

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

HALF-YEAR REPORT
31 DECEMBER 2010

GAS2GRID Limited ABN 46 112 138 780
Interim report – 31 December 2010

Contents	Page
Directors' report	2
Interim financial report	
Consolidated statement of comprehensive income	10
Consolidated statement of financial position	11
Consolidated statement of changes in equity	12
Consolidated statement of cash flows	13
Notes to the financial statements	14
Directors' declaration	18
Independent auditor's review report to the members	19

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 2010 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 2010.

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 J Morton
P Sam Yue

D Reeder was appointed a director on 7 December 2010 and continues in office at the date of this report.

Review of operations

HIGHLIGHTS

Corporate

- 1:3 Non-Renounceable Rights Issue raised \$1.9 million in November 2010
- Darren Reeder appointed to the Board as a Non-Executive Director in December 2010

Philippines, Service Contract 44 (100% interest)

- Phase 2 seismic survey completed in December, 2010
- Phase 2 Malolos-1 well workover planned for commencement in First Quarter 2011
- Three exploration wells drilling being planned for 2011

France, St Griede (50% interest)

- Seismic interpretation completed and several prospects/leads mapped
- Remaining vintage seismic data to be purchased, reprocessed and interpreted

Western Australia, EP 453 (100% interest)

- Seeking joint venture partners to fund exploration drilling

RIGHTS ISSUE

A 1:3 Non-Renounceable Rights Issue priced at 2.5 cents per share with one attaching unlisted option exercisable at 5 cents per share on or before 15 June 2012 closed on 15 November 2010. The Rights Issue raised approximately \$1.9 million and was fully underwritten by Budside Pty Ltd (a company controlled by Gas2Grid Limited Managing Director Dennis Morton).

Of the total 76,927,404 entitlement shares offered, the Company received acceptances for 49,498,045 shares with 27,429,359 shares being taken up by the underwriter and his nominees.

APPOINTMENT OF NON-EXECUTIVE DIRECTOR

Mr Darren W. Reeder was appointed to the Board as a Non-Executive Director on 7 December 2010. Mr Reeder is a substantial shareholder of the Company and has also been a long term supporter. Mr Reeder is Singapore based and controls a number of businesses including an oil and gas drilling and workover company with operations in the Philippines. The Company will benefit from Mr Reeder's extensive experience in oil and gas drilling and production operations.

PHILIPPINES : SERVICE CONTRACT 44 (SC 44) (100%), Onshore Cebu

Seismic Survey

Phase 2 seismic acquisition commenced on 9 November 2010 with data acquisition completed on 16 December 2010 for a total 61.3 kilometres recorded (a total 115.3 kilometres in Phases 1 and 2). Field data quality is generally excellent.

The aim of the Phase 2 seismic survey was to acquire sufficient data over at least three existing leads (including the newly identified limestone reefs) and converting them into drilling prospects. Data processing and interpretation is expected to be completed in the First Quarter 2011. The Company is hopeful that drilling locations will be identified for drilling to commence in the first half of 2011.

A 54 kilometre seismic acquisition program (Phase 1) was completed in May, 2010 with field operations being curtailed by the onset of the wet season. The newly acquired seismic data is of excellent quality where it has been acquired over ground not affected by outcropping limestone. The interpretation of the Phase 1 data has also been completed providing good geologic insight over selected areas of SC 44. The new data has clearly identified, for the first time, the Cebu Limestone carbonate reef play and the younger turbidite sandstone traps, both structural and structural/stratigraphic. In addition, that data is generally of high frequency enhancing the ability to identify and map reservoir targets.

The Cebu Limestone reef targets were interpreted to be present within SC 44 before the 2010 seismic data was acquired and it has been extremely pleasing to now, conclusively identify this exploration target, as it greatly enhances the value of SC 44. The Cebu Limestone is of Miocene age and similar age limestone reefs are prolific oil and gas producers elsewhere in the Philippines (e.g. Malampaya, Nido) and they are also prolific oil and gas producers in neighbouring Indonesia.

