Bradley	150,100	1.00%
12	Ronald & Annabel Prefontaine	131,250	0.88%
13	Anthony Gilby	115,000	0.77%
14	Prepet Pty Ltd	112,285	0.75%
15	Paul Benson	100,000	0.67%
16	James & Jennifer Bishop	100,000	0.67%
17	Campbell-Innes Investments Pty Ltd	100,000	0.67%
18	Lujeta Pty Ltd	100,000	0.67%
19	QSupa Pty Ltd	100,000	0.67%
20	Lachlan Goodison	<u>99,061</u>	<u>0.66%</u>
	Top 20	<u>5,463,756</u>	<u>36.43%</u>
	Total	<u>15,000,000</u>	<u>100.00%</u>

**(c) Substantial shareholders**

No substantial shareholders have notified the Company in accordance with section 671B of the Corporations Act 2001.

**(d) Voting rights**

All ordinary shares carry one vote per share without restriction.

**(e) Restricted securities**

The number of restricted securities (held in escrow) that are on issue and the date from which they cease to be restricted securities are as follows:

Ordinary shares:

Date securities cease to be restricted:	Number of restricted securities:
24 December 2005 (ASX restriction)	3,750,000
20 May 2007 (ASX restriction)	<u>3,805,918</u>
Total	<u>7,555,918</u>

Options exercisable at \$0.20 on or before 31 March 2008:

Date securities cease to be restricted:	Number of restricted securities:
20 May 2007 (ASX restriction)	<u>2,495,776</u>

**(f) Business objectives**

The Company has used its cash and assets that are readily convertible to cash in a way consistent with its business objectives.

## INTERESTS IN PETROLEUM TENEMENTS

Bow Energy Ltd held the following interests in mining and exploration tenements as at 28 September 2005:

### Queensland Tenements

Tenure Type, Name and Number	Operator	Date of Expiry	Current % Interest of Bow	Projected % Interest of Bow	Notes
ATP 608P Stratton	Oilex NL	20/11/2006	20%	20%	Swapped 20% of ATP 805P
ATP 644P	Arrow Energy NL	31/10/2007	100%	100%	Conventional petroleum interests only
ATP 574P	Oilex NL	30/04/2006	6.5 - 12.5%	6.5 - 12.5%	Conventional petroleum interests only
ATP 794P Barcoo (renewal pending)	Victoria Petroleum NL	-	0%	25%	Option to pay 60% of well to earn 25% of Block
ATP 752P (application)	Victoria Petroleum NL	-	0%	25%	Purchase of Ocellaris with Bow fully carried on five exploration wells and seismic
ATP 736P (application)	Victoria Petroleum NL	-	0%	20%	Purchase of Ocellaris
ATP 737P (application)	Victoria Petroleum NL	-	0%	20%	Purchase of Ocellaris
ATP 738P (application)	Victoria Petroleum NL	-	0%	20%	Purchase of Ocellaris
ATP 746P (application)	Arrow Energy NL	-	100%	100%	Conventional petroleum interests only
ATP 747P (application)	Arrow Energy NL	-	100%	100%	Conventional petroleum interests only
ATP 805P	Bow Energy Ltd	01/09/2017	80%	50%	Farmed out 30% for 60% of cost of Donga-3
ATP 807P	Bow Energy Ltd	31/12/2008	100%	100%	-
ATP 809P (application)	Bow Energy Ltd	-	100%	100%	Granting awaiting Minister approval

### New South Wales Tenements

Tenure Type, Name and Number	Operator	Date of Expiry	% Interest of Bow	Notes
PEL 432	Arrow Energy NL	21/12/2006	87.5%	Drilled Pickabooba South-1
PEL 445	Arrow Energy NL	18/04/2010	100%	Conventional petroleum interests only

### Western Australia Tenements

Tenure Type, Name and Number	Operator	Date of Expiry	% Interest of Bow	Notes
TP 17	Strike Oil Ltd	25/12/2009	10%	Drilled Altostratus-1
TP 19	Strike Oil Ltd	20/03/2008	10%	Earned 10% by participating in Altostratus-1
WA 261P	Apache Energy Ltd	11/07/2007	10%	Drilled Gats-1
EP 325	Strike Oil Ltd	03/02/2005	10%	Drilled Cooper-1 Renewal application made 02/02/2005
EP 421	Strike Oil Ltd	20/03/2008	10%	Earned 10% by participating in Altostratus-1

## CORPORATE GOVERNANCE STATEMENT

The board of directors of Bow Energy Ltd is responsible for the corporate governance of the Company. The Board guides and monitors the business and affairs of Bow Energy Ltd on behalf of the shareholders by whom they are elected and to whom they are accountable.

Bow Energy Ltd's Corporate Governance Statement is structured with reference to the Australian Stock Exchange ("ASX") Corporate Governance Council's (the "Council") "Principles of Good Corporate Governance and Best Practice Recommendations", which are as follows:

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

A copy of the Ten Essential Corporate Governance Principles and the Best Practice Recommendations can be found on the ASX's website at [www.asx.com.au](http://www.asx.com.au).

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

### Structure of the Board

The skills, experience and expertise relevant to the position of Director held by each Director on office at the date of the Annual Report is included in the Director's Report. Corporate Governance Council Recommendation 2.1 requires a majority of the Board to be independent Directors. The Corporate Governance Council defines independence as being free from any business or other relationship that could materially interfere with – or could reasonably be perceived to materially interfere with – the exercise of their unfettered and independent judgement.

