



EBET LIMITED

ABN 59 056 210 774

AND CONTROLLED ENTITIES

FINANCIAL REPORT

30 JUNE 2005

DIRECTORS' REPORT

Your Directors present their report on the Company and its controlled entities for the financial year ended 30 June 2005.

Directors

The Directors of the Company in office during the whole of the financial year and at the date of this report are:

Michael B. Hale	Non-Executive Chairman	Board member since 1999
Keith R. Cullen	Non-Executive Director	Board member since 1999
Jeffrey J. Zulman	Non-Executive Director	Board member since 2002
Anthony P. Toohey	CEO and Managing Director	Board member since 2004
Russell D. Scott	Executive Director, CFO/COO	Board member since 2004

Directors appointed or resigned from office during or since the financial year end are:-

Gary J. Gray	Non-Executive Director	Resigned October 2004
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Principal Activities

The principal activities of the consolidated entity during the financial year were:

- developing and marketing of gaming system products including player tracking, machine management, card-based cashless gaming and loyalty systems for gaming machines through the Gaming Systems Division
- support of internet-based wagering systems through its Online Division
- marketing and operating a wide-area jackpot link system through Native American casinos in the U.S.

Operating Results

The Company's financial results confirmed that each of its business units achieved NPBT for the Full Year to 30 June 2005, with the exception of its U.S. linked-jackpot operations. Excluding the U.S. link business FY2005 EBITDA was \$3.6M and NPBT of \$1.1M on revenue of \$15.8M. In summary the continuing business improved in the following areas:

- Total Gaming Systems Revenue increased from \$14.6 (2004) to \$15.3M (2005); + 4.8%
- Gaming System Recurring Revenues increased from \$2.8M (2004) to \$4.0M (2005); + 42.93%.

eBet incurred and expensed significant establishment and operational costs associated with its U.S. links business across the year whereas revenue from the business did not begin until late February. Accordingly, the U.S. links business contributed FY2005 EBITDA of \$(1.56)M with NPBT of \$(1.70)M on revenue of \$918k. This brought the Consolidated Group result for FY2005 to EBITDA of \$2.05M and NPBT of \$(606)K on consolidated revenue of \$16.83M.

It is noted that under the Australian Equivalent of the International Financial Reporting Standards (AEIFRS), which have now been adopted, that the result would have been a modest Consolidated Group profit (see details set out in Note 32 of the Financial Statements).

Dividends Paid or Recommended

The Directors do not recommend a dividend be declared for the financial year as the Company incurred losses. Since the end of the previous financial year, no dividends have been paid.

Significant Changes in State of Affairs

There were no significant changes in the state of affairs of the Company during the year.

DIRECTORS' REPORT cont.

Future Developments

FY2006 eBet plans to continue to grow its market share in Australia and Asian regions, aided by ongoing product enhancements and the release of innovative new products.

It is also anticipated that international sales growth will continue through the roll-out of Wide Area Network Link activities in the USA, in Native American Casinos.

Significant After Balance Date Events

No matter or circumstance has arisen since the end of the financial year that has significantly affected or may significantly affect the operations of the consolidated entity, the results of those operations or the state of affairs of the consolidated entity, in future financial years.

Environmental Issues

The consolidated entity's operations are not subject to significant environmental regulation under the laws of the Commonwealth and States.

Indemnifying Officers

During the financial year the Company had a contract for liability insurance on behalf of the Directors and Officers as listed in this Report. As permitted by the Corporations Law the premium for this renewal of insurance was paid by the Company. Under the terms of the contract of insurance other details of the insurance cover are not permitted to be disclosed.

Options

Options were granted by eBet Limited during and since the end of the year to the following persons as part of their remuneration:

<u>Directors</u>	<u>Number of options to acquire ordinary shares</u>
Mr A Toohey	1,500,000
Mr R Scott	550,000

No shares have been issued during the year by virtue of the exercise of options and at the date of this report there are 3,512,500 unissued ordinary shares in eBet Limited in respect of which options are outstanding.

The options outstanding at the date of this report include 1,850,000 options at an exercisable price of \$0.50 per share exercisable by 31 December 2005, 500,000, options at an exercisable price of \$0.11 per share exercisable by 11 March 2006 and 1,162,500 options at an exercisable price of \$0.24 per share exercisable by 11 March 2007.

Remuneration Report

Remuneration of non-executive directors comprises fees determined having regard to industry practice and the need to obtain appropriately qualified independent persons.

Remuneration of executive directors are determined by a remuneration committee (refer Statement of Main Corporate Governance Practices for further details). In this respect, consideration is given to normal commercial rates of remuneration for similar levels of responsibility. Remuneration comprises of salaries, use of motor vehicles, bonuses, superannuation contributions and share options.

Bonuses are paid on the basis of the achievement of pre-set Key-Performance-Indicators. In the current year no bonuses were paid to senior executives.

DIRECTORS' REPORT cont.

Remuneration Report cont.

Incentives determined in relation to the achievement of EBITDA targets and movement in the Company's share price over the preceding twelve months are paid by the issue of options to acquire shares in eBet Limited.

For the FY2005 year the incentives for the Managing Director, Mr. T Toohey, were dependent upon the satisfaction of the following performance conditions:

1. 500,000 options issued at the commencement of his employment at an exercisable price of \$0.11 per share exercisable by 11 March 2006.
2. 500,000 options granted based on share price targets.
3. 250,000 options were available but not granted based on the reviewed EBITDA of the consolidated entity at 31 December 2004.
4. 250,000 options issued at the Board's discretion at an exercisable price of \$0.24 per share.

The above incentive remuneration represented approximately 13% of the aggregate remuneration paid during the year.

For the FY2005 year the incentives of the executive director, Mr. R Scott, is dependent upon the satisfaction of the following performance condition:

1. 137,500 options were available but not granted based on EBITDA of the consolidated entity to 31 December 2004;
2. 137,500 options granted at the discretion of the Board;
3. 275,000 options granted based on share price targets.

The above incentive remuneration represented approximately 7% of the aggregate remuneration paid during the year.

For the FY2006 year the incentives of the Managing Director, Mr. T Toohey, are dependent upon the satisfaction of the following performance conditions:

1. up to 500,000 options will be granted based on share price targets;
2. 250,000 options will be granted based on EBITDA targets;
3. up to 250,000 options will be granted based on the successful roll out of the Company's U.S. linked jackpot operations.

For the FY2006 year the incentives of the Executive Director, Mr. R Scott, are dependent upon the satisfaction of the following performance condition:

5. up to 137,500 options will be granted based on share price targets;
6. 137,500 options will be granted based on EBITDA targets; and
7. up to 275,000 options will be granted based on the successful roll out of the Company's card-based cashless gaming systems.

These performance conditions were chosen because they reflect the Company's strategies for growth and increase in shareholder wealth in respect of which the executive directors play a critical role.

DIRECTORS' REPORT cont.

Remuneration Report cont.

Names and positions of Directors in office at any time during the financial year are:

Michael B. Hale	Non-Executive Chairman	Board member since 1999
Anthony P. Toohey	CEO/Managing Director	Board member since March 2004
Russell D. Scott	CFO/COO/ Executive Director	Board member since March 2004
Keith R. Cullen	Non-Executive Director	Board member since 1999
Jeffrey J. Zulman	Non-Executive Director	Board member since May 2002

Names and positions of specified executives in office at any time during the financial year are:

Dan Purner	Manager – USA Operations	Appointed March 2002
Edmund Sciortino	Finance Manager/ Company Secretary	Appointed March 2003 (Company Secretary since July 2004)

Shares held directly and indirectly by Directors and Executives are:

	Balance 1/7/04	Received as Remuneration	Options Exercised	Net Change Other *	Balance 30/6/05
<u>Directors</u>					
M. Hale	2,323,356	-	-	364,408	2,687,764
A. Toohey	95,250	-	-	106,500	201,750
R. Scott	265,000	-	-	210,000	475,000
K. Cullen	1,916,293	-	-	-	1,916,293
J. Zulman	-	-	-	-	-
	<u>4,599,899</u>	<u>-</u>	<u>-</u>	<u>680,908</u>	<u>5,280,807</u>
<u>Executives</u>					
D. Purner	-	-	-	-	-
E. Sciortino	-	-	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

* Net Change Other – refers to shares purchased or sold during the financial year

Convertible Notes held directly and indirectly by Directors and Executives are:

	Balance 1/7/04	Received as Remuneration	Notes Converted	Net Change Other	Balance 30/6/05
<u>Directors</u>					
M. Hale	4,000	-	-	(2,000)	2,000
A. Toohey	-	-	-	-	-
R. Scott	400	-	-	-	400
K. Cullen	400	-	-	-	400
J. Zulman	3,200	-	-	(1,600)	1,600
	<u>8,000</u>	<u>-</u>	<u>-</u>	<u>(3,600)</u>	<u>4,400</u>
<u>Executives</u>					
D. Purner	-	-	-	-	-
E. Sciortino	-	-	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

Convertible Notes that have an interest rate of 10% for a term ending November 2006. M. Hale and J. Zulman elected to redeem 50% of their entitlement in November 2004 as permitted under the terms of the agreement.