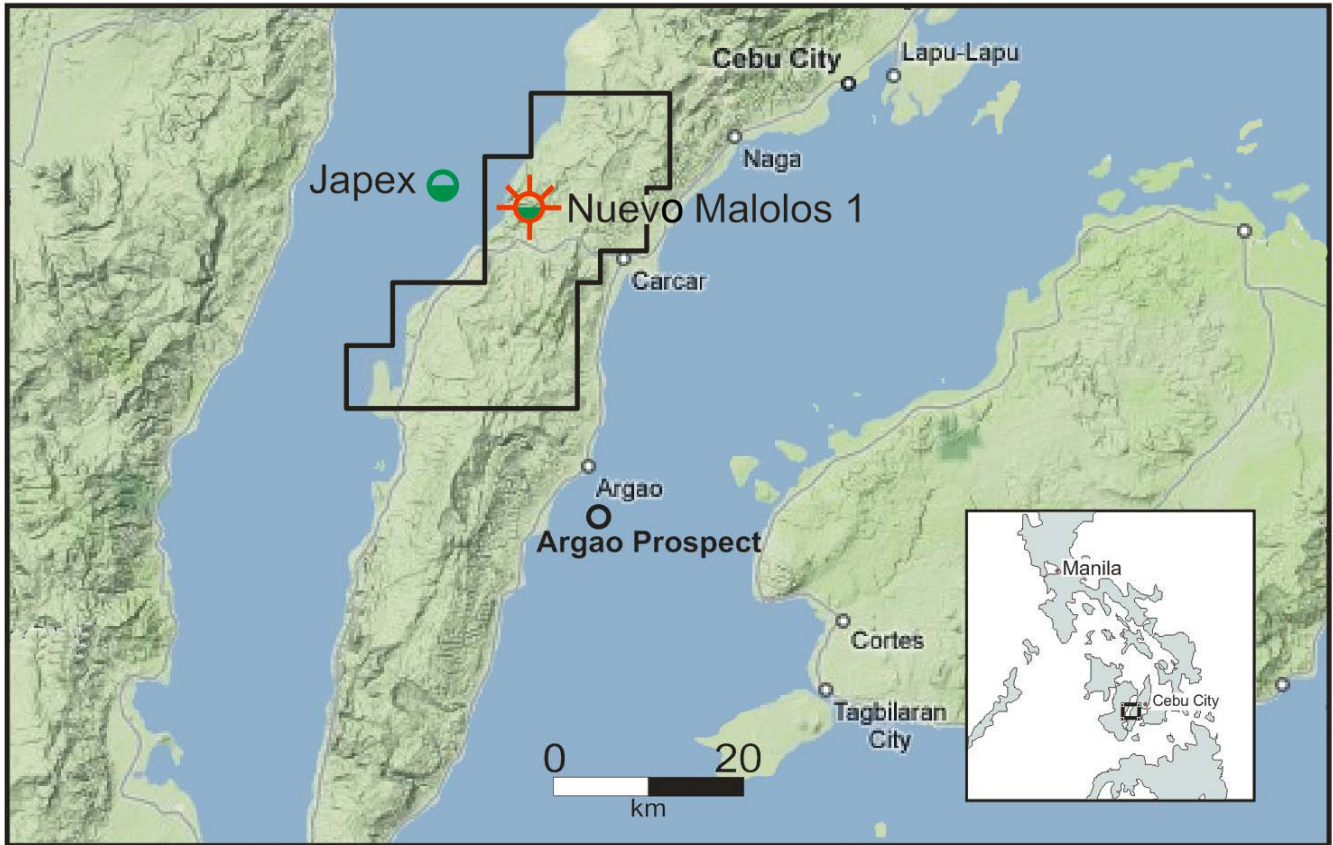


Figure 1: Service Contract 44, Cebu Island, Philippines

Malolos-1 Workover

Gas and oil bearing sandstones are present deeper in the Malolos-1 well but they were not targeted during the Phase 1 workover which was completed in May 2010. The Phase 1 workover targeted gas bearing sandstones above 1,000 metres in depth and this work proved the existence of natural gas and also determined the sandstone reservoirs to be of good quality and to be undamaged by previous drilling and completion work.

