

GAS2GRID LIMITED
A.B.N. 46 112 138 780

HALF-YEAR REPORT
31 DECEMBER 2005

GAS2GRID LIMITED
A.B.N. 46 112 138 780

DIRECTORS' REPORT

Your directors present their report on the consolidated entity consisting of Gas2Grid Limited and the entity it controlled at the end of, or during the half-year ended 31 December 2005.

Directors

The following persons were directors of Gas2Grid Limited during the whole of the half-year and up to the date of this report:

D.A. Munns
H.M. Royle
D.W. King
M.H. Stirzaker

Operating Results

The consolidated loss of the consolidated entity for the half-year, after income tax was \$4,100.

Review of Operations

1. Malolos Drilling Campaign

In August 2005, Gas2Grid initiated the drilling campaign at Malolos. The program comprised of the re-entry of Malolos 1, which was cased and abandoned in 1960, and a new twin well Nuevo Malolos 1. The primary objective of the campaign was to evaluate and if appropriate complete gas zones around 2,750 ft and 6,250 ft.

1.1 Re-entry of Malolos 1

The rationale for re-entering the well was based on the fact that the existing cased well represented a significant investment in the ground and its utilization was desirable. Malolos 1 had encountered a number of gas zones. Re-using the well would be a cost efficient way to secure a second production well.

The top of the well was dressed and a wellhead installed. The well was successfully re-entered, but encountered perforated casing at a depth of about 1,250 ft which had not been recorded. These were filled (squeezed) and the well was cleaned out and obstructions removed to a total depth of 3,160 ft. The well was logged with a suite of cased-hole logs, and the interval 2,695 to 2,775 ft in the M2.1 sand member was perforated, yielding only a small amount of water and gas.

The high flow rate of the interval in 1960 and the fact that the cement entered the formation very easily in the squeeze job during the current operations leads to the conclusion that the formation was most likely deeply invaded by cement during the original completion in 1960. The gas bearing reservoir was therefore out of reach of the perforations whose reach is typically about 1 meter.

The well is equipped with a Christmas Tree and available for re-entry if warranted by test results in the adjacent new well.

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DIRECTORS' REPORT (Continued)

1.2 Nuevo Malolos 1

Nuevo Malolos 1 was spudded on the 27th December, 2005 reached its final depth of 6,381 ft (1,945 m) on the 22nd January 2006. The results of the Nuevo Malolos well are very encouraging with regard to the hydrocarbon prospectivity of the SC 44 licence:

- The well displayed excellent hydrocarbon shows from 1,330 ft to its final depth and both cuttings (rock samples) and core samples have provided evidence of liquid and gaseous hydrocarbons and reservoir quality sandstones in the well.
- Log analysis to date indicates the presence of moveable hydrocarbons in the well. The log data suggests that none of the sands present over the interval 2,400 ft (732 m) at the casing shoe to TD at 6,381 ft (1,945 m) are water wet. The hydrocarbon-bearing sands are distributed over 3,981 ft (1,213 m). The sands are contained in 5 major interbedded sand sequences. The total amount of net sand contained in the sequences is estimated to be 764 ft (233 m).
- Log interpretation also indicates good porosity in much of the sand section.
- Core analysis from 2,759 ft to 2,769 ft confirms the presence of high porosity and permeability in the Maingit sands. Porosities of 23% to 27% and permeabilities of 100 to 400 millidarcies were measured from core samples. Reservoir quality had previously been a concern in the fore-arc basin geological setting of the Visayan Basin.
- A light immature oil was extracted from the core. Furthermore, some oil was lifted from the 6,223 ft Toledo Sand perforation which is still being typed.

Based on these results, Gas2Grid has made provisions for further testing of the well. A section from 2,750 ft – 2,800 ft was left exposed (uncemented) behind casing for further testing. The reasons Gas2Grid believes that this section merits further investigation are:

- The section had excellent gas shows during drilling;
- Core analysis of this section confirms high porosity and permeability characteristics as well as residual hydrocarbon in the core; and
- In a drill stem test (DST) conducted in the same open hole section, immediately after coring, the pressure rose quickly to 1.000 PSI before the tool plugged with unconsolidated formation cavings and the test aborted. The DST charts are consistent with a strong flow from the formation before the tool plugged.

