

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

**HALF-YEAR REPORT**  
**31 DECEMBER 2006**

**GAS2GRID Limited** ABN 46 112 138 780  
**Interim report – 31 December 2006**

<b>Contents</b>	<b>Page</b>
Directors' report	2
Interim financial report	
Consolidated income statement	5
Consolidated balance sheet	6
Consolidated statement of changes in equity	7
Consolidated cash flow statement	8
Notes to the consolidated financial statements	9
Directors' declaration	12
Independent review report to the members	13

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 year ended 30 June 2006 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*.

## **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 2006.

### **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  
D W King

E D Espiritu was appointed a director on 13 July 2006 and continues in office at the date of this report.

H M Royle was a director from the beginning of the financial year until her resignation on 13 July 2006.

M H Stirzaker was a director from the beginning of the financial year until his resignation on 13 July 2006.

### **Review of operations**

#### **1. Philippines operations – SC 44, Cebu**

Swabbing operations on the Maingit Sand interval in the Malolos-1 and Nuevo Malolos-1 wells completed during May 2006, provided clear evidence of severe formation damage across the tested intervals. Reservoir engineering studies attributed the observed damage to textural reorganization of the poorly consolidated sands on drill penetration (and on subsequent testing procedures). Methodologies to mitigate observed formation damage remain under investigation, with a view to further retesting of both the Maingit zone, and the deeper Toledo Formation (from which a small amount of oil was recovered in the Nuevo Malolos-1 well). Although the shallower Maingit sequence can be re-tested using equipment which is (with some refurbishment) available locally in the Philippines, operations have been deferred until additional equipment has been sourced which will enable efficient testing of the lower Toledo zone in the same campaign.

The Company has progressed negotiations with a number of companies who have expressed interest in participating in the re-testing, and in future exploration operations, on a contractor and/or joint venture basis. As part of these negotiations, the Company is evaluating a range of innovative technologies which could facilitate the cost effective exploration of structurally complex and topographically challenging areas such as SC44.

#### **2. New ventures**

The Company's application for an exploration licence over an area in the Aquitaine Basin in southwest France remains in progress. The prospectivity of the Aquitaine Basin is evidenced by the recent high level of competing application for exploration rights; the attractive fiscal regime for oil and gas production in France and the well developed markets and infrastructure in the area are such that the commercialization of even small discoveries is likely to be economically attractive. Following a meeting in October between the Company's representatives and the French designated authority, the application is now proceeding to its final stages.

**Review of operations (continued)**

The Company has continued to evaluate opportunities to expand its acreage portfolio in Australasia as well as Asia and Europe, and a number of new opportunities are under active review. Strategies have been developed for the requisite recapitalization which will be necessary to secure and prosecute new opportunities for the Company.

**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.

D. W. King  
Director

Sydney  
16 March 2007

PricewaterhouseCoopers  
ABN 52 780 433 757

Darling Park Tower 2  
201 Sussex Street  
GPO BOX 2650  
SYDNEY NSW 1171  
DX 77 Sydney  
Australia  
[www.pwc.com/au](http://www.pwc.com/au)  
Telephone +61 2 8266 0000  
Facsimile +61 2 8266 9999

## Auditor's Independence Declaration

As lead auditor for the review of Gas2Grid Limited for the half year ended 31 December 2006, 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.

Marc Upcroft  
Partner  
PricewaterhouseCoopers

Sydney  
16 March 2007

**Gas2Grid Limited**  
**Consolidated income statement**  
For the half-year ended 31 December 2006

		<b>Half-year</b>	
	Notes	<b>2006</b>	2005
		\$	\$
<b>Revenue from continuing operations</b>		<b>10,396</b>	77,104
Other income		<b>4,205</b>	73,151
Administration expense		<b>(67,574)</b>	(60,857)
Auditor's remuneration		<b>(13,678)</b>	(17,024)
Employee benefits expense		<b>(38,991)</b>	(48,005)
Depreciation and amortisation expense		<b>(582)</b>	(2,640)
Insurance costs		<b>(14,084)</b>	-
Rental expenses		<b>(7,804)</b>	(7,552)
Travelling expenses		<b>(3,595)</b>	(9,488)
Other expenses		<b>(5,285)</b>	(8,789)
<b>Loss before income tax expense</b>		<b>(136,992)</b>	(4,100)
Income tax expense		<b>18,269</b>	-
<b>Loss for the half-year</b>	<b>3</b>	<b>(155,261)</b>	(4,100)
<b>Loss for the half-year attributable to the members of Gas2Grid Limited</b>		<b>(155,261)</b>	(4,100)
		<b>Cents</b>	<b>Cents</b>
<b>Earnings per share for loss attributable to the ordinary equity holders of the company:</b>			
Basic earnings per share		(0.26)	(0.01)
Diluted earnings per share		(0.26)	(0.01)