Following the successful completion of the Phase 1 workover, the Company will conduct the Phase 2 workover commencing in First Quarter 2011. The Phase 2 workover will involve a well re-entry, plugging the existing shallow perforations, cased hole logging and a decision on recompletion and flow testing of selected oil and gas bearing sandstones at deeper levels (below 1,000 metres) within the well.

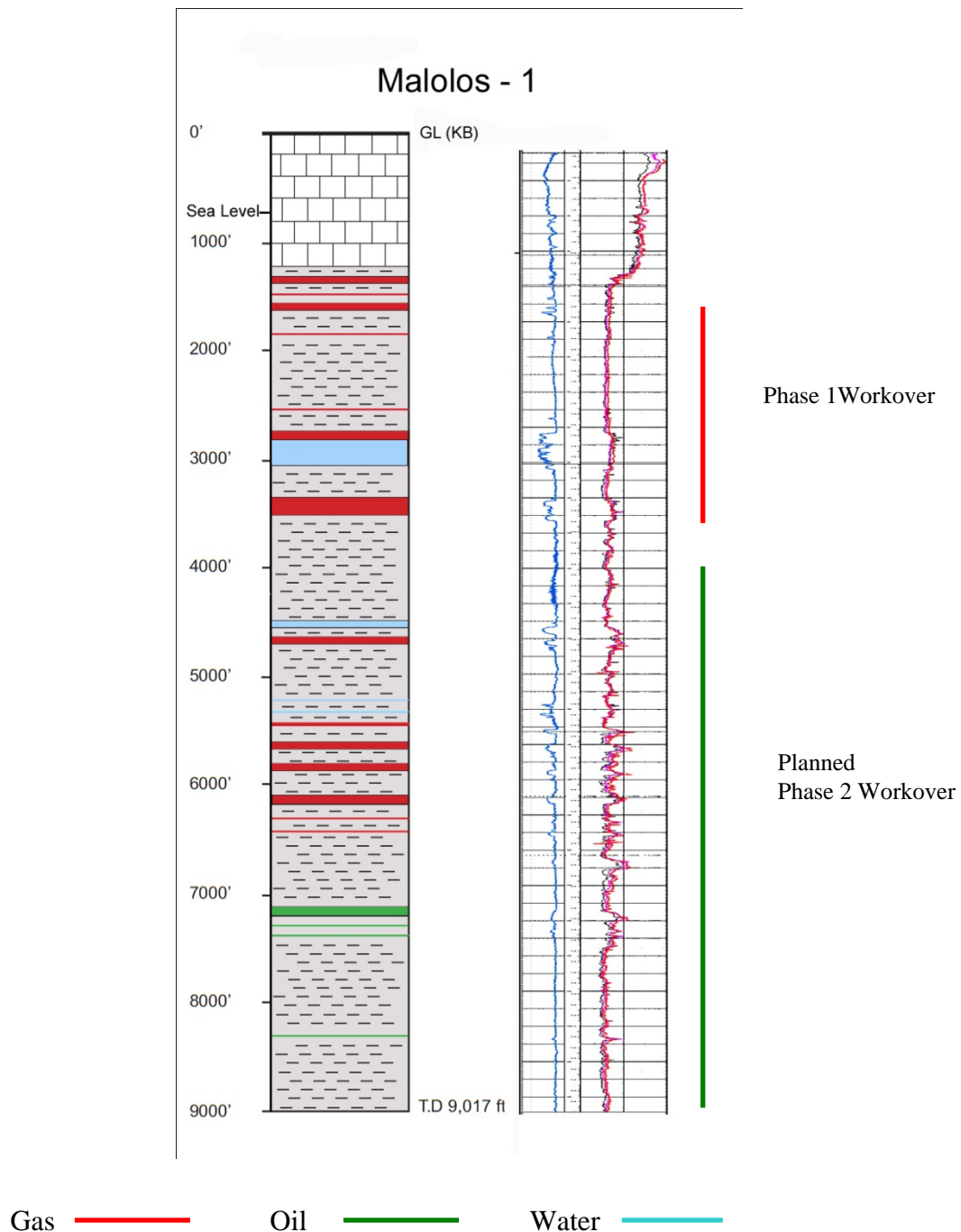


Figure 2: Malolos - 1 Well Schematic, Service Contract 44, Cebu Island, Philippines

2011 Drilling Program

The Company plans to drill three new exploration wells commencing in 2011. The new wells will target both the Miocene carbonate reefs and Tertiary age sandstone reservoirs trapped within anticlines. These prospects have been delineated by the 2010 Seismic Survey.