This section of the hole is now behind casing, un-cemented and perforated. Tubing is suspended in the well and the well is ready for further testing of the section. A Christmas Tree is installed to secure the well and in readiness of further testing. A wireline unit and other ancillary equipment is being mobilized for a test program expected to commence late April.

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DIRECTORS' REPORT (Continued)

Gas2Grid is pleased to report that the entire operation was conducted without any health and safety incidents – a measure of the diligence of our staff and our contractors. The drill site is adjacent to a village and Gas2Grid involved the local community extensively. Local personnel were hired and services as much as possible sourced locally. Relationships with the local communities and authorities were successfully managed by Gas2Grid's local representative Mr Gene Estuesta.

2. Mapping and Modelling in SC44

Gas2Grid had carried out extensive structural mapping projects on the Malolos and Zaragosa prospects in the previous half-year. Zaragosa is 3 km east of Malolos 1. The objective of this work is to supplement the data set, which comprises seismic, surface geology and remote sensing data and to create a structural model of the area. The Zaragosa well was drilled in 1961 to a depth of 1879 meters and blew out, setting the rig on fire. No technical data survives as the well was unfit for logging and records were probably destroyed in the fire. However, hydrocarbons are clearly present.

A structural model was created, using methodology which has proven to be highly successful in the foldbelt of Papua New Guinea, where it is one of the most important tools in the prospect evaluation of this major hydrocarbon province.

3. Additional prospect – Olango

Further remote sensing analysis was carried out in the Olango area immediately west of the Malolos/Barili Anticline. This location is the first major horst block out of the Tanon Graben, a major geological depocenter and the source kitchen for any hydrocarbons accumulated in the Cebu anticlinal trends. The location is easily accessible, a road transects the anticline, and it has the potential (if gas sands similar to those in Malolos 1 were encountered) to hold 115 Bcf of gas reserves. The addition of the Olango prospect increased the licence inventory to 11 prospects and leads.

4. New project

Gas2Grid and its partner Gippsland Offshore Petroleum have completed an application for a 2000 sqkm onshore licence in a proven gas basin in a known gas province in Europe, details of which will be released as soon as the registration of the application is confirmed.

Auditor's Independence Declaration

A copy of the auditor's independence declaration as required under Section 307C of the Corporations Act 2001 is set out on page 4.

This report is made in accordance with a resolution of directors.

H. M. Royle
Director

Sydney, 8 March 2006

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Auditors' Independence Declaration

As lead auditor for the review of Gas2Grid Limited for the half year ended 31 December 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 2001* in relation to the review; and
- (b) no contraventions of any applicable code of professional conduct in relation to the review.

This declaration is in respect of Gas2Grid Limited and the entity it controlled during the period.

Peter Buchholz
Partner
PricewaterhouseCoopers

Sydney
8 March 2006

GAS2GRID LIMITED

Interim Financial Report – 31 December 2005

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This interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the period ended 30 June 2005 and any public announcements made by Gas2Grid Limited during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

The financial report for the period ended 30 June 2005 does not cover an annual period as the company was incorporated on 22 December 2004.

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CONSOLIDATED INCOME STATEMENT
FOR THE HALF-YEAR ENDED 31 DECEMBER 2005

	NOTES	Half Year 2005 \$
Revenue from continuing operations	2	77,104
Other income		73,151
Administration expense		(117,207)
Auditor's remuneration		(17,024)
Depreciation		(2,640)
Travelling expenses		(9,488)
Other expenses		(7,996)
		<hr/>
Loss before income tax expense		(4,100)
Income tax expense		--
		<hr/>
Loss from continuing operations		(4,100)
		<hr/>
Loss for the half-year attributable to the members of Gas2Grid Limited		(4,100)
		<hr/> <hr/>
Earnings per share for loss from continuing operations attributable to the ordinary equity holders of the company:		Cents
Basic earnings per share		(0.01)
Diluted earnings per share		(0.01)
Earnings per share for loss attributable to the ordinary equity holders of the company:		
Basic earnings per share		(0.01)
Diluted earnings per share		(0.01)