DIRECTORS' REPORT cont.

Remuneration Report cont.

Options held by Directors and Executives are:

	Balance 1/7/04	Granted as Remuneration	Net Options Exercised	Net Change Other	Balance 30/6/05	Total Vested & Exercisable 30/6/05
<u>Directors</u>						
M. Hale *	500,000	-	-	(500,000)	-	-
A. Toohey ***	-	1,250,000	-	-	1,250,000	1,250,000
R. Scott ****	150,000	412,500	-	-	562,500	562,500
K. Cullen *	2,500,000	-	-	(2,500,000)	-	-
J. Zulman **	1,000,000	-	-	-	1,000,000	1,000,000
	4,150,000	2,050,000	-	(3,387,500)	2,812,500	2,812,500
<u>Executives</u>						
D. Purner ***	550,000	-	-	-	550,000	550,000
E. Sciortino	-	-	-	-	-	-
	550,000	-	-	-	550,000	550,000

* The term of these options expired during the financial year.

** The balance of options as at 30 June 2005 represents options issued on 24 December 2002. The options have an exercise price of \$0.50 and are exercisable by 24 December 2005.

*** The balance of options as at 30 June 2005 represents options to acquire 500,000 ordinary shares in eBet Limited at an exercisable price of \$0.11 per share exercisable by 15 March 2006 and 750,000 options to acquire ordinary shares in eBet Limited at an exercisable price of \$0.24 and is exercisable by 15 March 2007.

**** The balance of options as at 30 June 2005 represents options to acquire 150,000 ordinary shares in eBet Limited at an exercisable price of \$0.50 per share exercisable by 24 December 2005 and 412,500 ordinary shares in eBet Limited at an exercisable price of \$0.24 per share exercisable by 15 March 2007.

During the year ended 30 June 2005, options were issued to T. Toohey and R. Scott to acquire ordinary shares in eBet Limited. T. Toohey was issued 500,000 options at an exercise price of \$0.11 cents per share exercisable by 11 March 2006 as well as 750,000 options at an exercise price of \$0.24 cents per share exercisable by 15 March 2007. R. Scott was issued 412,500 options at an exercise price of \$0.24 cents per share exercisable by 15 March 2007.

The value of options issued during the year was independently valued at grant date, at a value of \$57,794. The valuation of these options was determined using the Binormal Approximation model and the Black-Scholes/Merton model with assumptions in relation to the following included therein: the exercise prices of the option, the life of the option, the current price of the underlying shares, the expected volatility of the share price, the dividends expected on the shares, and the risk-free interest rate for the life of the option.

DIRECTORS' REPORT cont.

Remuneration Report cont.

Directors and Executives Remuneration:

2005	Salary, Allowances and Fees	Superannuation Contributions	Non- Cash Benefits	Equity	Bonuses and Other	Total
<u>Directors</u>						
M. Hale	50,000	-	-	-	-	50,000
A. Toohey	260,000	23,400	5,966	41,756	-	331,122
R. Scott	191,333	17,220	-	16,038	-	224,591
K. Cullen	119,449	5,791	-	-	-	125,240
G. Gray	12,500	1,125	-	-	-	13,625
J. Zulman	30,000	2,700	-	-	-	32,700
	663,282	50,236	5,966	57,794	-	777,278
<u>Executives</u>						
D. Purner	182,653	7,567	-	-	42,304	232,524
E. Sciortino	101,912	7,793	-	-	-	109,705
	284,565	15,360	-	-	42,304	342,229

2004	Salary, Allowances & Fees	Superannuation Contributions	Non- Cash Benefits	Equity	Bonuses & Other	Total
<u>Directors</u>						
M. Hale	*66,135	-	-	-	-	66,135
K. Cullen	202,444	18,220	28,411	-	-	249,075
G. Gray	29,999	2,700	-	-	-	32,699
J. Zulman	29,999	2,700	-	-	7,943	40,642
A. Toohey	77,709	6,994	1,595	-	-	86,298
R. Scott	160,767	17,169	-	-	30,000	207,936
	567,053	47,783	30,006	-	37,943	682,785
<u>Executives</u>						
D. Purner	178,889	16,810	-	-	-	195,699
E. Sciortino	83,667	7,530	-	-	-	91,197
	262,556	24,340	-	-	-	287,158

* Salaries & Allowances for Mr. M Hale included \$16,135 for consultancy fees for services provided in prior years.

Remuneration of non-executive directors comprise fees determined having regard to industry practice and the need to obtain appropriately qualified independent persons. Fees do not contain any non-monetary elements.

Remuneration of executive directors is determined by a Remuneration Committee (refer Corporate Governance Practices Statement on Page 12). In this respect, consideration is given to normal commercial rates of remuneration for similar levels of responsibility. An incentive bonus element of Director's remuneration is determined in relation to the movement in the Company's share price over the preceding 12 months, achievement of profit targets and key-performance-indicators, which are paid by the grant of options to acquire ordinary shares in eBet Limited.

Remuneration of senior executives is given with regard to normal commercial rates of remuneration for similar levels of responsibility, experience and skills. In addition, a portion of the aggregate remuneration of each senior executive comprises an incentive bonus which is related to the performance of those parts of the Company's operations, which are relevant to the executive's responsibilities.

DIRECTORS' REPORT cont.

Remuneration Report cont.

The employment conditions of the Managing Director, Mr. Toohey, and the CFO/COO, Mr. Scott, are formalised in contracts of employment. All executive directors and specified executives are permanent employees of the consolidated entity. The employment contracts stipulate 6 months notice period for termination or resignation, however instant termination may result for serious misconduct for which termination payments are generally not payable.

Meetings of Directors

During the financial year, 11 meetings of Directors were held. Attendances were:

Director	Directors' Meetings		Remuneration	Audit
	Meetings Held	Meetings Attended	Committee Number of Meetings Held and Attended	Committee Number of Meetings Held and Attended
Michael Hale	11	11	1	-
Tony Toohey	11	11	-	-
Russell Scott	11	11	-	2
Keith Cullen	11	9	1	2
Jeffrey Zulman	11	10	1	2
Gary Gray	5	4	-	-

Proceedings on behalf of the Company

No person has applied for leave of Court to bring proceedings on behalf of the Company or intervene in any proceedings to which the Company is a party for the purpose of taking responsibility on behalf of the Company for all or any part of those proceedings.

The Company was not a party to any such proceedings during the year.

Corporate Governance

In recognising the need for the highest standards of corporate behaviour and accountability, the Directors of eBet Limited support and have adhered to the principles of Corporate Governance where considered appropriate given the size and complexity of the business. The Company's Main Corporate Governance Practices are contained on Page 9 of this Annual Report.

Non-audit Services

The following amounts were paid or are payable to the external auditors for non-audit services during the year ended 30 June 2005:

	\$'000
Tax Compliance, Planning and Related Services	<u>105</u>

The Directors are satisfied that the provision of non-audit services during the year by the auditors is compatible with the general standard of independence for auditors imposed by the Corporations Act.

The Directors are satisfied that the provision of the non-audit services did not compromise the auditor independence requirements of the Corporations Act because the services were provided by persons who were not involved in the audit and the decision as to whether or not to accept the tax compliance, planning and related services was made by management of the Company.

DIRECTORS' REPORT cont.

Auditor's Independence Declaration

The auditor's independence declaration under section 307C has been received and is attached.

Rounding of Amounts

The Company is an entity to which ASIC Class Order 98/100 applies. Accordingly, amounts in the financial report and Directors' report have been rounded to the nearest thousand dollars.

Signed in accordance with a resolution of the Board of Directors.



Michael B. Hale
Chairman



Anthony P. Toohey
CEO and Managing Director

Dated this 28th day of September 2005 in Sydney.



Chartered Accountants
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Liability is limited by the Accountants
Scheme, approved under the
Professional Standards Act 1994 (NSW)

**The Directors
eBet Limited**

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

- (a) no contraventions of the auditor independence requirements of the Corporations Act in relation to the audit; and
- (b) no contraventions of any applicable code of professional conduct in relation to the audit.

Grant F Saxon
Partner
PKF Chartered Accountants
Sydney, Dated this 28th day of September 2005.

STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 30 JUNE 2005

	Note	Consolidated		Parent Entity	
		2005	2004	2005	2004
		\$'000	\$'000	\$'000	\$'000
Revenue					
Sales – Gaming Systems and Equipment		9,983	10,434	-	-
Operator Fee – US Links		918	-	-	-
Service revenue – Gaming Systems		4,971	3,940	-	-
Service revenue – Online Systems		758	1,978	-	11
Other revenue from ordinary activities		195	246	2,283	2,331
Proceeds from sale of business		-	1,950	-	1,950
Total revenue from ordinary activities	2	16,825	18,548	2,283	4,292
Expenditure					
Cost of sales		(5,857)	(6,533)	-	-
License fees and commissions – US Links		(363)	-	-	-
Employee benefits expense		(5,050)	(4,610)	(933)	(822)
Borrowing costs expense		(611)	(780)	(571)	(778)
Professional fees		(846)	(816)	(426)	(527)
Telecommunications expenses		(345)	(284)	(54)	(155)
Bad and doubtful debts		(97)	(203)	-	-
Travel and entertainment expenses		(281)	(188)	(23)	(53)
Motor vehicle expenses		(137)	(167)	(6)	(50)
Insurance expenses		(291)	(99)	(127)	(52)
Occupancy and equipment rental expenses		(645)	(558)	(200)	(343)
Directors fees and related expenses		(212)	(148)	(212)	(148)
Other expenses from ordinary activities		(648)	(682)	(214)	(435)
Carrying value of net assets disposed in sale of business		-	(2,473)	-	(3,633)
Depreciation and amortisation expense		(2,048)	(1,717)	(86)	(59)
Write down of intangibles and investments		-	(148)	-	-
Total expenses from ordinary activities		(17,431)	(19,406)	(2,852)	(7,055)
Loss from ordinary activities before income tax expense		(606)	(858)	(569)	(2,763)
Income tax expense relating to ordinary activities		-	-	-	-
Net loss from ordinary activities after related income tax attributable to members of the parent entity		(606)	(858)	(569)	(2,763)
Total changes in equity other than those resulting from transactions with owners as owners		(606)	(858)	(569)	(2,763)
Basic earnings per share (cents/share)		(0.29)	(0.50)		
Diluted earnings per share (cents/share)		(0.29)	(0.50)		

STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2005

	Note	Consolidated		Parent Entity	
		2005	2004	2005	2004
		\$'000	\$'000	\$'000	\$'000
Current Assets:					
Cash	10	2,351	2,051	1,219	1,091
Receivables	11	4,633	3,899	43	700
Inventories	12	1,431	1,462	-	-
Total Current Assets		8,415	7,412	1,262	1,791
Non-Current Assets					
Receivables	11	-	-	32,740	31,509
Other financial assets	13	-	-	2,796	2,796
Property, plant and equipment	15	2,345	303	49	66
Intangibles	16	12,911	14,034	-	-
Total Non-Current Assets		15,256	14,337	35,585	34,371
Total Assets		23,671	21,749	36,847	36,162
Current Liabilities					
Payables	17	4,500	3,546	756	965
Interest bearing liabilities	18	8	3,473	8	3,473
Provisions	19	436	307	67	48
Total Current Liabilities		4,944	7,326	831	4,486
Non-Current Liabilities					
Interest bearing liabilities	18	5,134	4,138	5,134	4,138
Provisions	19	59	58	-	-
Total Non-Current Liabilities		5,193	4,196	5,134	4,138
Total Liabilities		10,137	11,522	5,965	8,624
Net Assets		13,534	10,227	30,882	27,538
Equity					
Contributed equity	20	49,981	46,068	49,981	46,068
Accumulated losses	5	(36,447)	(35,841)	(19,099)	(18,530)
Total Equity	5	13,534	10,227	30,882	27,538

The accompanying notes form part of these financial statements

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2005

	Note	Consolidated		Parent Entity	
		2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
Cash Flows from Operating Activities					
Receipts from customers		16,724	16,941	-	11
Payments to suppliers and employees		(15,742)	(15,832)	(2,830)	(2,613)
Interest Received		43	102	37	70
Interest and other costs of finance paid		(696)	(780)	(696)	(778)
Management fees received from wholly owned subsidiaries		-	-	2,246	2,164
Net cash provided by/(used in) Operating Activities	9a	329	431	(1,243)	(1,146)
Cash Flows from Investing Activities					
Payments for purchases of property, plant and equipment		(1,587)	(148)	(67)	(78)
Aggregate cashflows from the acquisition of Turbo	9b	-	(445)	-	-
Aggregate cashflows from the acquisition of Netcash	9b	-	(58)	-	-
Payments for software development and other intangibles		(583)	(674)	-	-
Aggregate cashflows from the sale of Sports Acumen	9c	700	243	-	1,142
Aggregate receipts/(payments) on behalf of controlled entities		-	-	-	(282)
Net cash provided by/(used in) Investing Activities		(1,470)	(1,082)	(67)	782
Cash Flows from Financing Activities					
Proceeds from issue of shares		4,104	2,215	4,104	2,215
Cost of Share Issue		(192)	-	(192)	-
Repayment of principal - convertible notes		(2,452)	(778)	(2,452)	(778)
Repayment of principal - borrowings		(19)	(225)	(19)	(42)
Proceeds from borrowings		-	150	-	-
Net cash provided by Financing Activities		1,441	1,362	1,441	1,395
Net increase/(decrease) in cash held		300	711	131	1,031
Cash at the beginning of the financial year		2,051	1,340	1,088	60
Cash held at the end of the financial year	10	2,351	2,051	1,219	1,091

The accompanying notes form part of these financial statements

NOTES TO THE FINANCIAL REPORT FOR THE YEAR ENDED 30 JUNE 2005

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES cont.

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 Law.

The financial report covers the consolidated entity of eBet Limited and controlled entities, and eBet Limited as an individual parent entity. eBet Limited is a listed public company, incorporated and domiciled in Australia.

The financial report has been prepared on an accruals basis, is based on historical costs and does not take into account changing money 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. Fair value means the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

The carrying amounts of non-current assets do not exceed the net amounts that are expected to be recovered through the cash inflows and outflows arising from the continued use and subsequent disposal of the assets. The expected net cash flows included in determining the recoverable amounts have been discounted to their present values. The accounting policies have been consistently applied, unless otherwise stated.

The following is a summary of the material accounting policies adopted by the consolidated entity in the preparation of the financial report.

(a) Principles of Consolidation

The consolidated financial report combines the financial reports of eBet Limited and all of its controlled entities. A controlled entity is any entity controlled by eBet Limited. Control exists where eBet Limited has the capacity to dominate the decision-making in relation to the financial and operating

policies of another entity so that the other entity operates with eBet Limited to achieve the objectives of eBet Limited. A list of controlled entities is contained in Note 14 to the financial report.

All inter-company balances and transactions between entities in the consolidated entity, including any unrealised profits or losses, have been eliminated on consolidation. Where controlled entities have entered or left the consolidated entity during the year, their operating results have been included from the date control was obtained or until the date control ceased.

(b) Income Tax

The consolidated entity adopts the liability method of tax-effect accounting whereby the income tax expense is based on the operating profit 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 consolidated entity will derive sufficient future assessable income to enable the benefit to be realised and comply with the conditions of deductibility imposed by the law.

NOTES TO THE FINANCIAL REPORT FOR THE YEAR ENDED 30 JUNE 2005

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES cont.

(c) Inventories

Inventories are measured at the lower of cost or net realisable value. Costs have been assigned to inventory quantities on-hand at balance date using the first-in, first-out basis.

(d) Property, Plant and Equipment

Property, plant and equipment is carried at cost or at independent or Directors' valuation, less, where applicable, any accumulated depreciation or amortisation.

The carrying amount of property, plant and equipment is reviewed annually by the 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 been discounted to their present values in determining recoverable amounts.

The depreciable amount of all property, plant and equipment including building and capitalised lease assets, but excluding freehold land, is depreciated on a diminishing value basis over their useful lives to the consolidated entity commencing from the time the asset is held ready for use.

The depreciation rates used for each class of depreciable assets on a diminishing value basis are:

<u>Fixed assets</u> <u>Class</u>	<u>Depreciation</u> <u>Rate</u>
Plant and Equipment	10%-33%
Leasehold improvements	33%

(e) Leases

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

(f) Investments

Non-current investments are carried at cost or Directors' valuation. The carrying amount of investments is reviewed annually by Directors to ensure it is not in excess of the recoverable amount of the investments. The recoverable amount is assessed from the share's current market value or the underlying net assets in the particular entities. The expected net cash flows from investments have not been discounted to their present value in determining the recoverable amounts.

(g) Intangibles

i. Goodwill

Goodwill and goodwill on consolidation are initially recorded at the amount by which the purchase price for a business or ownership interest in a controlled entity exceeds the fair value attributed to its net assets at date of acquisition. Both purchased goodwill and goodwill on consolidation are amortised on the following a straight line basis:

- Goodwill on consolidation 10 years
- Purchased goodwill 10 years

The balances are reviewed annually and any balance representing future benefits for which the realisation is considered to be no longer probable are written off. At the beginning of the 2003/2004 financial year, the remaining period over which future benefits from purchased goodwill and goodwill on consolidation are to be derived was revised to 10 years from that date.

ii Intellectual Property, Software Development and other intangibles

Intellectual property and other intangibles are carried at cost and are amortised on a straight-line basis over 10 years. The balances are reviewed annually and any balance representing future benefits for which the realisation is considered to be no longer probable are written off.

Software development is included in other intangibles and is valued in the financial report at cost. Software development is capitalised when it is probable that future economic benefits of the development will eventuate.

NOTES TO THE FINANCIAL REPORT FOR THE YEAR ENDED 30 JUNE 2005

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES cont.

(g) Intangibles cont.

ii Intellectual Property, Software Development and Other intangibles cont.

Software development is amortised on a straight-line basis over 10 years from the date that the benefits commence to be realised. The balances are reviewed annually and any balance representing future benefits for which the realisation is considered to be no longer probable are written off.