Licence

The Philippine Department of Energy has advised the Company that it needs to complete the following activities in order to maintain SC 44 in good standing:

- Acquire, process and interpret the remaining 50 kilometres seismic data;
- Workover the Malolos-1 well;
- Submit the relevant documents in relation to the drilling of one well;
- Submit proposed work program and budget for the said activities; and
- Post the corresponding performance bond.

FRANCE: ST. GRIEDE (50%), Onshore Aquitaine Basin

Data processing and interpretation of the 5,000 line kilometre aero-gravity survey have been completed. In addition, the Company has reprocessed and interpreted nearly 750 kilometres of pre-existing seismic data. Seismic reprocessing attempted to enhance vintage data that was acquired over the period 1960-1984. All vintages of seismic data responded favourably to reprocessing and they will contribute to the exploration evaluation. Aero-gravity and seismic data have been integrated and numerous structural hydrocarbon leads and prospects have been mapped.

Based on the successful results achieved with the initial seismic reprocessing the Company will now reprocess the approximate 1,300 kilometres of remaining vintage seismic data within the St. Griede licence.

Structural traps attractive for oil and gas exploration in the Aquitaine Basin are generally cored by Triassic salt. Salt has a much lower density than the surrounding sedimentary rocks and gravity is a useful technique to determine areas of thick salt development. The regional aero-gravity survey will assist to define the location of thick salt accumulations and hence likely structural petroleum traps.

The Aquitaine Basin is a prolific hydrocarbon province with a long history of discovery and production. Over 13,000 petajoules (approximately 13 trillion cubic feet) of gas and 450 million barrels of liquid hydrocarbons have been produced from the basin, mainly by the large French Government-owned corporations. There has been a hiatus in exploration activity since the 1980s, but a resurgence of licensing activity and operations has occurred recently, coincident with the increase in both oil and natural gas prices. Three wells have been drilled in the Aquitaine Basin in the last 12 months but prior to that there had been no drilling in the basin for over 10 years. Markets and gas pipeline infrastructure are well developed and the commercialisation of even small discoveries is likely.