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

GAS2GRID LIMITED
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CONSOLIDATED BALANCE SHEET
AS AT 31 DECEMBER 2005

	NOTES	31 DECEMBER 2005 \$	30 JUNE 2005 \$
Current Assets			
Cash and cash equivalents	3	3,427,806	5,084,379
Receivables		32,114	39,495
Other financial assets		2,576	--
Total Current Assets		<u>3,462,496</u>	5,123,874
Non-Current Assets			
Exploration expenditure and rights	7	3,137,335	616,154
Plant and equipment		15,223	--
Total Non-Current Assets		<u>3,152,558</u>	616,154
Total Assets		<u>6,615,054</u>	5,740,028
Current Liabilities			
Payables		950,726	224,368
Total Current Liabilities		<u>950,726</u>	224,368
Total Liabilities		<u>950,726</u>	224,368
Net Assets		<u>5,664,328</u>	5,515,660
Equity			
Contributed equity	7	5,750,642	5,660,842
Reserves	7	146,968	84,000
Retained profits	4	(233,282)	(229,182)
Total Equity		<u>5,664,328</u>	5,515,660

The above consolidated balance sheet should be read in
conjunction with the accompanying notes.

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CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE HALF-YEAR ENDED 31 DECEMBER 2005

		Half Year
	NOTE	2005
		\$
Total equity at the beginning of the half-year	7	<u>5,515,660</u>
Exchange differences on translation of foreign operations		<u>62,968</u>
Net income recognised directly in equity		62,968
Loss for the half-year		<u>(4,100)</u>
Total recognised income and expense for the half-year		<u>58,868</u>
Transactions with equity holders in their capacity as equity holders:		
Contributions of equity (Note 6)		<u>89,800</u>
Total equity at the end of the half-year		<u>5,664,328</u>
Total recognised income and expense for the half-year is attributable to:		
Members of Gas2Grid Limited		<u>58,868</u>
		<u>58,868</u>

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

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CONSOLIDATED CASH FLOW STATEMENT
FOR THE HALF-YEAR ENDED 31 DECEMBER 2005

	Half Year
	2005
NOTES	\$
Cash flows from operating activities	
Interest received	79,662
Other income	66,623
Payments to suppliers and employees (inclusive of goods and services tax)	<u>(96,026)</u>
Net cash inflow from operating activities	<u>50,259</u>
Cash flows from investing activities	
Exploration expenditure	(1,693,507)
Payment for plant and equipment	(17,863)
Payment for other financial assets	<u>(2,576)</u>
Net cash (outflow) from investing activities	<u>(1,713,946)</u>
Cash flows from financing activities	
Repayments of borrowing	<u>(3,170)</u>
Net cash outflow from financing activities	<u>(3,170)</u>
Net increase (decrease) in cash and cash equivalents	(1,666,857)
Cash and cash equivalents at the beginning of the half-year	5,084,379
Effects of exchange rate changes on cash	<u>10,284</u>
Cash and cash equivalents at the end of the half-year	<u><u>3,427,806</u></u>

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The above consolidated cash flow statement should be read in
conjunction with the accompanying notes.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE HALF-YEAR ENDED 31 DECEMBER 2005

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This general purpose financial report for the interim half-year reporting period ended 31 December 2005 has been prepared in accordance with Accounting Standard AASB 134: Interim Financial Reporting and the Corporations Act 2001.

This interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the period ended 30 June 2005 and any public announcements made by Gas2Grid Limited during the interim reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001.

(a) Basis of preparation of half-year financial report

The principal accounting policies adopted in the preparation of the financial report are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

Application of AASB 1 First-time Adoption of Australian Equivalents to International Financial Reporting Standards (AIFRS)

This interim financial report is the first Gas2Grid Limited interim financial report to be prepared in accordance with AIFRSs. AASB 1 *First time Adoption of Australian Equivalents to International Financial Reporting Standards* has been applied in preparing these financial statements.