In the context of Director independence, "materiality" is considered from both the Company and the individual Director perspective. The determination of materiality requires consideration of both quantitative and qualitative elements. An item is presumed to be quantitatively immaterial if it is equal or less than 10% of the appropriate base amount. It is presumed to be material (unless there is qualitative evidence to the contrary) if it is equal to or greater than 10% of the appropriate base amount. Qualitative factors considered included whether a relationship is strategically important, the competitive landscape, the nature of the relationship and the contractual or other arrangements governing it and other factors which point to the actual ability of the Director in question to shape the direction of the Company's loyalty.

#### *At the date of this report:*

In accordance with the Council's definition of independence above, and the materiality thresholds set, the following Directors are considered to be independent at the date of this report:

Name	Position
Nicholas Mather	Non-Executive Director
Stephen Bizzell	Non-Executive Director

In accordance with the Council's definition of independence above, and the materiality thresholds set, the following Directors are not considered to be independent:

Name	Position	Reason for non-compliance
Ron Prefontaine	Managing Director	Mr Prefontaine is employed by the Company in an executive capacity

Bow Energy Ltd considers industry experience and specific expertise, as well as general corporate experience, to be important attributes of its Board members. The Directors noted above have been appointed to the Board of Bow Energy Ltd due to their considerable industry and corporate experience.

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

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

<b>Name</b>	<b>Term in office</b>
Ron Prefontaine	1 year
Nicholas Mather	1 year
Stephen Bizzell	1 year

### **Remuneration and Nomination Committee**

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

### **Audit and Risk Management Committee**

The Board has established an Audit and Risk Management Committee, which operates under a charter approved by the Board. It is the Board's responsibility to ensure that an effective internal control framework exists within the Company. This includes internal controls to deal with both the effectiveness and efficiency of significant business processes, the safeguarding of assets, the maintenance of proper accounting records, and the reliability of financial information as well as non-financial considerations such as the benchmarking of operational key performance indicators. The Board has delegated the responsibility for the establishment and maintenance of a framework of internal control and ethical standards for the management of the Company to the Audit and Risk Management Committee.

The Committee also provides the Board with additional assurance regarding the reliability of financial information for inclusion in the financial reports. All members of the Audit and Risk Management Committee are Non-Executive Directors.

The members of the Audit and Risk Management Committee at the date of this report are:

- Nicholas Mather
- Stephen Bizzell

Recommendation 4.3 requires that the composition of Audit Committee comprises a majority of independent Directors and that the committee have at least three members. During the period ended 30 June 2005, Bow Energy Ltd did not satisfy these requirements, due to having only two members.

For additional details of directors' attendance at Audit and Risk Management Committee meetings and to review the qualifications of the members of the Audit and Risk Management Committee, please refer to the Directors' Report.

### **Performance**

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

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

### **Remuneration**

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

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

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

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

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

**Statement of Financial Performance for the period ended 30 June 2005**

	Note	Company 2005 \$
Revenue from Ordinary Activities		
Interest received	2	40,827
<b>Total Revenue from Ordinary Activities</b>		<u>40,827</u>
Expenses from Ordinary Activities		
Employee benefits expenses		128,747
Depreciation and amortisation expenses	2	360
Legal expenses		2,770
Administration and consulting expenses		42,878
Other expenses from ordinary activities		35,574
<b>Total Expenses from Ordinary Activities</b>		<u>210,329</u>
<b>Profit/(loss) from ordinary activities before income tax expense</b>		<u>(169,502)</u>
Income tax expense relating to ordinary activities	3	-
<b>Net profit/(loss) attributable to members of Bow Energy Ltd</b>		<u>(169,502)</u>
<b>Total change in equity other than those resulting from transaction with owners as owners</b>	14	<u>(169,502)</u>
		<b>Cents</b>
Basic Earnings Per Share	18	(0.69)
Diluted Earnings Per Share	18	(0.69)

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

**Statement of Financial Position as at 30 June 2005**

	Note	Company 2005 \$
<b>CURRENT ASSETS</b>		
Cash assets	4	5,355,656
Receivables	5	62,899
Other assets	6	<u>53,684</u>
Total Current Assets		<u>5,472,239</u>
<b>NON-CURRENT ASSETS</b>		
Other assets	7	104,000
Property, plant and equipment	8	7,969
Exploration expenditure	9	<u>2,461,411</u>
Total Non-Current Assets		<u>2,573,380</u>
<b>TOTAL ASSETS</b>		<b><u>8,045,619</u></b>
<b>CURRENT LIABILITIES</b>		
Payables	10	126,208
Interest bearing liabilities	11	47,715
Provisions	12	<u>1,026</u>
Total Current Liabilities		<u>174,949</u>
<b>TOTAL LIABILITIES</b>		<b><u>174,949</u></b>
<b>NET ASSETS</b>		<b><u>7,870,670</u></b>
<b>EQUITY</b>		
Contributed equity	13	8,040,172
Accumulated losses	14	<u>(169,502)</u>
<b>TOTAL EQUITY</b>		<b><u>7,870,670</u></b>