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

**Gas2Grid Limited**  
**Consolidated balance sheet**  
As at 31 December 2006

	<b>31 DECEMBER 2006 \$</b>	30 JUNE 2006 \$
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and cash equivalents	313,056	795,442
Trade and other receivables	21,722	44,894
Other financial assets at fair value	2,592	2,531
	<hr/>	<hr/>
Total current assets	337,370	842,867
<b>Non-current assets</b>		
Exploration expenditure and rights	5,500,837	5,782,054
Plant and equipment	1,000	11,264
	<hr/>	<hr/>
Total non-current assets	5,501,837	5,793,318
	<hr/>	<hr/>
<b>Total assets</b>	5,839,207	6,636,185
	<hr/>	<hr/>
<b>LIABILITIES</b>		
<b>Current liabilities</b>		
Trade and other payables	116,304	460,730
	<hr/>	<hr/>
Total current liabilities	116,304	460,730
<b>Non-current liabilities</b>		
Trade and other payables	215,000	172,500
Deferred tax liabilities	1,650,251	1,734,616
	<hr/>	<hr/>
Total non-current liabilities	1,865,251	1,907,116
	<hr/>	<hr/>
<b>Total liabilities</b>	1,981,555	2,367,846
	<hr/>	<hr/>
<b>Net assets</b>	3,857,652	4,268,339
	<hr/>	<hr/>
<b>EQUITY</b>		
Contributed equity	6,250,642	6,250,642
Reserves	(150,834)	104,592
Retained profits	(2,242,156)	(2,086,895)
	<hr/>	<hr/>
<b>Total equity</b>	3,857,652	4,268,339
	<hr/>	<hr/>

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

**Gas2Grid Limited**  
**Consolidated statement of changes in equity**  
For the half-year ended 31 December 2006

	<b>Half-year</b>	
	<b>2006</b>	<b>2005</b>
	<b>\$</b>	<b>\$</b>
<b>Total equity at the beginning of the half-year</b>	<b>4,268,339</b>	<b>5,515,660</b>
Exchange differences on translation of foreign operations	(255,426)	62,968
<b>Net income recognised directly in equity</b>	<b>(255,426)</b>	<b>62,968</b>
<b>Loss for the half-year</b>	<b>(155,261)</b>	<b>(4,100)</b>
<b>Total recognised income and expense for the half-year</b>	<b>(410,687)</b>	<b>58,868</b>
Transactions with equity holders in their capacity as equity holders:		
Contributions of equity	-	89,800
<b>Total equity at the end of the half-year</b>	<b>3,857,652</b>	<b>5,664,328</b>
Total recognised income and expense for the half-year is attributable to:		
Members of Gas2Grid Limited	(410,687)	58,868
	<b>(410,687)</b>	<b>58,868</b>

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



**Gas2Grid Limited**  
**Consolidated cash flow statement**  
For the half-year ended 31 December 2006

	<b>Half-year</b>	
	<b>2006</b>	<b>2005</b>
	<b>\$</b>	<b>\$</b>
<b>Cash flows from operating activities</b>		
Interest received	<b>10,396</b>	79,662
Receipts from customers (inclusive of goods and services tax)	<b>5,501</b>	66,623
Payments to suppliers and employees (inclusive of goods and services tax)	<b>(98,722)</b>	(96,026)
<b>Net cash inflow/(outflow) from operating activities</b>	<b>(82,825)</b>	50,259
<b>Cash flows from investing activities</b>		
Exploration expenditure	<b>(388,305)</b>	(1,693,507)
Payment for plant and equipment	-	(17,863)
Payment for other financial assets	-	(2,576)
<b>Net cash outflow from investing activities</b>	<b>(388,305)</b>	(1,713,946)
<b>Cash flows from financing activities</b>		
Repayment of borrowings	-	(3,170)
<b>Net cash outflow from financing activities</b>	-	(3,170)
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>(471,130)</b>	(1,666,857)
Cash and cash equivalents at the beginning of the half-year	<b>795,442</b>	5,084,379
Effects of exchange rate changes on cash and cash equivalents	<b>(11,256)</b>	10,284
<b>Cash and cash equivalents at the end of the half-year</b>	<b>313,056</b>	3,427,806

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

## **1 Basis of preparation of half-year report**

This general purpose financial report for the interim half-year reporting period ended 31 December 2006 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 year ended 30 June 2006 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 accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period.

As at 31 December 2006, the Company, has a surplus of capital and reserves of \$3,857,652, and a working capital surplus of \$221,066. The Company has also experienced substantial operating losses and negative cash flows during the financial period ending on that date. The continuing viability of the Company and its ability to continue as a going concern and meet its debts and commitments as they fall due are dependent upon the Company being successful in:

- i) receiving the continuing support of its shareholders;
- ii) negotiating additional funding; and
- iii) achieving sufficient future operating cash flows to enable its obligations to be met.