Financial statements of Gas2Grid Limited for the period ended 30 June 2005 had been prepared in accordance with previous Australian Generally Accepted Accounting Principles (AGAAP). AGAAP differs in certain respects from AIFRS. When preparing the Gas2Grid Limited interim financial report for the half year ended 31 December 2005, management has amended certain accounting, valuation and consolidation methods applied in the previous AGAAP financial statements to comply with AIFRS. With the exception of financial instruments, the comparative figures were restated to reflect these adjustments. The Group has taken the exemption available under AASB 1 to only apply AASB 132 *Financial Instruments: Disclosure and Presentation* and AASB 139 *Financial Instruments: Recognition and Measurement* from 1 July 2005. For further information on previous AGAAP refer to the financial report for the period ended 30 June 2005.

Reconciliations and descriptions of the effect of transition from previous AGAAP to AIFRSs on the Group's equity and its net income are given in Note 7.

Early adoption of standard

The Group has elected to apply AASB 119 *Employee Benefits* (issued in December 2004) to the reporting periods beginning 1 July 2005. This includes applying AASB 119 to the comparatives in accordance with AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors*.

Historical cost convention

These financial statements have been prepared under the historical cost convention.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE HALF-YEAR ENDED 31 DECEMBER 2005 (Continued)

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(b) Principles of consolidation

(i) Subsidiaries

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Gas2Grid Limited ("Company" or "parent entity") as at 31 December 2005 and the results of its subsidiary for the half-year then ended. Gas2Grid Limited and its subsidiary together are referred to in this financial report as the Group or the consolidated entity.

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

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

(c) Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different to those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment and is subject to risks and returns that are different from those of segments operating in other economic environments.

(d) Revenue recognition

Revenue from the sale of goods and disposal of other assets is recognised when the consolidated entity has passed control of the goods or other assets to the buyer.

Revenue is measured at the fair value of the consideration received or receivable. Amounts disclosed as revenue are net of returns, trade allowances and duties and taxes paid.

Interest revenue

Interest revenue is recognised as it accrues, taking into account the effective yield on the financial asset.

(e) Income tax

The income tax expense or revenue for the period is the tax payable on the current period's taxable income based on the national income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements, and to unused tax losses.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE HALF-YEAR ENDED 31 DECEMBER 2005 (Continued)

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(e) Income tax (Continued)

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to apply when the assets are recovered or liabilities are settled, based on those tax rates which are enacted or substantively enacted for each jurisdiction. The relevant tax rates are applied to the cumulative amounts of deductible and taxable temporary differences to measure the deferred tax asset or liability. An exception is made for certain temporary differences arising from the initial recognition of an asset or liability. No deferred tax asset or liability is recognised in relation to these temporary differences if they arose in a transaction, other than a business combination, that at the time of the transaction did not affect either accounting profit or taxable profit or loss. Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in controlled entities where the parent entity is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Current and deferred tax balances attributable to amounts recognised directly in equity are recognised directly in equity.

(f) Cash and cash equivalents

Cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

(g) Investments and other financial assets

Adjustments on transition date: 1 July 2005

The nature of the main adjustments to make this information comply with AASB 132 and AASB 139 are that, with the exception of loans and receivables, which are measured at amortised cost (refer below), fair value is the measurement basis. Fair value is exclusive of transaction costs. Changes in fair value are either taken to the income statement or an equity reserve (refer below). At the date of transition (1 July 2005) changes to carrying amounts are taken to retained earnings or reserves.

From 1 July 2005

The Group classifies its investments in the following categories; financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, and available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and re-evaluates this designation at each reporting date.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE HALF-YEAR ENDED 31 DECEMBER 2005 (Continued)

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(g) Investments and other financial assets (Continued)

(i) Financial assets at fair value through profit or loss

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss on initial recognition. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. The policy of management is to designate a financial asset if there exists the possibility it will be sold in the short term and the asset is subject to frequent changes in fair value. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if they are either held for trading or are expected to be realised within 12 months of the balance sheet date.

(ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of selling the receivable. They are included in current assets, except for those with maturities greater than 12 months after the balance sheet date, which are classified as non-current assets. Loans and receivables are included in receivables in the balance sheet.

(iii) Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity.

(iv) Available-for-sale financial assets

Available-for-sale financial assets, comprising principally marketable equity securities, are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date.

Purchases and sales of investments are recognised on trade-date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

Available-for-sale financial assets and financial assets at fair value through profit and loss are subsequently carried at fair value. Loans and receivables and held-to-maturity investments are carried at amortised cost using the effective interest method. Realised and unrealised gains and losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are included in the income statement in the period in which they arise. Unrealised gains and losses arising from changes in the fair value of assets classified as available-for-sale are recognised in equity in the available-for-sale investments revaluation reserve. When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments are included in the income statement as gains and losses from investments securities.

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Group establishes fair value by using valuation techniques. These

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE HALF-YEAR ENDED 31 DECEMBER 2005 (Continued)

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(g) Investments and other financial assets (Continued)

include reference to the fair values of recent arm's length transactions, involving the same instruments or other instruments that are substantially the same, discounted cash flow analysis, and option pricing models refined to reflect the issuer's specific circumstances.

The Group assesses at each balance date whether there is objective evidence that a financial asset or group of financial assets is impaired. In the case of equity securities classified as available for sale, a significant or prolonged decline in the fair value of a security below its cost is considered in determining whether the security is impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss

on that financial asset previously recognised in profit and loss – is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement.

(h) Fair value estimation

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes.

The nominal value less estimated credit adjustments of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

(i) Trade and other payables

These amounts represent liabilities for goods and services provided to the Group prior to the end of financial year which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition.

(j) Contributed equity

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds. Incremental costs directly attributable to the issue of new shares or options, or for the acquisition of a business, are not included in the cost of the acquisition as part of the purchase consideration.

(k) Earnings per share

(i) Basic earnings per share

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the company, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE HALF-YEAR ENDED 31 DECEMBER 2005 (Continued)

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(k) Earnings per share (Continued)

ordinary shares outstanding during the half-year, adjusted for bonus elements in ordinary shares issued during the half-year.

(ii) Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

(l) Exploration expenditure

Exploration expenditure is carried forward when it is incurred in relation to separate areas of interest for which rights of tenure are current and in respect of which:

- the expenditure is expected to be recouped by the company through successful development of the area; or
- exploration activities in the area have not yet reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable mineral reserves, and active and significant operations in, or in relation to, the area are continuing.

Cumulative exploration expenditure which no longer satisfies the above policy is no longer carried forward as an asset, but is charged against, and shown as a deduction from, operating profit.

(m) Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in Australian dollars, which is Gas2Grid Limited's functional and presentation currency.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except when deferred in equity as qualifying cash flow hedges and qualifying net investment hedges.

Translation differences on non monetary items, such as equities held at fair value through profit or loss, are reported as part of the fair value gain or loss. Translation differences on non monetary items, such as equities classified as available for sale financial assets, are included in the fair value reserve in equity.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE HALF-YEAR ENDED 31 DECEMBER 2005 (Continued)

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(m) Foreign currency translation (Continued)

(iii) Group companies

The results and financial position of all the Group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- income and expenses for each income statement are translated at average exchange rates (unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- all resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of any net investment in foreign entities, and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholders' equity. When a foreign operation is sold or borrowings repaid, a proportionate share of such exchange differences are recognised in the income statement as part of the gain or loss on sale.

(n) Plant and equipment

All plant and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Depreciation on assets is calculated using the straight line method to allocate their cost or revalued amounts, net of their residual values, over their estimated useful lives, as follows:

- Furniture, fittings and equipment	3-8 years
-------------------------------------	-----------

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (note 1(o)). Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the income statement.