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

**Statement of Cash Flows for the period ended 30 June 2005**

	Note	Company 2005 \$ Inflows/ (Outflows)
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Payments to suppliers and employees (inclusive of goods and services tax)		(229,947)
Interest received		30,111
		<hr/>
<b>Net cash outflow from operating activities</b>	19(d)	<b>(199,836)</b>
		<hr/>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Security deposit (payments) / refunds		(104,000)
Payments for property, plant and equipment		(8,328)
Exploration and evaluation expenditure		(1,045,293)
		<hr/>
<b>Net cash outflow from investing activities</b>		<b>(1,157,621)</b>
		<hr/>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from issue of securities		7,250,000
Capital raising expenses		(584,602)
Proceeds from borrowings		79,567
Repayment of borrowings		(31,852)
		<hr/>
<b>Net cash inflow/(outflow) from financing activities</b>		<b>6,713,113</b>
		<hr/>
<b>Net increase/(decrease) in cash held</b>		<b>5,355,656</b>
Cash at the beginning of the financial period		-
		<hr/>
<b>Cash at the end of the financial period</b>	19(c)	<b>5,355,656</b>
		<hr/>

*The above statement of cash flows should be read in conjunction with the notes to the Financial Statements.*

## Notes to the Financial Statements for the period ended 30 June 2005

### NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial report is a general purpose financial report that has been prepared in accordance with Accounting Standards, Urgent Issues Group Consensus Views, other authoritative pronouncements of the Australian Accounting Standards Board and the Corporations Act 2001.

The financial report has been prepared on an accruals basis and is based on the historical cost convention of accounting and does not purport to show current values or, except where stated, current valuations of non-current assets. Cost is based on the fair values of the consideration given in exchange for assets. The accounting policies have been consistently applied, unless otherwise stated.

Bow Energy Ltd is a public company, incorporated and domiciled in Australia.

The financial statements have been prepared on a going concern basis which contemplates continuity of normal business activities and the realisation of assets and discharge of liabilities in the ordinary course of business. No adjustments have been made to the carrying value of assets or recorded amount of liabilities should the Company's plans not eventuate.

#### (b) Exploration expenditure

Exploration, evaluation and development expenditure incurred is accumulated in respect of each identifiable area of interest. Such expenditures comprise net direct costs and an appropriate portion of related overhead expenditure but does not include overheads or administration expenditure not having a specific nexus with a particular area of interest. These costs are only carried forward to the extent that they are expected to be recouped through the successful development of the area or where activities in the area have not yet reached a stage which permits reasonable assessment of the existence of economically recoverable reserves and active or significant operations in relation to the area are continuing.

A provision is raised against exploration and evaluation expenditure where the Directors are of the opinion that the carried forward net cost may not be recoverable or the right of tenure in the area lapses. The increase in the provision is charged against the results for the year. Accumulated costs in relation to an abandoned area are written off in full against profit in the year in which the decision to abandon the area is made.

When production commences, the accumulated costs for the relevant area of interest are amortised over the life of the area according to the rate of depletion of the economically recoverable reserves.

A regular review has been undertaken on each area of interest to determine the appropriateness of continuing to carry forward costs in relation to that area of interest.

#### (c) Employee benefits

##### (i) *Salaries, Wages, Annual Leave and Long Service Leave*

Liabilities for salaries, wages and annual leave are recognised, and are measured as the amount unpaid at the reporting date at amounts expected to be paid when the liability is settled plus on-costs. Other employee benefits payable later than one year have been measured at the present value of the estimated future cash outflows to be made for those benefits.

##### (ii) *Superannuation*

The Company contributes to employee superannuation funds which are charged as expenses when incurred. The Company's contributions to the funds are in accordance with employees' contracts of employment and relevant legislation.

#### (d) Property, Plant and Equipment

Property, plant and equipment are brought to account on the cost basis, less, where applicable, any accumulated depreciation or amortisation. The carrying amount of property, plant and equipment is reviewed annually by directors to ensure it is not in excess of the recoverable amount from these assets. The recoverable amount is assessed on the basis of the expected net cash flows which will be received from the assets employment and subsequent disposal. The expected net cash flows have not been discounted to their present values in determining recoverable amounts.

The depreciable amount of all fixed assets including building and capitalised lease assets, but excluding freehold land, is depreciated over their useful life to the Company commencing from the time the asset is held ready for use. Properties held for investment purposes are not subject to depreciation. Leasehold improvements are depreciated over the shorter of either the unexpired period of the lease or the estimated useful life of the improvements.

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

(d) Property, Plant and Equipment (continued)

The depreciation rates used for each class of assets are:

Class of Fixed Assets	Depreciation Rate
Computers and Office Equipment	20% - 34% Prime Cost
Furniture and Fittings	20% Prime Cost

The gain or loss on disposal of all fixed assets, including revalued assets, is determined as the difference between the carrying amount of the asset at the time of disposal and the proceeds of disposal, and is included in the profit from ordinary activities before income tax of the Company in the year of disposal. Any realised revaluation increment relating to the disposed asset which is included in the asset revaluation reserve is transferred to retained earnings at the time of disposal.

(e) Income Tax

The Company adopts the liability method of tax-effect accounting whereby the income tax expense is based on the profit from ordinary activities adjusted for any permanent differences.

Timing differences which arise due to the different accounting periods in which items of revenue and expense are included in the determination of accounting profit and taxable income are brought to account as either a provision for deferred income tax or as a future income tax benefit at the rate of income tax applicable to the period in which the benefit will be received or the liability will become payable.

Future income tax benefits are not brought to account unless realisation of the asset is assured beyond reasonable doubt. Future income tax benefits in relation to tax losses are not brought to account unless there is virtual certainty of realisation of the benefit.