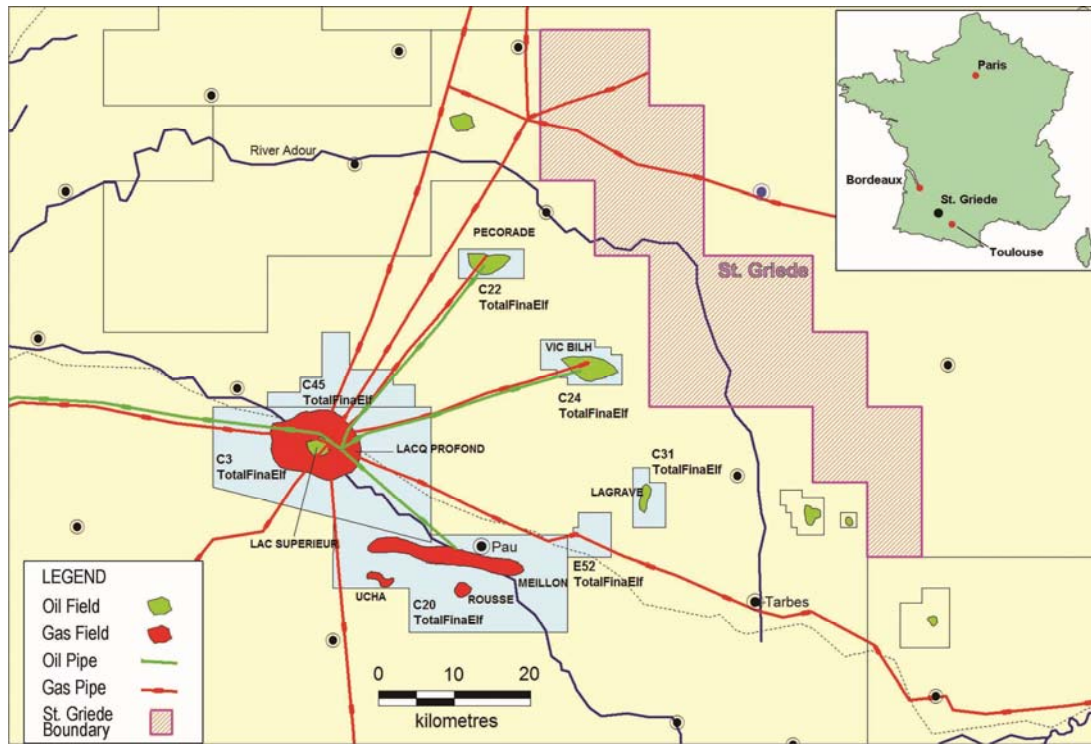


Figure 3: St. Griede, Onshore Aquitaine Basin, France

AUSTRALIA: EP 453 (100%), Onshore Canning Basin, Western Australia

The Company had previously reprocessed and interpreted all existing seismic data available over prospects and leads located within EP 453. Target horizons had been mapped generating drilling prospects without the need for new seismic acquisition. The Company is seeking joint venture partners to fund exploration drilling.

The EP 453 licence conditions have been varied with the combination of the Year 2 and 3 commitments resulting in the requirement to acquire 200 kms new seismic data by 17 January, 2010. These conditions have not been met and the WA Government will be approached for a further variation of the licence terms. EP 453 is a highly prospective licence with both oil and gas targets in Late Devonian-age carbonate, pinnacle reefs and Devonian sandstone reservoirs. A number of pinnacle reef prospects have been mapped on existing seismic data. Only two wells have previously been drilled (during the 1980s) within EP 453 and surrounding areas targeting these reefs. In addition, the prospectivity of Devonian sandstone reservoirs is evidenced by the fact that the only well drilled within EP 453 and the surrounding area in recent history, Chestnut-1 (1994), intersected a shallow (depth ca 1,350 metres) 8 metre thick sandstone reservoir interpreted from logs to be hydrocarbon bearing, although the interval was not tested. A deeper (1,800 metres) sandstone reservoir is hydrocarbon bearing but has relatively poor reservoir parameters and on a drillstem test flowed gas to surface at a rate too small to measure with no produced water. These two sandstone reservoirs were deposited in a submarine fan complex and reservoir quality should improve in the direction of their depositional source (proximal area).