At the beginning of the 2003/2004 financial year, the remaining period over which future benefits from certain intellectual property, software development and other intangible assets are to be derived was revised to 10 years from that date.

(h) Foreign Currency Transactions and Balances

Foreign currency transactions during the year are converted to Australian currency at rates of exchange applicable at the date of the transaction. Amounts receivable and payable in foreign currencies at balance date are converted at rates of exchange ruling at that date.

Gains and losses from conversion of short-term assets and liabilities, whether realised or unrealised, are included in operating results as they arise. The financial report of controlled foreign entities which are integrated foreign operations have been translated into Australian Dollars using the temporal method whereby monetary items are translated at the exchange rate current at balance date and non-monetary items and revenue and expenses are translated at exchange rates current at the transaction dates. Exchange differences arising on translation are brought to account in the statement of financial performance.

(i) Employee Entitlements

Provision is made for the consolidated entity's liability for employee entitlements arising from services rendered by employees to balance date.

Employee entitlements expected to be settled within one year together with entitlements arising from wages and salaries, annual leave and sick leave which will be settled after one year, have been measured at their nominal amount. Other employee entitlements payable later than one year have been measured at the present value of the estimated future cash outflows to be made for those entitlements.

Liabilities are determined after taking into consideration estimated future increases in wages, salaries and past experience of staff departures and related on-costs. .

Contributions are made by the consolidated entity to employee nominated superannuation funds and are charged as expenses when incurred.

(j) Cash

For the purpose of the statement of cash flows, cash includes cash on hand and at-call deposits with banks or financial institutions, net of bank overdrafts.

(k) Comparative Figures

When required by Accounting Standards or Directors re-classification of assets and liabilities, comparative figures have been adjusted to conform with changes in presentation for the current financial year.

(l) Revenue Recognition

Revenue from sale of goods is recognised on delivery of goods to customers. Interest revenue is recognised on a proportional basis taking into account the interest rates applicable to the financial assets.

When the outcome of a contract to provide services can be estimated reliably, revenue is recognised by reference to the percentage of service performed.

Revenue from operating linked gaming systems is recognised based on a percentage of coin-in generated by the game. The jackpot contribution fees collected to fund jackpots are not recognised as revenue.

NOTES TO THE FINANCIAL REPORT FOR THE YEAR ENDED 30 JUNE 2005

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES cont.

(l) Revenue Recognition cont.

All revenue is stated net of the amount of goods and services tax (GST).

(m) Receivables

Trade accounts receivable, amounts due from related parties and other receivables represent the principal amounts due at balance date plus accrued interest and less, where applicable, any unearned income and provisions for doubtful accounts.

(n) Payables

Payables represent the principal amounts outstanding at balance date plus, where applicable, any accrued interest.

(o) Interest Bearing Liabilities

Interest bearing liabilities are recognised in the financial report on the basis of the nominal amounts outstanding at balance date.

(p) Borrowing Costs

Borrowing costs are recognised as an expense in the period in which they are incurred.

(q) Jackpot Liabilities

eBet receives jackpot contribution fees to fund jackpots not yet won. These contributions are recognised as jackpot liabilities.

(r) Rounding of Amounts

The parent entity has applied the relief available to it under ASIC Class Order 98/100 and, accordingly, amounts in the financial report and Directors' Report have been rounded off to the nearest \$1,000.

NOTES TO THE FINANCIAL REPORT FOR THE YEAR ENDED 30 JUNE 2005

NOTE 2: REVENUE FROM ORDINARY ACTIVITIES:

	Consolidated		Parent Entity	
	2005	2004	2005	2004
	\$'000	\$'000	\$'000	\$'000
Operating revenue:				
Systems, equipment and software sales	9,983	10,434	-	-
Service Revenue – Gaming Systems	4,971	3,940	-	-
Service Revenue – Online Systems	758	1,978	-	11
Operator fee – US Links	918	-	-	-
	<u>15,712</u>	<u>15,952</u>	<u>-</u>	<u>11</u>
Non Operating revenue:				
Interest received – Other persons	43	102	37	70
Proceeds from sale of business	-	1,950	-	1,950
Management fees from wholly owned subsidiaries	-	-	2,246	2,164
Government Grants	132	95	-	95
Other revenue	20	49	-	2
	<u>195</u>	<u>2,052</u>	<u>2,283</u>	<u>4,281</u>
	<u>16,825</u>	<u>18,548</u>	<u>2,283</u>	<u>4,292</u>

NOTE 3: OPERATING LOSS:

	Consolidated		Parent Entity	
	2005	2004	2005	2004
	\$'000	\$'000	\$'000	\$'000
Loss from ordinary activities before income tax includes:				
Cost of sales	6,220	6,533	-	-
Borrowing costs:				
- Directors and director related entities	-	5	-	5
- Other persons	611	755	571	773
	<u>611</u>	<u>780</u>	<u>571</u>	<u>778</u>
Depreciation and amortisation				
- Plant and equipment depreciation	352	267	86	59
- Goodwill amortisation	764	848	-	-
- Intellectual property, software development and other intangible assets amortisation	932	602	-	-
	<u>2,048</u>	<u>1,717</u>	<u>-</u>	<u>-</u>
Foreign Currency Gains/(Losses)	(76)	93	-	-
Operating leases:				
- Minimum lease payments	332	325	194	185
Net loss on disposal of business	-	523	-	1,683
The following significant revenue and expense items are relevant in explaining the financial performance:				
- Write-off of intellectual property, software development and other intangible assets, on Directors review	-	148	-	-

NOTES TO THE FINANCIAL REPORT FOR THE YEAR ENDED 30 JUNE 2005

NOTE 4: INCOME TAX EXPENSE

	Consolidated		Parent Entity	
	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
(a) The prima facie tax on operating loss is reconciled to the income tax as follows:				
Prima facie tax payable on operating loss before income tax at 30%	(182)	(257)	(171)	(829)
Add/(Deduct) tax effect of:				
Non-allowable items	414	222	93	182
- Rebatable research & development	(215)	-	-	-
	17	(35)	(78)	(647)
Utilisation of prior period losses	(87)	-	-	-
Current period loss not brought to account as future income tax benefit	70	35	78	647
Income tax expense attributable to operating loss	-	-	-	-
(b) Tax losses not brought to account as realisation of the benefit is not recognised as virtually certain	27,842	28,091	27,219	27,177

This benefit for tax losses will only be obtained if the consolidated entity derives future assessable income of an amount sufficient to enable the benefit from the deductions for the losses to be realised, the consolidated entity continues to comply with the conditions for deductibility imposed by tax legislation and no changes in tax legislation adversely effect the consolidated entity in realising the benefit from the deductions for the losses.

The tax losses of the tax consolidated group comprising eBet Limited and its wholly owned Australian subsidiaries are subject to a loss recoupment fraction. This means that eBet will only be able to apply prior year tax losses in any given period, to the extent of the taxable income for the entities for that period multiplied by the loss recoupment fraction. At 30 June 2005, the fraction was 0.54. This fraction may be subject to change in future periods.

Tax Consolidation

eBet Limited and its wholly owned Australian subsidiaries are a tax consolidated group. The tax consolidated legislation has been applied to allow groups, comprising a parent entity and its wholly owned Australian resident entities, to consolidate and be treated as a single entity for Australian income tax purposes was substantially enacted on 21 October 2002. The legislation includes both mandatory requirements, which are applicable to all entities, and the tax consolidation systems provisions, which entities can elect to adopt.

eBet Limited and its wholly owned Australian resident subsidiaries have formed a tax consolidation group with effect from 1 January 2004. The head entity is eBet Limited. Members of the group have entered into a tax sharing arrangement with eBet Limited in order to allocate income tax expense between eBet Limited and the members of the group on a notional tax liability basis. In addition, the agreement provides for the allocation of income tax liabilities between the entities should the head entity default on its tax payment obligations.