The amount of benefits brought to account or which may be realised in the future is based on the assumption that no adverse change will occur in income taxation legislation and the anticipation that the Company will derive sufficient future assessable income to enable the benefit to be realised and comply with the conditions of deductibility imposed by the law.

(f) Other financial assets

Investments are brought to account on the costs basis. The carrying amount of investments is reviewed annually by directors to ensure it is not in excess of the recoverable amount of these investments. The recoverable amount is assessed from the shares' current market value or the underlying net assets in the particular entities. The expected net cash flow from investments have not been discounted to their present value in determining the recoverable amounts, except where stated.

(g) Comparative figures

As Bow Energy Ltd was incorporated on 17 September 2004 there are no comparative figures.

(h) Goods & Services Tax

All receivables and payables in the Statement of Financial Position are stated inclusive of applicable GST. The net amount of GST receivable from or payable to the Australian Taxation Office at balance date is included in either current assets or current liabilities, as appropriate, in the Statement of Financial Position. All other items in the Statement of Financial Position are stated exclusive of GST. All elements in the Statement of Financial Performance are stated exclusive of GST.

(i) Restoration, Rehabilitation and Environmental Expenditure

Costs of site restoration are provided over the life of the facility from when exploration commences and are included in the costs of that stage. Site restoration costs include the dismantling and removal of mining plant, equipment and building structure, waste removal, and rehabilitation of the site in accordance with clauses of mining permits. Such costs have been determined using estimates of future costs, current legal requirements and technology on an undiscounted basis.

Estimates of future costs are reassessed at least annually. Changes in estimates relating to areas of interest in the exploration and evaluation phase are dealt with retrospectively, with any amounts that would have been written off or provided against under the accounting policy for exploration and evaluation immediately written off.

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

(j) Leases

A distinction is made between finance leases which effectively transfer from the lessor to the lessee substantially all the risks and benefits incidental to ownership of the leased property, without transferring the legal ownership, and operating leases under which the lessor effectively retains substantially all the risks and benefits.

Where assets are acquired by means of finance leases, the present value of minimum lease payments is established as an asset at the beginning of the lease term and amortised on a straight line basis over the expected economic life. A corresponding liability is also established and each lease payment is allocated between such liability and interest expense. Operating lease payments are charged to expense on a basis which is representative of the pattern of benefits derived from the leased property.

(k) Joint venture operations

Interests in exploration joint venture operations have been incorporated into the financial statements by including the Company's proportion of joint venture costs, assets and liabilities under the appropriate heading.

(l) Cash

For the purposes of the Statement of Cash Flows each cash includes cash at bank and on hand and deposits on call that are readily convertible to cash in a short period of time.

**Bow Energy Ltd****Notes to the Financial Statements for the period ended 30 June 2005****Company  
2005  
\$****NOTE 2 PROFIT/(LOSS) FROM ORDINARY ACTIVITIES**

Profit/(loss) from ordinary activities before income tax expense has been determined after:

Revenue	
Interest Received	40,827
Expenses	
Movements in Provisions:	
Depreciation of Property, Plant & Equipment	360
Remuneration to Auditors:	
Audit/review	5,750
Other services	17,660
	23,410

**NOTE 3 INCOME TAX**

The prima facie income tax on the loss from ordinary activities is reconciled to the income tax provided in the financial statements as follows:

The prima facie income tax benefit (30%) on loss from ordinary activities before income tax	(50,851)
Tax effect of permanent differences	(37,258)
Other non-allowable items	-
Deferred income tax liability not recognised	(310,653)
Future income tax benefit not brought to account	
- timing difference	10,661
- tax losses	388,101
Income Tax Expense	-

No provision for income tax is required by the Company for the period.

The future income tax benefit arising from the preceding items will only be obtained if:

- (a) the Company continues to comply with the relevant provisions of the income tax legislation;
- (b) it earns sufficient assessable income to enable benefits to be realised; and
- (c) there are no changes in tax legislation adversely affecting the Company in realising the benefits.

Accordingly, the Directors believe it is prudent that the future income tax benefit described above not be brought to account until the Company generates future income streams.

Future income tax benefit reconciliation:

Timing differences	10,661
Tax losses	388,101
Total	398,762
Accumulated tax losses not recognised due to lack of uncertainty	388,101
Deferred income tax liability not recognised due to lack of uncertainty	310,653

There are no franking credits available to shareholders of the Company.

**NOTE 4 CASH ASSETS**

Cash on hand and at bank	140,697
Cash on deposit	5,214,959
	5,355,656

**Bow Energy Ltd****Notes to the Financial Statements for the period ended 30 June 2005**

	<b>Company 2005 \$</b>
<b>NOTE 5 RECEIVABLES (CURRENT)</b>	
Sundry debtors	33,689
GST receivable	29,210
	62,899

**NOTE 6 OTHER ASSETS (CURRENT)**

Prepayments – insurance	53,684
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**NOTE 7 OTHER ASSETS (NON-CURRENT)**

Security deposits	104,000
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**NOTE 8 PROPERTY, PLANT AND EQUIPMENT**

<b>Computers and Office Equipment</b>	
At cost	1,788
Accumulated depreciation	(324)
	<u>1,464</u>
<b>Furniture and Fittings</b>	
At cost	6,541
Accumulated depreciation	(36)
	<u>6,505</u>
Net Book value	<u>7,969</u>

**(a) Movements in carrying amounts**

Company:	<b>Computers &amp; Office Equipment</b>	<b>Furniture &amp; Fittings</b>	<b>Total</b>
Balance at the beginning of the period	-	-	-
Additions	1,788	6,541	8,329
Disposals	-	-	-
Depreciation Expenses	(324)	(36)	(360)
Carrying amount at the end of the period	1,464	6,505	7,969

**NOTE 9 EXPLORATION EXPENDITURE**

Exploration and Evaluation Expenditure Costs carried forward in respect of areas of interest still in the exploration and evaluation phase	2,461,411
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During the period to 30 June 2005, Bow Energy Ltd acquired exploration expenditure of \$1,421,901 from Arrow Energy NL through the issue of shares and options.