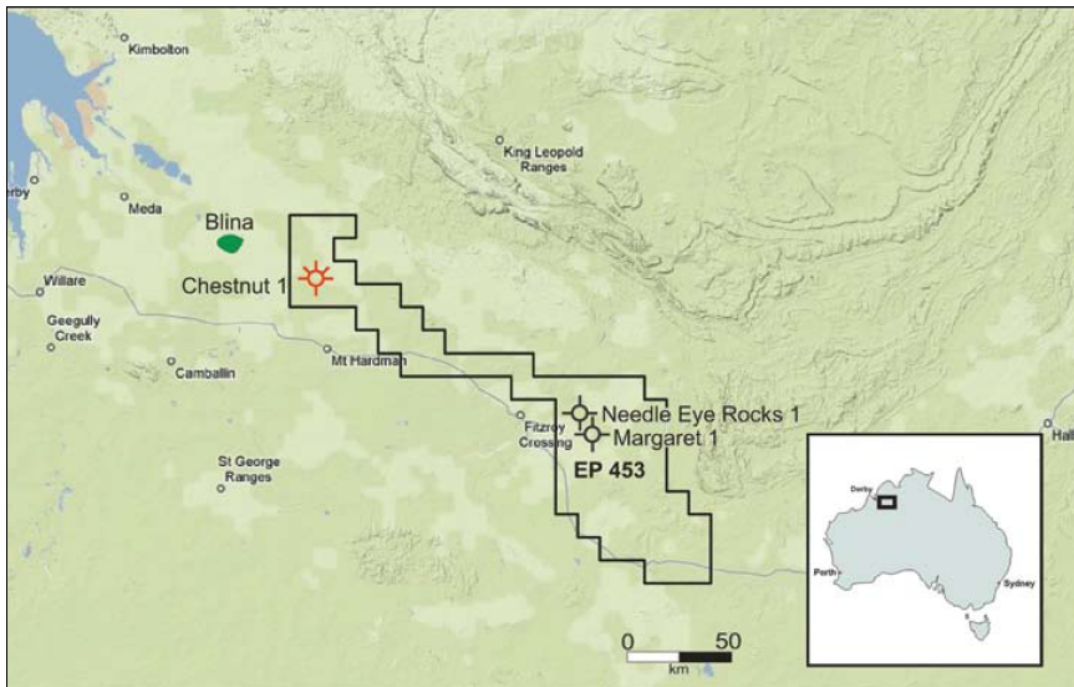


Figure 4: EP 453, Onshore Canning Basin, Western Australia

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 9.

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

Dennis J. Morton
Managing Director

Sydney
7 March 2011

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Auditor's Independence Declaration

As lead auditor for the audit of Gas2Grid Limited for the half year ended 31 December 2010, 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 audit; and
- b) no contraventions of any applicable code of professional conduct in relation to the audit.

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



Marc Upcroft
Partner
PricewaterhouseCoopers

Sydney
7 March 2011

Gas2Grid Limited
Consolidated statement of comprehensive income
For the half-year ended 31 December 2010

		Half-year	
	Notes	2010	2009
		\$	\$
Revenue from continuing operations		5,716	15,997
Administration expense		(361,767)	(553,397)
Auditor's remuneration		(25,022)	(14,850)
Employee benefits expense		(44,218)	(42,500)
Depreciation and amortisation expense		(1,412)	(1,267)
Impairment of Deferred Exploration Expenditure		(8,600)	-
Insurance costs		(13,400)	(13,731)
Rental expenses		(17,442)	(16,994)
Share based payments		(125,000)	-
Travelling expenses		(6,482)	(19,580)
Other expenses		(50,486)	(31,471)
Loss before income tax		(648,113)	(677,793)
Income tax expense		-	-
Loss for the half-year	3	(648,113)	(677,793)
Other comprehensive income			
Exchange differences on translation of foreign operations		(1,036,211)	(407,246)
Other comprehensive loss income for the half-year		(1,036,211)	(407,246)
Total comprehensive loss for the half-year		(1,684,324)	(1,085,039)
Loss for the half-year attributable to the owners of Gas2Grid Limited		(648,113)	(677,793)
Total comprehensive loss for the half-year is attributable to :			
Owners of Gas2Grid Limited		(1,684,324)	(1,085,039)
		(1,684,324)	(1,085,039)
Earnings per share for loss attributable to the ordinary equity holders of the Company:		Cents	Cents
Basic earnings per share		(0.28)	(0.38)
Diluted earnings per share		(0.28)	(0.38)

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

Gas2Grid Limited
Consolidated statement of financial position
As at 31 December 2010