NOTES TO THE FINANCIAL REPORT FOR THE YEAR ENDED 30 JUNE 2005

NOTE 5: ACCUMULATED LOSSES AND TOTAL EQUITY

	Consolidated		Parent Entity	
	2005	2004	2005	2004
	\$'000	\$'000	\$'000	\$'000
Accumulated Losses				
Balance at beginning of year	(35,841)	(34,983)	(18,530)	(15,767)
Net loss attributable to members	(606)	(858)	(569)	(2,763)
	<u>(36,447)</u>	<u>(35,841)</u>	<u>(19,099)</u>	<u>(18,530)</u>
Total Equity				
Total equity at beginning of year	10,227	8,870	27,538	28,086
Total changes in equity recognised in the statement of financial performance	(606)	(858)	(569)	(2,763)
Contribution of equity	4,104	2,215	4,104	2,215
Costs associated with share issue	(191)	-	(191)	-
	<u>13,534</u>	<u>10,227</u>	<u>30,882</u>	<u>27,538</u>

NOTE 6: AUDITORS' REMUNERATION

	Consolidated		Parent Entity	
	2005	2004	2005	2004
	\$'000	\$'000	\$'000	\$'000
Remuneration of the auditor of the parent entity for:				
- Audit and review of financial report	94	72	94	72
- Other services	105	123	105	111
	<u>199</u>	<u>195</u>	<u>199</u>	<u>183</u>

NOTE 7: DIVIDEND IMPUTATION

	Consolidated		Parent Entity	
	2005	2004	2005	2004
	\$'000	\$'000	\$'000	\$'000
The balance of the franking account at year end adjusted for franking credits arising from payments of income tax payable, payment of proposed dividends and franking credits that may be prevented from distribution in subsequent financial years	-	-	-	-

NOTES TO THE FINANCIAL REPORT FOR THE YEAR ENDED 30 JUNE 2005

NOTE 8: EARNINGS PER SHARE

	Consolidated	
	2005	2004
Basic earnings per share (cents per share)	(0.29)	(0.05)
Diluted earnings per share (cents per share)	(0.29)	(0.05)
(a) Net loss used in calculating basic and diluted EPS (\$'000)	606	858
(b) Weighted average number of ordinary shares outstanding during the year used in calculation of basic EPS (number)	206,307,885	166,047,383
(c) Number of options not included in the calculation of Diluted EPS as the effect of these is non-dilutive at reporting date. (number)	3,152,500	7,350,000
(d) Number of convertible debt securities not included in the calculation of diluted EPS as the effect of these is non-dilutive at reporting date (number)	215,348	890,419

NOTE 9: CASH FLOW INFORMATION

	Consolidated		Parent Entity	
	2005	2004	2005	2004
	\$'000	\$'000	\$'000	\$'000
(a) Reconciliation of Cash Flow from Operations with Operating Loss after Income Tax				
Operating Loss after Income Tax	(606)	(858)	(569)	(2,763)
Non-Cash flows in operating loss:				
Amortisation of intangibles	1,698	1,450	-	-
Depreciation/amortisation of plant and equipment	352	267	86	59
Bad and doubtful debts	22	203	-	-
Loss on disposal of business	-	523	-	1,683
Write down of non-current assets	-	148	-	-
Changes in assets and liabilities, net of the effects of purchase and disposal of subsidiaries.				
Decrease/(Increase) in:				
- Trade Receivables	(1,280)	(597)	-	(98)
- Other Receivables and Prepayments	(177)	(12)	(572)	16
- Inventories	32	(773)	-	-
Increase/(Decrease) in:				
- Employee entitlements	129	37	(51)	(116)
- Deferred Income	387	(193)	-	-
- Trade Creditors and Accruals	(228)	236	(137)	73
Cash provided by/(used in) operating activities	329	431	(1,243)	(1,146)

NOTES TO THE FINANCIAL REPORT FOR THE YEAR ENDED 30 JUNE 2005

NOTE 9: CASH FLOW INFORMATION cont.

	Consolidated		Parent Entity	
	2005	2004	2005	2004
	\$'000	\$'000	\$'000	\$'000
(b) Acquisition of Businesses				
In November 2002 the Company acquired Turbo, paid by deferred settlements.				
- Outflow of cash from the acquisition of the Turbo business	-	445	-	-
	-	445	-	-
In April 2000 the Company acquired Netcash Systems, paid by deferred settlements.				
- Outflow of cash from the acquisition of the business assets of Netcash Systems	-	58	-	-
	-	58	-	-
(c) Disposal of Business				
In November 2003, the Company disposed of its ACT based sports and race betting controlled entity, Sports Acumen Pty Ltd.				
- Disposal price	-	1,950	-	1,950
- Commission on sale	-	(108)	-	(108)
Cash consideration	-	1,842	-	1,842
Fair value of net assets at disposal date:				
- Cash	-	899	-	-
- Receivables	-	367	-	126
- Investment in controlled entity	-	-	-	3,399
- Plant and equipment	-	120	-	-
- Goodwill	-	1,982	-	-
- Payables	-	(944)	-	-
- Provisions for employee leave entitlements	-	(59)	-	-
	-	2,365	-	3,525
Net loss on disposal	-	(523)	-	(1,683)
	-	1,842	-	1,842
Inflow of cash from the disposal of Sports Acumen Pty Ltd.				
- Cash consideration	-	1,842	-	1,842
- Disposal price received during the year ended 30 June 2005	700	(700)	-	(700)
- Cash balance disposed	-	(899)	-	-
	700	243	-	1,142

NOTES TO THE FINANCIAL REPORT FOR THE YEAR ENDED 30 JUNE 2005

NOTE 10: CASH ASSETS

	Consolidated		Parent Entity	
	2005	2004	2005	2004
	\$'000	\$'000	\$'000	\$'000
Cash at bank	1,146	1,855	14	971
Deposits at call	1,205	196	1,205	120
	<u>2,351</u>	<u>2,051</u>	<u>1,219</u>	<u>1,091</u>
Reconciliation of Cash:				
Cash at the end of the financial year as shown in the statement of cash flows is reconciled to items in the statement of financial position as follows:				
- Cash at bank and on deposit	2,351	2,051	1,219	1,091

NOTE 11: RECEIVABLES

	Consolidated		Parent Entity	
	2005	2004	2005	2004
	\$'000	\$'000	\$'000	\$'000
Current				
Trade debtors	4,593	3,118	-	-
Provision for doubtful debts	(250)	(228)	-	-
	<u>4,343</u>	<u>2,890</u>	<u>-</u>	<u>-</u>
Non-trade debts receivable:				
- Due from other than related parties	181	295	43	-
- Due from the sale of Sports Acumen	-	700	-	700
	<u>181</u>	<u>995</u>	<u>43</u>	<u>700</u>
Prepayments	109	14	-	-
	<u>4,633</u>	<u>3,899</u>	<u>43</u>	<u>700</u>
Non-Current				
Non-trade debts receivable from wholly owned subsidiaries	-	-	32,740	31,509
Amounts receivable in foreign currencies – US \$	312	81	-	-

NOTE 12: INVENTORIES

	Consolidated		Parent Entity	
	2005	2004	2005	2004
	\$'000	\$'000	\$'000	\$'000
Computer parts – at cost	1,431	1,462	-	-

NOTE 13: OTHER FINANCIAL ASSETS

	Consolidated		Parent Entity	
	2005	2004	2005	2004
	\$'000	\$'000	\$'000	\$'000
Investments in controlled entities – at cost	-	-	2,796	2,796

NOTES TO THE FINANCIAL REPORT FOR THE YEAR ENDED 30 JUNE 2005

NOTE 14: CONTROLLED ENTITIES

	Country of Incorporation	Percentage of Shares Held	
		2005 %	2004 %
Parent Entity:			
eBet Limited	Australia	-	-
Subsidiaries of eBet Limited:			
eBet Gaming Systems Pty Ltd	Australia	100	100
Maxi Gaming Ltd (formerly eBet Online Ltd)	Australia	100	100
eBet Systems Pty Ltd	Australia	100	100
eBet Inc.	USA	100	100
eBet Racing USA Inc.	USA	100	100
Supa-Link Jackpot Pty Ltd	Australia	-	100
Supa-Link (ACT) Pty Ltd	Australia	-	100
eBet New Zealand Limited	New Zealand	-	100
eBet Northern Territory Racing Pty Ltd	Australia	-	100

NOTE 15: PROPERTY, PLANT AND EQUIPMENT

	Consolidated		Parent Entity	
	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
Plant and Equipment				
At cost	3,580	1,215	233	192
Accumulated depreciation	(1,241)	(983)	(190)	(176)
	<u>2,339</u>	<u>232</u>	<u>43</u>	<u>16</u>
Leasehold Improvements				
At cost	191	164	171	143
Accumulated amortisation	(185)	(93)	(165)	(93)
	<u>6</u>	<u>71</u>	<u>6</u>	<u>50</u>
Total Property, Plant and Equipment	<u>2,345</u>	<u>303</u>	<u>49</u>	<u>66</u>

Movement in the carrying amounts for each class of property, plant and equipment between the beginning and the end of the current financial year.