**NOTE 10 PAYABLES (CURRENT)**

Trade and other creditors – unsecured	126,208
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**NOTE 11 INTEREST BEARING LIABILITIES (CURRENT)**

Insurance funding - unsecured	47,715
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**Bow Energy Ltd**

**Notes to the Financial Statements for the period ended 30 June 2005**

**Company  
2005  
\$**

**NOTE 12 PROVISIONS (CURRENT)**

Employee Benefits	1,026
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As at 30 June 2005, the Company employed 1 full-time employee plus a further 1 part-time and casual staff.

**NOTE 13 CONTRIBUTED EQUITY**

(a) Issued and paid up capital

Balance 1 July	-
Incorporation 17 September 2004	1
Shares Issued	8,675,901
Costs of Issue	(635,730)
Paid up Capital 30 June	8,040,172

	2005	\$
Number of shares		
Balance 1 July		
Shares Issued During Period:		
- Incorporation	1	1
- On 20 December 2004, 30,000,000 shares and 15,000,000 options issued to Arrow Energy NL for consideration for mining tenements	30,000,000	1,425,901
- On 24 December 2004, 10,000,000 shares at 12.5 cents per share issued as a result of seed capital offer	10,000,000	1,250,000
- Costs associated with seed capital offer	-	(59,250)
- On 17 May 2005, 30,000,000 fully paid ordinary shares issued as a result of the initial public offering	30,000,000	6,000,000
- Costs associated with initial public offering	-	(576,480)
Balance 30 June	70,000,001	8,040,172

Ordinary shares participate in dividends and the proceeds on winding up of the Company in proportion to the number of shares held. At shareholders meetings each ordinary share is entitled to one vote when a poll is called, otherwise each shareholder has one vote on a show of hands.

(b) Share Options

	<b>\$0.20 options exercisable on or before 31 March 2008</b>
Balance 1 July	-
- On 20 December 2004, 15,000,000 options (\$0.20 @ 31 March 2008) issued to Arrow Energy NL as consideration for mining tenements.	15,000,000
Balance 30 June	15,000,000

**Bow Energy Ltd****Notes to the Financial Statements for the period ended 30 June 2005**
**Company**  
**2005**  
**\$**
**NOTE 14 ACCUMULATED LOSSES**

Accumulated losses attributable to members of Bow Energy Ltd at beginning of the financial period	-
Losses from ordinary activities after income tax	(169,502)
Accumulated losses attributable to members of Bow Energy Ltd at the end of the financial period	(169,502)

**NOTE 15 DIRECTOR AND EXECUTIVE DISCLOSURES**

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

**NOTE 16 RELATED PARTY DISCLOSURES**

Transactions between related parties are on normal commercial terms and conditions no more favourable than those available to other parties unless otherwise stated.

a) **Transactions with Directors and Director-Related Entities**

- (i) Bow Energy Ltd has entered into an Executive Services Contract with Prefontaine Consulting Pty Ltd, an entity associated with Ron Prefontaine (a Director), under which Prefontaine Consulting Pty Ltd has agreed to provide certain consultancy services to the Company and will provide Ron Prefontaine as the Managing Director of the Company. The contract commenced on 20 May 2005.

Prefontaine Consulting Pty Ltd will receive a base fee of \$180,000 per annum, with provision for adjustment based on semi-annual review by the Board on the basis of an average minimum 12 days per month, plus \$150 per hour for services provided in excess of 12 days per month. These amounts are included in the Remuneration Report contained in the Directors Report. Bow Energy Ltd is obliged to reimburse Prefontaine Consulting for all reasonable and necessary expenses incurred by it in the performance of its duties.

Both Bow Energy Ltd and Prefontaine Consulting Pty Ltd are entitled to terminate the contract upon giving three (3) months written notice, but not before the expiration of twelve months from the commencement of the contract. Further, Bow Energy Ltd is entitled to terminate the Agreement upon the upon the happening of various events in respect of Prefontaine Consulting Pty Ltd's solvency or other conduct or if Ron Prefontaine ceases to be a Director of Bow Energy Ltd.

The contract provides for a six monthly review of performance by Bow Energy Ltd thereunder and for a renewal of the initial two year term of the Agreement if the parties mutually agree to such an extension.

- (ii) Pursuant to the Ocellaris Share Sale Agreement, Ocellaris Oil Pty Ltd, an entity controlled by Ron Prefontaine (a Director) has agreed to sell to Bow Energy Ltd all of its issued share capital in consideration for the issue of 3,000,000 shares in Bow Energy Ltd.

Ocellaris Oil Pty Ltd has entered into a conditional assignment agreement with the applicants in respect of the following tenements which provides that upon granting of the tenements a proportionate interest will be assigned to Ocellaris:

<b>Licence</b>	<b>Interest Acquired</b>
ATP 736P	20%
ATP 737P	20%
ATP 738P	20%
ATP 752P	20%

The Ocellaris Share Sale Agreement is subject to obtaining shareholder approval from Bow Energy Ltd shareholders at a shareholders meeting to be convened on or before 30 November 2005. The approval sought from shareholders will be in compliance with Chapter 2E of the Corporations Act and Listing Rule 10.11.