	31 DECEMBER	30 JUNE
	2010	2010
	\$	\$
ASSETS		
Current assets		
Cash and cash equivalents	1,254,633	569,858
Trade and other receivables	105,541	182,603
Other financial assets at fair value	10,990	2,534
	<hr/>	<hr/>
Total current assets	1,371,164	754,995
	<hr/>	<hr/>
Non-current assets		
Exploration expenditure and rights	7,298,916	7,802,919
Plant and equipment	2,987	4,399
	<hr/>	<hr/>
Total non-current assets	7,301,903	7,807,318
	<hr/>	<hr/>
Total assets	8,673,067	8,562,313
	<hr/>	<hr/>
LIABILITIES		
Current liabilities		
Trade and other payables	731,160	825,578
	<hr/>	<hr/>
Total current liabilities	731,160	825,578
	<hr/>	<hr/>
Total liabilities	731,160	825,578
	<hr/>	<hr/>
Net assets	7,941,907	7,736,735
	<hr/>	<hr/>
EQUITY		
Contributed equity	15,311,005	13,421,509
Reserves	(1,750,931)	(714,720)
Retained profits	(5,618,167)	(4,970,054)
	<hr/>	<hr/>
Total equity	7,941,907	7,736,735
	<hr/>	<hr/>

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

Gas2Grid Limited
Consolidated statement of changes in equity
For the half-year ended 31 December 2010

	Contributed Equity \$	Retained Earnings \$	Reserves \$	Total Equity \$
As at 1 July 2009	10,716,532	(3,886,309)	(417,044)	6,413,179
<i>Total comprehensive (loss) income for the half-year</i>	-	(677,793)	(407,246)	(1,085,039)
Transactions with owners in their capacity as owners:				
Contributions of equity, net of transaction costs	1,432,222	-	-	1,432,222
As at 31 December 2009	12,148,754	(4,564,102)	(824,290)	6,760,362

	Contributed Equity \$	Retained Earnings \$	Reserves \$	Total Equity \$
As at 1 July 2010	13,421,509	(4,970,054)	(714,720)	7,736,735
<i>Total comprehensive (loss) income for the half-year</i>	-	(648,113)	(1,036,211)	(1,684,324)
Transactions with owners in their capacity as owners:				
Contributions of equity, net of transaction costs	1,889,496	-	-	1,889,496
As at 31 December 2010	15,311,005	(5,618,167)	(1,750,931)	7,941,907

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

Gas2Grid Limited
Consolidated statement of cash flows
For the half-year ended 31 December 2010

	Half-year	
	2010	2009
	\$	\$
Cash flows from operating activities		
Interest received	5,716	15,997
Payments to suppliers and employees (inclusive of goods and services tax)	(417,642)	(268,674)
Net cash (outflow) inflow from operating activities	(411,926)	(252,677)
Cash flows from investing activities		
Exploration expenditure	(678,183)	(608,585)
Payment for plant and equipment	-	(3,181)
Net cash (outflow) inflow from investing activities	(678,183)	(611,766)
Cash flows from financing activities		
Proceeds from issue of shares	1,923,184	1,065,750
Transaction costs on issue of shares	(151,301)	(4,614)
Net cash inflow (outflow) from financing activities	1,771,883	1,061,136
Net increase (decrease) in cash and cash equivalents	681,774	196,693
Cash and cash equivalents at the beginning of the half-year	569,858	784,256
Effects of exchange rate changes on cash and cash equivalents	3,001	(12,524)
Cash and cash equivalents at the end of the half-year	1,254,633	968,425

The above consolidated statement of cash flows 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 2010 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 2010 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.

(a) Ongoing capital raising

The Company is dependent on ongoing capital raising to fund its exploration activities. The Directors are confident additional equity capital is able to be raised as and when required. Without successful capital raising uncertainty exists as to whether the company will 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 amounts stated in the financial report. At balance date the Group had 'Cash and Cash Equivalents' of \$1,254,633 and current 'Trade and Other Receivables' of \$105,541 which in total exceed the current 'Trade and Other Payables' of \$ 731,160 by \$629,014. In addition the Company has entered into a loan agreement providing a facility to draw up to \$500,000 for working capital requirements.

(b) Impact of standards issued but not yet applied by the entity

In December 2009, the AASB issued AASB 9 *Financial Instruments* which addresses the classification and measurement of financial assets and is likely to affect the group's accounting for its financial assets. The standard is not applicable until 1 January 2013 but is available for early adoption. The Group is yet to assess its full impact, however, no significant impact is expected since the Group does not have any available for sale financial assets or financial liabilities designated at fair value through profit or loss. The Group has not yet decided when to adopt AASB 9.