(o) Impairment of assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE HALF-YEAR ENDED 31 DECEMBER 2005 (Continued)

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(o) Impairment of assets (Continued)

for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units).

(p) Acquisition of assets

The purchase method of accounting is used to account for all acquisitions of assets (including business combinations) regardless of whether equity instruments or other assets are acquired. Cost is measured as the fair value of the assets given, shares issued or liabilities incurred or assumed at the date of exchange plus costs directly attributable to the acquisition. Where equity instruments are issued in an acquisition, the value of the instruments is their published market price as at the date of exchange unless, in rare circumstances, it can be demonstrated that the published price at the date of exchange is an unreliable indicator of fair value and that other evidence and valuation methods provide a more reliable measure of fair value. Transaction costs arising on the issue of equity instruments are recognised directly in equity.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill (refer to note 1(q)). If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement, but only after a reassessment of the identification and measurement of the net assets acquired.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions.

(q) Intangible assets

(i) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary/associate at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill on acquisitions of associates is included in investments in associates. Goodwill acquired in business combinations is not amortised. Instead, goodwill is tested for impairment annually, or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. Each of those cash-generating units represents the Group's investment in each country of operation by each primary reporting segment.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE HALF-YEAR ENDED 31 DECEMBER 2005 (Continued)

NOTE 2: INCOME

	31 DECEMBER 2005 \$
Revenue from continuing operations	
<i>Other revenue</i>	
Interest	77,104
<i>Other income</i>	
Foreign exchange gain	73,151
	150,255

NOTE 3: CURRENT ASSETS – CASH AND CASH EQUIVALENTS

	31 DECEMBER 2005 \$	30 JUNE 2005 \$
Cash at bank and on hand	1,203,740	2,077,156
Short term deposits	2,224,066	3,007,223
	3,427,806	5,084,379

The above figures are reconciled to cash at the end of the year as shown in the consolidated cash flow statement as follows:-

Balances as above	3,427,806	5,084,379
Balance per Statement of Cash Flows	3,427,806	5,084,379

NOTE 4: ACCUMULATED LOSSES

Accumulated losses at the beginning of the half-year	229,182	--
Net losses	4,100	229,182
Accumulated losses at the end of the half-year	233,282	229,182

NOTE 5: FINANCIAL REPORTING BY SEGMENTS

The group operates in one business segment, being a natural resources explorer in the Philippines. The parent entity's head office is based in Australia.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE HALF-YEAR ENDED 31 DECEMBER 2005 (Continued)

NOTE 6: EQUITY SECURITIES ISSUED

	2005 Shares	2005 \$
Issues of ordinary shares during the half-year		
Issued for no consideration:		
Payment of trade creditors	311,667	74,800
Payment of sundry creditors	75,000	15,000
	386,667	89,800

NOTE 7: EXPLANATION OF TRANSITION TO AUSTRALIAN EQUIVALENTS TO IFRSs

(1) Reconciliation of equity reported under previous Australian Generally Accepted Accounting principles (AGAAP) to equity under Australian equivalents to IFRSs (AIFRS)

(a) At the date of transition to AIFRS: 1 July 2004

The company was incorporated on 22 December 2004. Accordingly, the Annual Report for the period ended 30 June 2005 was the first set of financial accounts prepared for the company. There were no opening balances as at the date of transition.

(b) At the end of the last half-year reporting period under previous AGAAP: 31 December 2004

The interim financial report for the half-year ended 31 December 2005 is the first set of interim accounts prepared for the company.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE HALF-YEAR ENDED 31 DECEMBER 2005 (Continued)

NOTE 7: EXPLANATION OF TRANSITION TO AUSTRALIAN EQUIVALENTS TO IFRSs
(Continued)