**NOTE 16 RELATED PARTY DISCLOSURES (continued)**

- (iii) An Administration Services Agreement has been entered into between the Company and Arrow Energy NL, an entity associated with Ron Prefontaine (a Director) and Stephen Bizzell (a Director), and is dated 31 December 2004.

Pursuant to this Agreement, Arrow Energy NL will provide head office premises, furniture, telephone and reception facilities under a non-exclusive licence.

In consideration for these services, Arrow Energy NL will be reimbursed for the costs it incurs in providing these services, upon presentation of a monthly invoice by Arrow Energy NL, and in any event, not more than \$2,000 per month. The initial term of the appointment is for two years, and if not terminated at the expiry of this term will continue on a monthly basis until terminated.

The Administration Services Agreement can be terminated by either party on one month's notice or in the event of a breach of the agreement, which is not remedied, or an insolvency event.

Arrow Energy NL received or is due to receive \$8,930 for the provision of head office premises, furniture, telephone and reception facilities.

- (iv) Pursuant to the Conventional Rights Agreement dated 20 December 2004, as varied by Deed of Variation dated 15 March 2005, Arrow Energy NL, an entity associated with Ron Prefontaine (a Director) and Stephen Bizzell (a Director), and BNG Pty Ltd have assigned 100% of the rights to conventional rights in the "Arrow Tenements" (ATP 746P (Application), ATP 747P (Application)) and the "BNG Tenements" (ATP 644P and PEL 445). The agreement is conditional upon the grant of each of ATP 746P and ATP 747P to the extent the agreement relates to those tenements and conditional upon the Minister consenting to or approving the agreement, if required.

Whilst Arrow Energy NL and BNG Pty Ltd agree to maintain and keep the tenements in good standing, Arrow Energy NL and BNG Pty Ltd grant Bow Energy Ltd the right to explore for conventional petroleum in accordance with the terms of the agreement. Bow Energy Ltd will be solely responsible for the costs associated by the activities conducted by it.

In the event that Arrow Energy NL or BNG Pty Ltd decide to voluntarily relinquish any part of a tenement in which Bow Energy Ltd has rights pursuant to this agreement, Bow Energy Ltd has a first right of refusal to those areas. If Arrow Energy NL or BNG Pty Ltd are required to relinquish any part of the tenements pursuant to legislation, the parties will consult on the areas to be relinquished. If the parties cannot agree to the areas to be relinquished, each party shall nominate 50% of the area to be relinquished.

Bow Energy Ltd will be responsible for costs, rehabilitation and environmental compliance for the areas on which it conducts activities. Bow will contribute toward the Approved Work Program, securities and rental payments of the tenements.

In the event of a commercial petroleum discovery by Bow Energy Ltd, Bow Energy Ltd will be entitled to make an application for a petroleum lease (either solely with the consent of the holder or jointly with the holder).

Bow Energy Ltd may be required to enter a deed of assumption pursuant to the royalty agreement in place in relation to ATP 644P.

The holders of the tenements will provide Bow Energy Ltd access to information relevant to Bow Energy Ltd's operations. No assignment is able to take place by any of the parties without the consent of the other holders of the relevant tenement.

Bow Energy Ltd must maintain insurances and indemnify the tenement holders for any damage as a result of the activities conducted by Bow Energy Ltd or a breach of this agreement. The tenement holders also indemnify Bow Energy Ltd for any breach by the tenement holders of the agreement.

The agreement continues in force until the earlier of the termination pursuant to the terms of the agreement; by mutual agreement between the parties or 50 years from the commencement of the agreement. If any party fails to perform its obligations under the agreement, another party may issue a default notice specifying the default and the remedy required. If the default is not remedied within the time specified, the non-defaulting party may issue a termination notice. Failure to remedy the default after receipt of a termination notice will then give the non-defaulting party the right to terminate without prejudice to any other right of action or remedy. If Bow Energy Ltd is the defaulting party, all of Bow Energy Ltd's interest will immediately vest in Arrow Energy NL or BNG Pty Ltd, as the case may be, and Bow Energy Ltd will not be entitled to any compensation.

- (b) Share and Option transactions of Directors and Director-Related Entities are shown in the Remuneration Report

contained in the Directors Report.

**Bow Energy Ltd**

**Notes to the Financial Statements for the period ended 30 June 2005**

**Company**  
**2005**  
**\$**

**NOTE 17            SEGMENT INFORMATION**

The Company operates predominantly in one business and geographical segment being in the petroleum industry in Australia. No revenue from this activity has been earned to date as the Company is still in the exploration and evaluation stage.

**NOTE 18            EARNINGS PER SHARE**

(a)	Basic earnings per share - cents per share.	(0.69)
(b)	Diluted earnings per share - cents per share.	(0.69)
(c)	Earnings used in the calculation of earnings per share.	(169,502)
(d)	Weighted Average number of ordinary shares used in the calculation of basic earnings per share.	24,547,943

**NOTE 19            CASH FLOWS INFORMATION**

(a) Fixed Assets acquired by finance leases  
During the financial period, the Company did not acquire any plant and equipment by means of finance lease agreements.

(b) Assets acquired by non-cash transactions  
During the financial period, the Company acquired petroleum tenements with a value of \$1,425,901 from Arrow Energy NL, by the issue of 30,000,000 ordinary shares and 15,000,000 options.