2 Segment information

The Group operates as an exploration company performing oil and gas exploration including drilling wells, carrying out seismic surveys and geological studies, in the Philippines, France and Western Australia. The Group manages these activities from its head office in Sydney, Australia and offices in Singapore and Philippines. Exploration was being carried out in New Zealand but this licence has since been relinquished.

	Revenue		Segment Results		Segment Assets		Segment Liabilities	
	2010	2009	2010	2009	2010	2009	2010	2009
	\$	\$	\$	\$	\$	\$	\$	\$
Australia	5,716	15,997	(607,111)	(618,698)	1,894,551	1,181,576	551,385	535,069
Singapore	-	-	(10,126)	(59,095)	-	50,949	-	29,286
France	-	-	(22,276)	-	775,097	710,896	7,585	-
New Zealand	-	-	(8,600)	-	-	45,183	-	-
Philippines	-	-	-	-	6,003,419	6,573,709	172,190	261,223
Consolidated	5,716	15,997	(648,113)	(677,793)	8,673,067	8,562,313	731,160	825,578

3 Loss for the half-year

The loss for the half-year includes the following items that are unusual because of their nature, size or incidence.

	Half-year	
	2010	2009
	\$	\$
Loss for the half-year includes the following specific items:		
Loss		
Impairment of Deferred Exploration Expenditure	8,600	-
Merger Costs (Administration Expense)	190,989	324,410

Significant costs have been incurred in relation to a proposed Scheme of Arrangement with Orion Petroleum Limited. These are one-off costs associated with the proposed merger.

4 Dividends

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

5 Equity securities issued

	2010 Shares	2009 Shares	2010 \$	2009 \$
Issues of ordinary shares during the half-year				
Issued via Non-Renounceable Entitlements Issue	76,927,404	-	1,923,185	-
Transaction Costs on Issue of Shares	-	-	(158,689)	-
Issued via Private Placement	-	21,315,000	-	1,065,750
Transaction Costs	-	-	-	(4,614)
Issued via Private Placement	-	5,839,844	-	373,750
Transaction Costs	-	-	-	(2,664)
Issued under Employee Incentive Plan	2,500,000	-	125,000	-
	79,427,404	27,154,844	1,889,496	1,432,222

6 Contingencies

(a) Contingent liabilities

The Group has provided a security bond of \$1,437,195 (USD 1,500,000) to the Philippines Department of Energy for fulfilment of work commitments under SC44.

(b) Loan facility

The Group has in place a loan facility of up to \$500,000, if required, provided by Budside Pty Ltd a company controlled by Dennis Morton. No amount has been drawn under this facility.

7 Events occurring after the balance sheet date

There are no matters which have arisen since 31 December 2010 which significantly affected, or may significantly affect the operations of the Group, the results of those operations or the state of affairs of the Group in future financial periods.

8 Commitments for Expenditure

Exploration Commitments

In order to maintain current rights to tenure to exploration tenements, the Company has the following exploration expenditure commitments up until expiry of the leases. These obligations, which may be farmed out and are subject to renegotiation, are not provided for in the financial statements and are payable:-

	Consolidated	
	31 December 2010	30 June 2010
	\$	\$
Not later than one year	2,659,229	3,302,782
Later than one year but not later than 5 years	1,000,211	1,225,760
	3,659,440	4,528,542

In the directors' opinion:

- (a) the financial statements and notes set out on pages 10 to 17 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 2010 and of its performance, 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.

A handwritten signature in black ink, appearing to read 'D. J. Morton', with a long horizontal flourish extending to the right.

Dennis J. Morton
Director

Sydney
Date: 7 March 2011

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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 statement of financial position as at 31 December 2010, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the half-year ended on that date, 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 entity it controlled during that half-year.

Directors' responsibility for the half-year financial report

The directors of the company are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001* and for such control as the directors determine is necessary to enable the preparation of the half-year financial report that is free from material misstatement whether due to fraud or error.

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 2010 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.

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.

**Independent auditor's review report to the members of
Gas2Grid Limited (continued)**

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*.

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 2010 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
7 March 2011