As a result of these matters, there is significant uncertainty whether the Company will continue as a going concern and, therefore, whether it will realise its assets and settle its liabilities and commitments in the normal course of business and at the amounts stated in the financial report. However, the directors believe that the Company will be successful in the above matters and, accordingly, have prepared the financial report on a going concern basis. At this time, the directors are of the opinion that no asset is likely to be realised for an amount less than the amount at which it is recorded in the financial report at 31 December 2006. Accordingly, no adjustments have been made to the financial report relating to the recoverability and classification of the asset carrying amounts or the amounts and classification of liabilities that might be necessary should the Company not continue as a going concern.

## **2 Segment information**

The Group operates as an exploration company performing exploratory drilling wells in the SC44 licence in Cebu, Republic of Philippines and manages this activity from its head office in Sydney, Australia.

## **3 Loss for the half-year**

	<b>Half-year</b>	
	<b>2006</b>	<b>2005</b>
	<b>\$</b>	<b>\$</b>
Loss for the half-year includes the following specific items:		
<b>Loss</b>		
Loss on disposal of plant and equipment	<b>1,178</b>	-
	<b>1,178</b>	-

#### **4 Dividends**

No dividends were provided for or paid during the half-year.

#### **5 Equity securities issued**

	<b>2006</b>	2005	<b>2006</b>	2005
	<b>Shares</b>	Shares	<b>\$</b>	\$
<b>Issues of ordinary shares during the half-year</b>				
Issued for no cash consideration:				
Payment of trade creditors	-	311,667	-	74,800
Payment of sundry creditors	-	75,000	-	15,000
	-	386,667	-	89,800

#### **6 Key management personnel disclosures**

##### **(a) Other transactions with key management personnel**

During the period, consultancy fees of \$8,500 for services rendered by H M Royle, were invoiced by Royle Energy Partners, an entity controlled by H M Royle. H M Royle was a director from the beginning of the financial year until her resignation on 13 July 2006. In lieu of a cash payment as agreed between HM Royle and the company, consideration was made by the transfer of office equipment at its closing written down value as at 28 July 2006. This transaction resulted in a loss on disposal of fixed assets to the company of \$1,178.

#### **7 Contingencies**

##### **(a) Contingent liabilities**

The consolidated entity had contingent liabilities at 31 December 2006 in respect of:

##### ***Restoration***

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

#### **8 Events occurring after the balance sheet date**

No event has occurred since the end of the financial period and the date of this report that requires disclosure in this report.

## **9      Going Concern**

The consolidated entity has incurred a loss of \$155,261 for the 6 months to 31 December 2006, has a net surplus of working capital of \$221,066, and a net assets balance of \$3,857,652. The half year financial report has been prepared on the basis of going concern which contemplates continuity of normal business activities and the realisation of assets and settlement of liabilities in the ordinary course of business. The Directors believe this basis to be appropriate.

The ability of the company to continue as a going concern is dependent on obtaining additional funding to finance ongoing activities including future exploration expenditure. Management's plans include seeking a joint venture partner to fund certain exploration costs and/or raising additional funds during the year through an equity placement. If the company is unable to implement its plans, it could be forced to cease operations. The accompanying financial statements do not include any adjustments that might be necessary if the Company is unable to continue as a going concern.

In the directors' opinion:

- (a) the financial statements and notes set out on pages 5 to 11 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 2006 and of its performance, as represented by the results of its operations, changes in equity 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.

D. W. King  
Director

Sydney  
16 March 2007

## INDEPENDENT AUDITOR'S REVIEW REPORT to the members of Gas2Grid Limited

### Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Gas2Grid Limited, which comprises the balance sheet as at 31 December 2006, and the income statement, statement of changes in equity and cash flow statement for the half-year ended on that date, other selected explanatory notes and the directors' declaration for the Gas2Grid Limited Group (the consolidated entity). The consolidated entity comprises both Gas2Grid Limited (the company) and the entities it controlled during that half-year.

#### *Directors' Responsibility for the Half-Year Financial Report*

The directors of the company are responsible for the preparation and fair presentation of the half-year financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the half-year financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

#### *Auditor's Responsibility*

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of an Interim Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2006 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Gas2Grid Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. It also includes reading the other information included with the financial report to determine whether it contains any material inconsistencies with the financial report. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

For further explanation of a review, visit our website <http://www.pwc.com/au/financialstatementaudit>.

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 have complied with the independence requirements of the *Corporations Act 2001*.

*Inherent uncertainty regarding continuation as a going concern*

Without qualification to the opinion expressed below, attention is drawn to the following matter. As a result of matters described in Note 9, there is significant uncertainty whether the entity will be able to continue as a going concern and therefore whether it will realise its assets and extinguish its liabilities in the normal course of business and at the amounts stated in the financial report.

*Conclusion*

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Gas2Grid Limited is not in accordance with the *Corporations Act 2001* including:

- (a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2006 and of its performance for the half-year ended on that date; and
- (b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and *Corporations Regulations 2001*.

PricewaterhouseCoopers

Marc Upcroft  
Partner

Sydney  
16 March 2007