(c) Reconciliation of Cash  
For the purposes of the Statements of Cash flows,  
cash includes cash on hand, cash at bank and bank  
overdraft.

Cash on hand and at bank	140,697
Cash on deposit	5,214,959
	<hr/>
	5,355,656
(d) Reconciliation of net cash outflows from operating activities to Profit/(loss) from ordinary activities after tax	
Profit/(loss) from ordinary activities after tax	(169,502)
Add back/(deduct) items not involving cash flows:	
Depreciation	360
Changes in assets and liabilities:	
- (Increase)/Decrease in receivables	(44,758)
- (Increase)/Decrease in other assets	(34,254)
- Increase/(Decrease) in payables	48,318
	<hr/>
Net cash outflows from operating activities	(199,836)
	<hr/>

**NOTE 20 COMMITMENTS FOR EXPENDITURE**

(a) Future Exploration

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

The commitments to be undertaken are as follows:

Payable - within one year	984,500
- between one and five years	2,864,500

To keep tenements in good standing, work programs should meet certain minimum expenditure requirements. If the minimum expenditure requirements are not met, the Company has the option to negotiate new terms or relinquish the tenements. The Company also has the ability to meet expenditure requirements by joint venture or farm in agreements.

(b) Lease expenditure commitments

(i) *Operating leases (non-cancellable):*

Minimum lease payments	
- not later than one year	25,000
- later than one year and not later than five years	25,000
- later than five years	-
	50,000

**NOTE 21 INTEREST IN JOINT VENTURE OPERATIONS**

As at 30 June 2005, the Company had an interest in the following joint venture operations whose principal activities are oil and gas exploration.

Name	Percentage interest held %
TP 17	10.0
TP 19	10.0
WA 261P	10.0
EP 325	10.0
EP 421	10.0
ATP 574P	6.25 - 12.5

**NOTE 22 CONTINGENT LIABILITIES AND CONTINGENT ASSETS**

(a) Contingent liabilities

*Native Title*

Certain tenements (ATP's 736P, 737P, 738P, 752P and 794P) to which Bow Energy Ltd has an interest in have received native title claims. The position regarding likely success and impact on Bow energy's operations are unknown at balance date. It is management's intention to continue to work through these matters.

*PEL432 farm-in agreement*

Bow Energy has entered into a farm-in agreement with Constellation Energy Pty Ltd ("Constellation") whereby Constellation can earn a 12.5% interest in PEL432 by completing certain defined drilling activities and the completion of certain regulatory approvals. The consideration for Constellation undertaking the drilling activities is the payment to Constellation of \$75,000 and the issue of 750,000 ordinary shares in Bow Energy. Constellation has completed the drilling activities and Bow Energy is currently completing the required regulatory approvals. It is anticipated that the full consideration to Constellation will be made in October 2005.

## Bow Energy Ltd

### Notes to the Financial Statements for the period ended 30 June 2005

#### NOTE 22 CONTINGENT LIABILITIES AND CONTINGENT ASSETS (continued)

##### *Ocellaris Share Sale Agreement*

Pursuant to the Ocellaris Share Sale Agreement, an entity controlled by Mr Ron Prefontaine, a director of Bow Energy, has agreed to sell to Bow Energy all of the issued share capital of Ocellaris Oil Pty Ltd ("Ocellaris") in consideration for the issue of 3,000,000 Shares in Bow Energy.

Ocellaris has entered into a conditional assignment agreement with the applicants in respect of certain tenements (see Note 16 (a) (ii) for further details) which provides that upon the granting of the tenements a proportionate interest will be assigned to Ocellaris.

The Ocellaris Share Sale Agreement is subject to obtaining shareholder approval from Bow Energy shareholders at a shareholders meeting to be convened by 30 November 2005. The approval sought from shareholders will be in compliance with Chapter 2E of the Corporations Act and Listing Rule 10.11.

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

#### NOTE 23 EVENTS OCCURRING AFTER BALANCE DATE

On 26 July 2005 the Company and Oilex NL agreed to swap 20% interest in adjacent tenements ATP 608P Stratton Block and ATP 805P. Following the swap, Bow will have 20% direct working interest in the ATP 608P Stratton Block and 80% direct working interest in ATP 805P.

On 9 August 2005 the Company accepted a staged farm-in offer from Avery Resources (Australia) Pty Ltd whereupon Avery must drill five wells and acquire 100km of seismic data to earn 50% direct working interest in ATP 752P. On completion of the farm-in, Bow is fully carried on the exploration program and retains 25% working interest in all of ATP 752P.

On 24 August 2005 Oilex NL entered into an agreement with the Company to farm-in to acquire a further 30% interest in ATP 805P by funding an additional 60% of the drilling of the Donga-3 well. Bow is required to pay 20% of the costs of the well whilst still retaining a 50% direct working interest in the well and ATP 805P following the drilling of the Donga-3 well.

These transactions have not been reflected in the financial statement to 30 June 2005.

#### NOTE 24 FINANCIAL INSTRUMENTS

(a) Terms and Conditions relating to financial assets and liabilities:

Receivables – Trade debtors are non-interest bearing and are normally settled on 30 day terms.

Payables – Trade creditors are non-interest bearing and normally settled on 30 day terms.