(c) At the end of the last reporting period under previous AGAAP: 30 June 2005

		Previous AGAAP	Effect of transition to AIFRS	AIFRS
	Notes	\$	\$	\$
ASSETS				
Current assets				
Cash and cash equivalents		5,084,379	--	5,084,379
Receivables		39,495	--	39,495
Total current assets		5,123,874	--	5,123,874
Non-current assets				
Exploration and evaluation expenditure	(a)	4,404,057	(3,787,903)	616,154
Total non-current assets		4,404,057	(3,787,903)	616,154
Total assets		9,527,931	(3,787,903)	5,740,028
LIABILITIES				
Current liabilities				
Payables		224,368	--	224,368
Total current liabilities		224,368	--	224,368
Total liabilities		224,368	--	224,368
Net assets		9,303,563	(3,787,903)	5,515,660
EQUITY				
Contributed equity	(a)	9,448,745	(3,787,903)	5,660,842
Reserves	(b)	--	84,000	84,000
Accumulated losses	(b)	(145,182)	(84,000)	(229,182)
Total equity		9,303,563	(3,787,903)	5,515,660

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE HALF-YEAR ENDED 31 DECEMBER 2005 (Continued)

NOTE 7: EXPLANATION OF TRANSITION TO AUSTRALIAN EQUIVALENTS TO IFRSs
(Continued)

(2) Reconciliation of loss under previous AGAAP to loss under Australian equivalents to IFRSs
(AIFRS)

(a) Reconciliation of loss for the half-year ended 30 June 2004.

The interim financial report for the half-year ended 31 December 2005 is the first set of interim accounts prepared for the company.

(b) Reconciliation of loss for the period ended 30 June 2005.

	Notes	Previous AGAAP \$	Effect of transition to AIFRS \$	AIFRS \$
Revenue from continuing operations		45,360	--	45,360
Administration expenses		(110,022)	--	(110,022)
Auditor's remuneration		(24,448)	--	(24,448)
Employee benefits expense	(b)	--	(84,000)	(84,000)
Insurance costs		(25,000)	--	(25,000)
Travelling expenses		(22,161)	--	(22,161)
Other expenses		(8,911)	--	(8,911)
Loss before income tax		(145,182)	(84,000)	(229,182)
Income tax expense		--	--	--
Loss from continuing operations		(145,182)	(84,000)	(229,182)
Loss for the year		(145,182)	(84,000)	(229,182)

3. Reconciliation of cash flow statement for the year ended 30 June 2005

The adoption of AIFRSs has not resulted in any material adjustments to the cash flow statement.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE HALF-YEAR ENDED 31 DECEMBER 2005 (Continued)

NOTE 7: EXPLANATION OF TRANSITION TO AUSTRALIAN EQUIVALENTS TO IFRSs
(Continued)

4. Notes to the reconciliations

(a) Business combinations

The Group made a business acquisition during the period ended 30 June 2005. AASB 3 *Business Combinations* applies to the business combination that occurred on 28 February 2005 when Gas2Grid Pte Limited was acquired.

Gas2Grid Limited acquired Gas2Grid Pte Limited in consideration of the issue of 18,948,870 shares in the capital of Gas2Grid Limited on 28th February 2005. Under AGAAP this transaction was accounted for on the basis of the fair value of the purchase consideration. The fair value of each issued share was considered to be \$0.20, based on the Offer Price of \$0.20. The value of the total consideration was therefore regarded as being \$3,789,714 which equated to the fair value of the identifiable net assets acquired. The acquisition was accounted for as follows:

Net assets of Gas2Grid Pte Limited at 31 December 2004	1,811
Purchase consideration	<u>3,789,714</u>
Exploration rights	<u>3,787,903</u>
	=====

The acquisition was accounted for as if it had taken place on 31 December 2004. There were no movements in any Consolidated Balance Sheet items for the period 1 January 2005 to 29 February 2005.

The adoption of AASB 3 *Business Combinations* results in Gas2Grid Pte Limited (the legal subsidiary) being deemed as the acquirer of Gas2Grid Limited for financial reporting purposes. This differs from AGAAP in which the fair value of the shares issued to the owners of Gas2Grid Pte Limited was considered to be acquisition cost, and was allocated to identifiable assets and liabilities with the excess consideration allocated to exploration expenditure and rights. Accordingly, the uplift in fair value of assets recognised in the Consolidated Balance Sheet under current accounting standards will not be available. The effect of this is:

(i) At 30 June 2005

For the Group, exploration expenditure and rights has decreased by \$3,787,903, being the excess consideration and share capital has decreased by \$3,787,903.