	Leasehold Improvements	Plant and Equipment	Total
	\$'000	\$'000	\$'000
Consolidated Entity:			
Balance at the beginning of the year	71	232	3,203
Additions	27	2,367	2,394
Depreciation/amortisation expense	(92)	(260)	(352)
Carrying amount at the end of the financial year	<u>6</u>	<u>2,339</u>	<u>2,345</u>
Parent Entity:			
Balance at the beginning of the year	50	16	66
Additions	28	41	69
Depreciation/amortisation expense	(72)	(14)	(86)
Carrying amount at the end of the financial year	<u>6</u>	<u>43</u>	<u>49</u>

NOTES TO THE FINANCIAL REPORT FOR THE YEAR ENDED 30 JUNE 2005

NOTE 16: INTANGIBLE ASSETS

	Consolidated		Parent Entity	
	2005	2004	2005	2004
	\$'000	\$'000	\$'000	\$'000
Goodwill – at cost	14,478	14,478	-	-
Accumulated amortisation	(8,487)	(7,723)	-	-
	5,991	6,755	-	-
Intellectual property, software development and intangibles - at cost	17,377	16,804	118	118
Accumulated amortisation	(10,457)	(9,525)	(118)	(118)
	6,920	7,279	-	-
	12,911	14,034	-	-
The following write-downs of intangible assets occurred during the prior year: Write-off of intellectual property, software development and other intangible assets as per Directors review	-	148	-	-
	-	148	-	-

NOTE 17: PAYABLES

	Consolidated		Parent Entity	
	2005	2004	2005	2004
	\$'000	\$'000	\$'000	\$'000
Current				
Unsecured liabilities				
- Trade creditors	1,480	1,978	445	525
- Other creditors and accruals	1,792	1,324	311	440
- Jackpot liabilities	597	-	-	-
- Deferred income	631	244	-	-
	4,500	3,546	756	965
Amounts payable in foreign currencies – US \$	556	75	-	-

NOTE 18: INTEREST BEARING LIABILITIES

	Consolidated		Parent Entity	
	2005	2004	2005	2004
	\$'000	\$'000	\$'000	\$'000
Current				
Unsecured				
- Convertible Notes – EBCI *	8	473	8	473
- Convertible Notes – EBTG **	-	2,982	-	2,982
- Loans payable to related parties	-	18	-	18
	8	3,473	8	3,473
Non-Current				
Unsecured				
- Convertible notes – EBTG **	5,134	4,138	5,134	4,138
	5,134	4,138	5,134	4,138

* EBCI Convertible Notes have an interest rate of 10%

** EBTG Convertible Notes have an interest rate of 10% for a term ending November 2006.

(The EBTG Convertible Notes classified as current in 2004 represented the portion of the Convertible Notes that the Company expected to redeem in November 2004 based on notifications received from note holders at the time of preparing the 2004 financial accounts.)

NOTES TO THE FINANCIAL REPORT FOR THE YEAR ENDED 30 JUNE 2005

NOTE 19: PROVISIONS

	Consolidated		Parent Entity	
	2005	2004	2005	2004
	\$'000	\$'000	\$'000	\$'000
Current				
Provision for employee entitlements	436	307	67	48
	<u>436</u>	<u>307</u>	<u>67</u>	<u>48</u>
Non-Current				
Provision for employee entitlements	59	58	-	-
	<u>59</u>	<u>58</u>	<u>-</u>	<u>-</u>
Aggregate employee entitlements liability	495	365	67	48
Number of employees at year end	60	60	7	8

NOTE 20: CONTRIBUTED EQUITY

	Consolidated		Parent Entity	
	2005	2004	2005	2004
	\$'000	\$'000	\$'000	\$'000
Issued capital				
217,007,611 fully paid ordinary shares (2004 -188,707,611)	49,981	46,068	49,981	46,068
Movement in ordinary share capital:				
Balance at the beginning of the financial year	46,068	43,853	46,068	43,853
Shares issued during the year				
28,300,000 on 16 November 2004	4,104	-	4,104	-
Costs associated with issue	(191)	-	(191)	-
24,616,022 shares on 1 June 2004	-	2,215	-	2,215
Balance at the end of the financial year	<u>49,981</u>	<u>46,068</u>	<u>49,981</u>	<u>46,068</u>

On 16 November 2004 the Company issued 28,300,000 shares at \$0.145 to provide funds required for the redemption of EBTG convertible notes. Costs associated with this issue were \$191,255.

On 1 June 2004 the Company issued 24,616,022 shares at \$0.09 each to provide funds for a Wide Area Mystery Progressive linked jackpot system for a number of Native American Casino Operators in California, USA.

NOTES TO THE FINANCIAL REPORT FOR THE YEAR ENDED 30 JUNE 2005

NOTE 21: FINANCIAL INSTRUMENTS

(a) Interest Rate Risk

The consolidated entity's exposure to interest rate risk, which is the risk that a financial instrument's 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 financial liabilities, is as follows:

	Weighted Average Effective Interest Rate		Floating Interest Rate \$'000		Fixed Interest Rate Maturing				Non-Interest Bearing \$'000		Total \$'000	
					Within One Year \$'000		One to Five Years \$'000					
	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004
Financial Assets:												
Cash *	2.8%	2.4%	1,930	1,480	421	196	-	-	-	375	2,351	2,051
Receivables	0.0%	1.1%		700	-	-	-	-	4,388	3,185	4,388	3,885
Total Financial Assets	-	-	1,930	2,180	421	196	-	-	4,388	3,560	6,739	5,936
Financial Liabilities:												
Convertible Notes EBCI **	10%	10%	-	-	8	473	-	-	-	-	8	473
Convertible Notes EBTG **	10%	10%	-	-	-	2,982	5,134	4,138	-	-	5,134	7,120
Loans payable to related parties	-	10%	-	-	-	18	-	-	-	-	-	18
Trade and sundry creditors	-	-	-	-	-	-	-	-	3,272	3,302	3,272	3,302
Jackpot liabilities	-	-	-	-	-	-	-	-	597	-	597	-
Total Financial Liabilities			-	-	8	3,473	5,134	4,138	3,869	3,302	9,011	10,913

* There are no fixed-interest bearing deposits maturing beyond twelve months.

* EBCI convertible notes have an interest rate of 10%

** EBTG convertible notes have an interest rate of 10% for a term ending November 2006.

(The EBTG convertible notes classified as 'within one year' represent the portion of the convertible notes that the Company expected to redeem in November 2004 based on notifications received from holders at the date of last year's report). The balance, shown as 'one to five years', may not be redeemed until maturation in November 2006.

NOTES TO THE FINANCIAL REPORT FOR THE YEAR ENDED 30 JUNE 2005

NOTE 21: FINANCIAL INSTRUMENTS cont.

(b) 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 for doubtful debts of those assets, as disclosed in the statement of financial position and notes to the financial report.

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

(c) Net Fair Values

The net fair values of trade debtors are determined by discounting the cash flows, at the market interest rates of similar securities, to their present value.

The net fair values of other loans and amounts due are determined by discounting the cash flows, at market interest rates of similar borrowings, to their present value.

For other assets and other liabilities the net fair value approximates their carrying value. Financial assets where the carrying amount exceeds net fair values have not been written down as the consolidated entity intends to hold these assets to maturity.

	Carrying Amount 2005 \$'000	Net Fair Value 2005 \$'000	Carrying Amount 2004 \$'000	Net Fair Value 2004 \$'000
Aggregate net fair values and carrying amounts of financial assets and financial liabilities at balance date:				
Financial Assets				
Receivables	4,388	4,388	3,885	3,885
	<u>4,388</u>	<u>4,388</u>	<u>3,885</u>	<u>3,885</u>
Financial Liabilities				
Convertible notes	5,142	5,142	7,593	7,593
Trade and sundry creditors	3,272	3,272	3,302	3,302
Jackpot liabilities	597	597	-	-
Loans payable	-	-	18	18
	<u>9,011</u>	<u>9,011</u>	<u>10,913</u>	<u>10,913</u>

NOTE 22: CAPITAL AND LEASING COMMITMENTS

	Consolidated		Parent Entity	
	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
(a) Operating Lease Commitments				
Non-cancellable operating leases contracted for but not capitalised in the financial report				
Payable:				
• not later than 1 year	262	319	120	236
• later than 1 but not later than 5 years	275	228	79	109
• later than 5 years	-	-	-	-
	<u>537</u>	<u>547</u>	<u>199</u>	<u>345</u>

(b) Capital Expenditure Commitments

There are no capital expenditure commitments as at 30 June 2005 (2004 – nil)

NOTES TO THE FINANCIAL REPORT FOR THE YEAR ENDED 30 JUNE 2005

NOTE 23: CONTINGENT LIABILITIES

Consolidated		Parent Entity	
2005	2004	2005	2004
\$'000	\$'000	\$'000	\$'000

The consolidated entity has the following contingent liability, not provided for in the financial report:

- Bank guarantee	81	71	81	71
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- Jackpot liabilities: eBet operates a linked gaming system and as part of the operations and is liable for the payment of Maxi and Major jackpots won on the system. Maxi jackpots range from US\$1 million to US\$1.5 million and are generally payable in equal instalments over 20 years. Major jackpots range from US\$25,000 to US\$50,000 and are payable immediately. As operator, eBet receives jackpot contribution fees to fund these jackpots. These contributions are recognised as jackpot liabilities and totalled \$597k as at 30 June 2005. Over time, the contributions received will match the jackpots paid however, at any given point, these contributions received may not be sufficient to meet jackpots payable. Due to the nature of the linked system, any potential shortfall in contributions received cannot be reliably estimated and it is noted that at disclosing date, no Maxi jackpot has been won subsequent to year end.

NOTE 24: ECONOMIC DEPENDENCY

The consolidated entity is not economically dependant upon any third parties.