(b) Interest Rate Risk

The Company's exposure to interest rate risk which is the risk that a financial instruments value will fluctuate as a result of changes in market interest rates and the effective weighted average interest rates on classes of financial assets and liabilities is as follows:

	Floating interest rate	Fixed interest rate	Non-interest bearing	Total carrying amount as per the balance sheet	Weighted average effective interest rate
	2005	2005	2005	2005	2005
(i) Financial assets	\$	\$	\$	\$	%
Cash	5,355,656	-	-	5,355,656	4.75%
Receivables	-	-	62,899	62,899	-
Total financial assets	5,355,656	-	62,899	5,418,555	
(ii) Financial liabilities					
Payables	-	-	126,208	126,208	-
Interest bearing liabilities (Current)	-	47,715	-	47,715	5.77%
Total financial liabilities	-	47,715	126,208	173,923	
Net financial assets / (liabilities)	5,355,656	(47,715)	(63,309)	5,244,632	

## **Bow Energy Ltd**

### **Notes to the Financial Statements for the period ended 30 June 2005**

#### **NOTE 24 FINANCIAL INSTRUMENTS (continued)**

##### **(c) Credit Risk**

The maximum exposure to credit risk, excluding the value of any collateral or other security, at balance date to recognised financial assets is the carrying amount, net of any provisions, as disclosed in the statement of financial position and notes to the financial statements.

The Company does not have any material credit risk exposure to any single debtor or group of debtors under financial instruments entered into by the Company.

##### **(d) Net Fair Values**

The net fair values for all assets and liabilities approximate their carrying value.

#### **NOTE 25 IMPACTS OF ADOPTING AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS**

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

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

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

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

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

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

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

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

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

##### **(d) Further key differences**

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

###### **(i) Income Tax**

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

The application of AASB 112 "Income Tax" should not result in any significant adjustment to either tax assets and liabilities or net profit.

**Bow Energy Ltd**

**Notes to the Financial Statements for the period ended 30 June 2005**

**NOTE 25            IMPACTS OF ADOPTING AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (continued)**

***(ii) Property, Plant & Equipment***

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

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

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

***(iii) Share Based Payments***

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

No share based payments have been made to 30 June 2005, therefore the directors do not anticipate any significant impact from implementation.

***(iv) Exploration Expenditure***

Until such time as the International Accounting Standards Board (IASB) completes an extractive industries IFRS, the IASB has determined that national accounting standards will be grandfathered. Therefore, the Company will continue to apply the requirements of AASB 1022 "Accounting for the Extractive Industries" via the revised AASB 6 Exploration for and Evaluation of Mineral Resources issued by the Australian Accounting Standards Board.

## **DIRECTORS' DECLARATION**

The Directors of the Company declare that:

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

As set out in Note 1 the financial statements have been prepared on a going concern basis.

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

Ronald Prefontaine  
Director

Brisbane  
Dated 29 September 2005

## INDEPENDENT AUDIT REPORT

Independent audit report to members of Bow Energy Ltd

### Scope

#### *The financial report and directors' responsibility*

The financial report comprises the statement of financial position, statement of financial performance, statement of cash flows, notes to the financial statements, the Remuneration Report contained in the Directors' Report for the purposes of complying with AASB 1041 Director and Executive Disclosure by Disclosing Entities and the directors' declaration for both Bow Energy Ltd (the Company), for the year ended 30 June 2005.

The economic entity has disclosed information about the remuneration of directors and executives ("remuneration disclosures"), as required by Australian Accounting Standard AASB1046 Director and Executive Disclosures by Disclosing Entities, under the heading "remuneration report" in the directors' report as permitted by the Corporations Regulations 2001.

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

#### *Audit approach*

We conducted an independent audit in order to express an opinion to the members of the Company. Our audit was conducted in accordance with Australian Auditing Standards, in order to provide reasonable assurance as to whether the financial report is free of material misstatement and the remuneration disclosures comply with Australian Accounting Standard AASB1046 and the Corporations Regulations 2001. The nature of an audit is influenced by factors such as the use of professional judgment, selective testing, the inherent limitations of internal control, and the availability of persuasive rather than conclusive evidence. Therefore, an audit cannot guarantee that all material misstatements have been detected.

We performed procedures to assess whether in all material respects the financial report presents fairly, in accordance with the *Corporations Act 2001*, including compliance with Accounting Standards and other mandatory financial reporting requirements in Australia, a view which is consistent with our understanding of the Company's financial position, and of their performance as represented by the results of their operations and cash flows and whether the remuneration disclosures comply with Australian Accounting Standard AASB1046 and the Corporations Regulations 2001.

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

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

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

**Independence**

In conducting our audit, we followed applicable independence requirements of Australian professional ethical pronouncements and the *Corporations Act 2001*. We confirm the independence declaration required by the Corporations Act 2001, provided to the directors of Bow Energy Ltd on 26 September 2005, would be in the same terms if provided to the directors as at the date of this audit report.

**Audit opinion**

In our opinion:

1) the financial report of Bow Energy Ltd is in accordance with:

(a) the *Corporations Act 2001*, including:

- (i) giving a true and fair view of the Company's financial position as at 30 June 2005 and of their performance for the year ended on that date; and
- (ii) complying with Accounting Standards in Australia and the Corporations Regulations 2001; and

(b) other mandatory financial reporting requirements in Australia.

2) the remuneration disclosures that are contained in the directors' report comply with Australian Accounting Standard AASB1046 and the Corporations Regulations 2001.

**BDO Kendalls**  
**Chartered Accountants**

**D P Wright**  
Partner

Brisbane  
Dated 29 September 2005