(b) Share-based payments

Under AASB 2 *Share-based Payment* from 1 July 2004, the Group is required to recognise an expense for those options that were issued to employees under the Gas2Grid Limited Option Plan after 7 November 2002 but that had not vested by 1 January 2005. The effect of this is:

(i) At 30 June 2005

For the Group, there has been an increase in accumulated losses of \$84,000 and a corresponding increase in reserves.

(ii) For the year ended 30 June 2005

For the Group, there has been an increase in employee benefits expense of \$84,000

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE HALF-YEAR ENDED 31 DECEMBER 2005 (Continued)

NOTE 8: EVENTS OCCURRING AFTER BALANCE SHEET DATE

No event occurred after balance sheet date.

NOTE 9: CONTINGENT LIABILITIES

The consolidated entity had contingent liabilities at 31 December 2005 in respect of:

Restoration

Restoration obligations in relation to exploration activities are expected to amount to \$6,000.

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DIRECTORS' DECLARATION

In the directors' opinion:

- (a) the financial statements and notes set out on pages 6 to 23 are in accordance with the Corporations Act 2001, including:
 - (i) complying with Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements, and
 - (ii) giving a true and fair view of the consolidated entity's financial position as at 31 December 2005 and of its performance, as represented by the results of its operations and its cash flows, for the half-year ended on that date; and
- (b) there are reasonable grounds to believe that Gas2Grid Limited will be able to pay its debts as and when they become due and payable.

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

H.M. Royle
Director

Sydney, 8 March 2006

Independent review report to the members of Gas2Grid Limited

Statement

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the financial report of Gas2Grid Limited:

- does not give a true and fair view, as required by the *Corporations Act 2001* in Australia, of the financial position of Gas2Grid Limited Group (defined below) as at 31 December 2005 and of its performance for the half-year ended on that date, and
- is not presented in accordance with the *Corporations Act 2001*, Accounting Standard AASB 134: *Interim Financial Reporting* and other mandatory financial reporting requirements in Australia, and the *Corporations Regulations 2001*.

This statement must be read in conjunction with the rest of our review report.

Scope

The financial report and directors' responsibility

The financial report comprises the balance sheet, income statement, statement of changes in equity, cash flow statement, accompanying notes to the financial statements, and the directors' declaration for Gas2Grid Limited Group (the consolidated entity), for the half-year ended 31 December 2005. The consolidated entity comprises both Gas2Grid Limited (the company) and the entity it controlled during that half-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.

Review approach

We conducted an independent review in order for the company to lodge the financial report with the Australian Securities and Investments Commission. Our review was conducted in accordance with Australian Auditing Standards applicable to review engagements. For further explanation of a review, visit our website <http://www.pwc.com/au/financialstatementaudit>.

We performed procedures in order to state whether, on the basis of the procedures described, anything has come to our attention that would indicate that the financial report does not present fairly, in accordance with the *Corporations Act 2001*, Accounting Standard AASB 134: *Interim Financial Reporting* and other mandatory financial reporting requirements in Australia, a view which is consistent with our understanding of the consolidated entity's financial position, and its performance as represented by the results of its operations and cash flows.

We formed our statement on the basis of the review procedures performed, which included:

- inquiries of company personnel, and
- analytical procedures applied to financial data.

Our procedures include reading the other information included with the financial report to determine whether it contains any material inconsistencies with the financial report.

These procedures do not provide all the evidence that would be required in an audit, thus the level of assurance provided is less than that given in an audit. We have not performed an audit, and accordingly, we do not express an audit opinion.

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

Our review did not involve an analysis of the prudence of business decisions made by directors or management.

Independence

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

PricewaterhouseCoopers

Peter Buchholz
Partner

Sydney
8 March 2006