NOTE 25: STATEMENT OF OPERATIONS BY SEGMENTS

	Gaming Systems		Online		U.S Links		Consolidated	
	2005	2004	2005	2004	2005	2004	2005	2004
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
(a) Primary Reporting – Business Segments								
Revenue	15,325	14,649	462	3,899	1,038	-	16,825	18,548
Segment Results								
Net Profit/(Loss)	865	251	232	(1,109)	(1,703)	-	(606)	(858)
Total Segment Assets	19,426	19,450	139	2,299	3,970	-	23,535	21,749
Total Segment Liabilities	8,174	10,788	79	734	1,748	-	10,001	11,522
Other:								
Acquisition of non-current segment assets	787	1,298	-	15	2,180	-	2,967	1,313
Depreciation/amortisation of segment assets	1,663	1,605	240	112	145	-	2,048	1,717
Write-off of goodwill, intellectual property, software development other intangible assets	-	-	-	148	-	-	-	148

NOTES TO THE FINANCIAL REPORT FOR THE YEAR ENDED 30 JUNE 2005

NOTE 25: STATEMENT OF OPERATIONS BY SEGMENTS cont.

	Australia		U S A		Consolidated	
	2005	2004	2005	2004	2005	2004
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
(b) Secondary Reporting – Geographical Segments						
External revenue	15,233	17,995	1,672	553	16,895	18,548
Segment Net Profit/(Loss)	2,369	(680)	(1,763)	(178)	(606)	(858)
Total Segment Assets	19,407	21,265	2,342	484	23,535	21,749

Segment Operation Accounting Policies

Segment revenues and expenses are those directly attributable to the segments and include any joint revenue and expenses where a reasonable basis of allocation exists.

Segment assets include all assets used by a segment and consist principally of cash, receivable, inventories, intangibles and property, plant and equipment, net of allowances and accumulated depreciation and amortisation. While most such assets can be directly attributed to individual segments, the carrying amount of certain assets used jointly by two or more segments are allocated to the segments on a reasonable basis.

Segment liabilities consist principally of accounts payable, employee entitlements, accrued expenses, provisions and borrowings.

Segment assets and liabilities do not include deferred income taxes.

Inter-segment Transfers

Segment revenues, expenses and results include transfers between segments. The prices charged on inter-segment transactions are the same as those charged for similar goods to parties outside of the consolidated entity at an arm's length. These transfers are eliminated on consolidation.

Business Segments

The consolidated entity has the following three business segments:

- The Gaming Systems Division develops and markets a range of networked solutions for electronic gaming machines including player loyalty and tracking systems, card-based cashless gaming solutions and machine management software.
- The Online Division supports online gaming technologies and works only with government sanctioned and licensed gaming operators located in regulated jurisdictions in New Zealand, Australia and the U.S.
- The U.S. Link Division markets and operates wide-area jackpot links through Native American Casinos in the USA.

Geographical Segments

The parent entity is situated at the Company's head office in Auburn NSW Australia. All corporate, legal, finance, treasury, investor relations, accounting, finance and administration of the group is carried out from the Company's head office.

NOTES TO THE FINANCIAL REPORT FOR THE YEAR ENDED 30 JUNE 2005

NOTE 26: UNHEDGED FOREIGN CURRENCY MONETARY ITEMS

	Consolidated		Parent Entity	
	2005	2004	2005	2004
	\$'000	\$'000	\$'000	\$'000
Current assets and non-current assets not effectively hedged to a date at least 12 months after balance date:				
USD – United States dollars				
- Current assets	47	208	-	-
- Non-current assets	-	79	-	-
	<u>47</u>	<u>287</u>	<u>-</u>	<u>-</u>

NOTE 27: SUPERANNUATION COMMITMENTS

The consolidated entity participates in various superannuation funds, which are externally managed and cover all employees. These funds provide accumulation benefits for members based on contributions received and earnings to date.

The level of superannuation contributions is determined by the Superannuation Guarantee Levy. The consolidated entity has no responsibility for the administration or performance of the funds. If requested by any employee, additional contributions can be made from amounts deducted from that employee's salary.

NOTE 28: EVENTS SUBSEQUENT TO REPORTING DATE

There are no events to report which would significantly affect the company as at the date this report was prepared.

NOTES TO THE FINANCIAL REPORT FOR THE YEAR ENDED 30 JUNE 2005

NOTE 29: RELATED PARTY TRANSACTIONS

	Consolidated		Parent Entity	
	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
(a) Wholly owned controlled group				
- eBet Limited provides management and administration support to eBet Gaming Systems.	1,880	2,009	1,880	2,009
- eBet Limited provides management and administration support to Maxi Gaming (formerly eBet Online)	293	143	293	143
- eBet Limited provided management and administration support to Sports Acumen	-	12	-	12
- eBet Inc. provides operational support to Maxi Gaming regarding the linked gaming system	834	-	-	-
- eBet Systems holds software and intellectual property used by eBet Gaming Systems	136	504	-	-
- eBet Systems holds software and intellectual property used by Maxi Gaming	12	-	-	-
- eBet Online charged interest to eBet Racing USA on inter-company loans	-	3	-	-
- eBet Online charged interest to eBet NZ on inter-company loans	-	3	-	-
- eBet Online charged interest to eBet Inc. on inter-company loans	-	21	-	-
- eBet Online managed, administered and provided marketing expertise for eBet NZ	-	300	-	-
(b) Director related entities				
- eBet Limited sold its wholly-owned subsidiary, Sports Acumen Pty. Ltd. at market valuation to Bet Worldwide Pty. Ltd., in which Mr. Gary Gray is a Director and shareholder	-	1,950	-	1,950
- eBet Limited paid consulting fees to Sporting Management Concepts Pty. Ltd. at normal professional rates: a company controlled by Mr. Gary Gray*	-	50	-	50
- eBet Limited paid commission on the sale of Sports Acumen at normal professional rates to Sporting Management Concepts Pty. Ltd., a company that is controlled by Mr. Gary Gray*	-	108	-	108
- eBet Limited has a loan payable to Mr. Keith Cullen, with interest calculated at 10% on the outstanding balance	-	18	-	18

* Mr. Gary Gray was a non-executive Director of eBet Limited for the period of 5 years to October 2004.

NOTES TO THE FINANCIAL REPORT FOR THE YEAR ENDED 30 JUNE 2005

NOTE 30: DIRECTORS REMUNERATION

In accordance with the Corporations Act 2001, details of directors' and executive officer's remuneration, shares, options and convertible notes are included in the Remuneration Note within the Directors' Report on Page 15. These disclosures are in accordance with those required by Accounting Standards and form part of these financial standards.

NOTE 31: DISCONTINUING OPERATIONS

	Consolidated	
	2005	2004
	\$'000	\$'000
In November 2003 ACT-based sports and race betting controlled entity, Sports Acumen Pty. Limited was sold.		
The proceeds from the sale were received as follows:		
November 2003	-	750
May 2004	-	500
Outstanding as at 30 June 2004	-	700
Total proceeds	-	<u>1,950</u>
The financial performance of the discontinuing business to the date of sale, incorporated into the statement of financial performance was as follows:		
Revenue from ordinary activities	-	358
Expenses from ordinary activities	-	(745)
Profit from ordinary activities before income tax	-	(387)
Income tax expense	-	-
Net profit attributable to members of the parent entity	-	<u>(387)</u>
The carrying amount of assets and liabilities of the discontinuing business at the date of the sale were:		
Total Assets	-	3,516
Total Liabilities	-	(1,043)
Net Assets	-	<u>2,473</u>
The net cash flows of the discontinuing business incorporated into the statement of cash flows were as follows:		
Net cash inflow (outflow) from ordinary activities	-	(115)
Net cash inflow (outflow) from investing activities	-	219
Net cash inflow (outflow) from financing activities	-	150
Net increase in cash generated by the discontinuing business	-	<u>254</u>
Details of the sale of the business were as follows:		
Disposal price		1,950
Commission on sale	-	(108)
Cash consideration	-	<u>1,842</u>
Fair value of net assets at disposal date:		
Cash	-	899
Receivables	-	367
Investment in controlled entity	-	-
Plant and equipment	-	120
Goodwill	-	1,982
Payables	-	(944)
Provisions for employee leave entitlements	-	(59)
	-	<u>2,365</u>
Net loss on disposal	-	<u>(523)</u>

NOTES TO THE FINANCIAL REPORT FOR THE YEAR ENDED 30 JUNE 2005

NOTE 32: IMPACTS OF ADOPTING AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (AEIFRS)

Australian equivalents to International Financial Reporting Standards (AEIFRS) will be adopted in the financial report for the year ending 30 June 2006 and the comparative information presented in that report for the year ending 30 June 2005. The majority of the AEIFRS adjustments will be made retrospectively against retained earnings at 1 July 2004.

The consolidated entity's management has assessed the significance of the expected changes and is preparing for their implementation. An AEIFRS committee is overseeing and managing the consolidated entity's transition to AEIFRS. The impact of alternative treatments and elections under AASB 1 "First Time Adoption of Australian International Financial Reporting Standards" has been considered where applicable.

The directors are of the opinion that the key material differences in the consolidated entity's accounting policies on conversion to AEIFRS and the financial effect of these differences where known. Users of the financial statements should note, however, that the amounts disclosed could change if there are any amendments by the standard-setters to the current AEIFRS or interpretation of the AEIFRS requirements changes from the continuing work of the consolidated entity's AEIFRS committee.

	Note	<u>Consolidated 30 Jun 05</u>
(a) Reconciliation of equity as presented under AGAAP to that under AEIFRS		
Total equity under AGAAP		13,534
Adjustments to retained earnings (net of tax)		
Write-back of goodwill amortisation	(ii)	<u>764</u>
		14,295
Adjustments to other reserves (net of tax)		
Recognition of share based payments expenses	(v)	<u>(58)</u>
Total equity under IFRS		<u>14,237</u>
(b) Reconciliation of net profit/(loss) under AGAAP to that under AEIFRS		
Net profit / (loss) as reported under AGAAP		(606)
Adjustments to retained earnings (net of tax)		
Write-back of goodwill	(ii)	764
Share based payments expense	(v)	<u>(58)</u>
Net profit / (loss) under IFRS		<u>100</u>

Notes on the impacts of adopting the Australian Equivalents to International Financial Reporting Standards (IFRS) are set out below.

NOTES TO THE FINANCIAL REPORT FOR THE YEAR ENDED 30 JUNE 2005

NOTE 32: IMPACTS OF ADOPTING AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (AEIFRS) cont.

(i) Intangible Assets

AASB 138 "Intangible Assets" generally requires de-recognition of all items that do not qualify as identifiable intangible assets. The transition rules allow items that were purchased as part of a business combination and do not qualify as an identifiable intangible to be transferred back to the related goodwill balance. The treatment of each specific intangible is set out below.

(ii) Goodwill

Under AASB3 "Business Combinations", amortisation of goodwill will no longer be permitted. At the date of adoption of AEIFRS goodwill will be allocated to cash generating units of the entity and will be impairment tested on initial adoption of AEIFRS and annually thereafter.

Impairment testing as at 30 June 2005 confirmed no impairment of the \$14,478K goodwill less amortisation of \$8,4878K as disclosed in the consolidated entity's financial statements as at 30 June 2005. Impairment testing as 1 July 2004 also confirmed no impairment of the written-down value of goodwill at that date. \$764K of goodwill amortised during the year ended 30 June 2005 will, therefore, be reversed resulting in an increase of \$764K in retained earnings as at 30 June 2005 and an increase in profit amounting to \$764K for the year ended 30 June 2005.

(iii) Research and Development

Research costs will continue to be expensed in the year they are incurred.

Qualifying expenditure in relation to development phase costs may continue to be capitalised and impairment tested annually until the related asset is complete at which time they will be amortised over the useful life of the related asset. The consolidated entity will continue to amortise development costs on a straight-line basis over 10 years.

Impairment testing as at 30 June 2005 confirmed no impairment of the \$8.88M capitalised development costs less amortisation of \$4.20M as disclosed in the consolidated entity's financial statements as at 30 June 2005. On transition, the financial effect of this impact is assessed as nil.

(iv) Licences, Patents, Trademarks and Other

All licences, patents and trademarks will be assessed as having either a finite or indefinite useful life. All items that have been classified as being indefinite lived assets will be impairment tested annually in accordance with the standards. All items classified as finite lived assets will be amortised over the useful life of the asset.

Regardless of the useful life classification the directors must assess at the end of each reporting period the classification, subsequent method employed and rates used to ensure appropriateness.

Impairment testing as at 30 June 2005 confirmed no impairment of the \$8.437M capitalised licences, patents, trademarks and other intangibles less amortisation of \$6.196M as disclosed in the consolidated entity's financial statements at 30 June 2005. Impairment testing as 1 July 2004 also confirmed no impairment of the written-down value of capitalised licences, patents, trademarks and other intangibles at that date.

The consolidated entity has assessed the finite lives of all licences, patents and trademarks to be 10 years and will continue to amortise these assets on a straight-line basis over 10 years.

On transition, the financial effect of this impact is assessed as nil.

NOTES TO THE FINANCIAL REPORT FOR THE YEAR ENDED 30 JUNE 2005

NOTE 32: IMPACTS OF ADOPTING AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (AEIFRS) cont.

(v) Share Based Payments

The consolidated entity currently engages in the practice of allocating to its directors and employees shares and share options as part of their remuneration packages. 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. This amount will be expensed in the statement of financial performance. Where the grant date and the vesting date are different the total expenditure calculated will be allocated between the two dates taking into account the terms and conditions attached to the instruments and the counterparties as well as management's assumptions about probabilities of payments and compliance with and attainment of the set out terms and conditions.

1,550,000 options with an exercise price of 24 cents and 500,000 options with an exercise price of 11 cents to acquire ordinary shares in the entity were issues to directors during the year ended 30 June 2005. The fair value of these options has been independently assessed to be \$57,794. An expense of \$57,794 will, therefore, be recognised resulting in a decrease of \$57,794 in retained earnings as at 30 June 2005 and a decrease in profit amounting to \$57,794 for the year ended 30 June 2005.

(vi) 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.

On transition, the financial effect of this impact is assessed as nil.

(vii) Inventories

Inventories will continue to be measured at the lower of cost and net realisable value under the new AASB 102. All items of inventory are subject to an impairment test. In the event that the circumstances that lead to an impairment write-down no longer exist or are favourable a reversal of the write-down through the statement of financial performance is required to be effected. On transition, the financial effect of this impact is assessed as nil.

(viii) Property, Plant & Equipment

AASB 116 "Property Plant & Equipment" will allow the carrying amounts of property plant and equipment to include the costs of dismantling and removing items of property, plant and equipment at the conclusion of a lease term or similar arrangement. This amount will adjust the current carrying amount of certain items of property plant and equipment on initial adoption of AEIFRS and will be depreciated over the remaining useful life of that related asset.

Any consideration which is deferred is recognised as the net present value of that amount using an appropriate discount rate.

NOTES TO THE FINANCIAL REPORT FOR THE YEAR ENDED 30 JUNE 2005

NOTE 32: IMPACTS OF ADOPTING AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (AEIFRS) cont.

(viii) Property, Plant & Equipment cont.

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

Items of property, plant and equipment measured at fair value will still be carried as such, 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.

On transition, the financial effect of this impact is assessed as nil.

(ix) Foreign Currency Transactions

AASB 112 "The Effect of Changes in Foreign Currency" removes the distinction between self-sustaining and integrated foreign operations and will require all entities to account for foreign operations as per a prescribed method. Where the presentation currency of the foreign entity is not in Australian dollars, this will result in a Foreign Currency Translation Reserve being created in equity and represents the cumulative differences of translating the financial statements of all foreign subsidiaries into the presentation currency of the entity. On disposal of foreign operations the amount in the reserve in relation to the disposed of operation is transferred to the profit and loss account and recognised as income in the period of disposal.

On transition, the financial effect of this impact is assessed as nil.

DIRECTORS' DECLARATION

In the opinion of the Directors of eBet Limited:

- (a) the accompanying financial statements and notes are in accordance with the Corporation Act 2001, comply with the accounting standards and give a true and fair view of the consolidated entity's financial position as at 30 June 2005 and of their performance for the year ended on that date.
- (b) at the date of this declaration there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.
- (c) the directors have been given the declarations by the chief executive officer and chief financial officer required by section 295A.

Signed in accordance with a resolution of the Directors.



Michael B. Hale
Chairman



Anthony P. Toohey
CEO and Managing Director

Dated this 28th day of September, 2005 in Sydney.

INDEPENDENT AUDIT REPORT TO THE MEMBERS OF *EBET LIMITED*

Scope

The financial report and directors' responsibility

The financial report comprises the statement of financial position, statement of financial performance, statement of cash flows, accompanying notes to the financial statements, and the directors' declaration for eBet Limited and the consolidated entity, for the financial year ended 30 June 2005. The consolidated entity comprises both the company and the entities it controlled during the year.

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.

Disclosure of information about Director and Executive remuneration

In accordance with the Corporations Regulations 2001, the company has disclosed information about the remuneration of directors and executives ("remuneration disclosures"), as required by Accounting Standard AASB 1046 Director and Executive Disclosures by Disclosing Entities, under the heading "remuneration report" in the Director's Report. The directors of the company are responsible for the information contained in the remuneration disclosures.

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 and Assurance Standards in order to provide reasonable assurance as to whether the financial report is free of material misstatement. The nature of an audit is influenced by factors such as the use of professional judgement, selective testing, the inherent limitations of internal control, and the availability of persuasive rather than conclusive evidence. Therefore, an audit cannot guarantee that all material misstatements have been detected.

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

INDEPENDENT AUDIT REPORT TO THE MEMBERS OF EBET LIMITED (Continued)

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

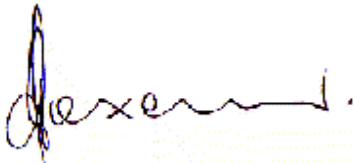
In conducting our audit, we followed independence requirements of applicable Australian professional ethical pronouncements and the Corporations Act 2001.

Audit opinion

1. In our opinion, the financial report of eBet Limited is in accordance with:
 - (a) the Corporations Act 2001, including:
 - (i) giving a true and fair view of the company and consolidated entity'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 professional reporting requirements.
2. The remuneration disclosures required by Accounting Standard AASB 1046, which are contained in the Remuneration Report of the Director's Report, comply with that standard and the Corporations Regulations 2001.



PKF
Chartered Accountants



Grant F. Saxon
Partner

Sydney, Dated this 28th day of September 2005.