GAS2GRID LIMITED

ABN 46 112 138 780

Annual report
for the year ended 30 June 2007

GAS2GRID Limited ABN 46 112 138 780
Annual report – 30 June 2007

Contents

Directors	David A. Munns, Chairman David W. King Eric D. Espiritu
Secretary	Steven J. Danielson
Notice of annual general meeting	The annual general meeting of Gas2Grid Limited **will be held at** Mitchell & Partners Level 7, 10 Barrack Street Sydney **time** 11am **date** Thursday 29 November 2007
Principal registered office in Australia	C/- Mitchell & Partners Level 7, 10 Barrack Street SYDNEY NSW 2000 AUSTRALIA Telephone: (02) 9392 8642 (02) 9392 8686
Share registry	Gould Ralph Pty Limited Level 42, AAP Centre 259 George Street SYDNEY NSW 2000 AUSTRALIA Telephone: (02) 9032 3000
Auditor	PricewaterhouseCoopers Darling Park Tower 2 201 Sussex Street SYDNEY NSW 1171 AUSTRALIA
Stock exchange listing	Gas2Grid Limited shares are listed on the Australian Stock Exchange under the code GGX.
Website address	**www.gas2grid.com**

The company is limited by shares, incorporated and domiciled in Australia.

CHAIRMAN'S ADDRESS

Dear Shareholder

I am pleased to present you with the 2007 Annual Report for Gas2Grid Limited.

The challenge facing the Company during the past year has been to progress our exploration in Cebu (SC 44, Philippines), and to identify and secure new exploration opportunities elsewhere, with the very limited cash reserves remaining following completion of the drilling campaign at Nuevo Malolos. We have met this challenge by a careful husbanding of these reserves throughout on-going technical assessments of both SC44 and a wide range of new international exploration opportunities, pending a recapitalisation of the Company. It is relevant to point out that our Company Executive have provided *pro bono* services throughout much of the year in order to bring this process to a successful conclusion.

Shortly before the end of the year, we were successful in securing a position in the onshore Canterbury Basin, New Zealand, with a drill-ready prospect on the Kate anticline, where an oil seep was uncovered during geotechnical works on the flank of the anticline (approximately 50 kms north of Christchurch) in 2003. We very much look forward to drilling the Kate-1 well, most likely early in 2008.

Following announcement of this new venture, we received very strong support from professional investors as well as our shareholders in a $3 million capital raising. We are now in a strong position to move forward on each of our project fronts.

In the Philippines, we remain committed to re-testing at least the oil-bearing Toledo formation at Nuevo Malolos well, from which a small amount of oil was recovered in the original under-balanced test. Such testing will, however, be cost effective only in conjunction with further drilling operations in or around the licence area. In the coming year we are planning to undertake a variety of reconnaissance surveys of SC44 to assist in delineating further prospects which will promote such operations.

Our application for an exploration permit in the Aquitaine Basin, in France, remains on foot and the contestability period ended on August 15th. Although the competition for acreage on the margins of the productive Aquitaine Basin is strong, we remain confident of the award of a prospective area at St Griede in the near future.

We will continue to evaluate other new opportunities for participation in exploration and appraisal projects in our core areas. The Company has now developed access to a wider skill/experience base from which it can source attractive new opportunities, and the diversification of the portfolio has provided better access to the requisite capital.

On behalf of the Board, I thank our shareholders for their patience and support throughout the year.

David Munns
Chairman

REVIEW OF OPERATIONS

The principal activities during the year comprised:-

(i) a review and reassessment of the results of the Malolos-1 re-entry and the Nuevo Malolos -1 drilling/testing/swabbing results from operations in the previous year, and developing programmes to progress exploration elsewhere in SC 44, Cebu, Philippines;

(ii) progressing the application (in joint venture with Gippsland Offshore Petroleum Limited) for exploration rights in the St Griede area, north east of Pau on the eastern margin of the Aquitaine Basin, Southwest France; and

(iii) identification and evaluation of new exploration/appraisal project opportunities, culminating in an agreement to secure participation in the onshore portion of PEP 38260, Canterbury Basin, New Zealand, with a drill-ready prospect on the Kate anticline, approximately 50 kilometres north of Christchurch.

Operations on all fronts were constrained by a shortage of capital following finalisation and settlement of costs associated with the earlier drilling campaign on Cebu, however by careful husbanding of remaining cash reserves the Company was successful in progressing each of its areas of operation. Following the agreement to participate in forthcoming drilling onshore in the Canterbury Basin, the Company completed a successful recapitalisation with the injection of $3 million from existing shareholders (via an oversubscribed share purchase plan) as well as new professional investors.

SC 44, Cebu, Philippines

During the year the Company commissioned an independent reservoir engineering review of the data obtained from the Nuevo Malolos-1 well (and the Malolos-1 re-entry).

The engineering review concluded that the reservoir sections intercepted in the well(s) suffered severe formation damage during drilling and testing. The conclusion was based on observed damage in a core recovered in the Maingit Formation at a depth of 838 metres, and on the low fluid recoveries from post-drill swabbing tests over zones with high measured permeabilities.

Observations from the core reveal that the main damaging mechanism was mechanical alteration of the grain structure ("textural reorganisation") due to the unconsolidated, friable nature of the sandstones. The extremely low Nuevo Malolos-1 fluid influx during swabbing, from a zone with known high permeabilities, is also strong evidence of severe formation damage in the Maingit section.

By extrapolation, it is likely that the deeper Toledo sands were also similarly afflicted by the textural reorganisation mechanism during drilling and subsequent cased-hole testing. In view of the fact that a small amount of oil and drilling mud, with no water, was recovered in the Toledo test, there remains good prospects that fluid recovery from this section could, with appropriate testing procedures, be significantly improved.

The Company remains intent on undertaking such re-testing when there is cost effective access to a drilling rig in the licence area. Such access will depend to some extent on the ability to delineate new drilling targets in an area which is both topographically and climatically challenging. To this end, the Company is evaluating the application of reconnaissance hydrocarbon microseepage (geomicrobial) surveys and multi-transient electromagnetic surveys to assist in delineating prospects in areas within the licence which are not readily amenable to conventional seismic surveying.

With the demonstration from the Nuevo Malolos-1 drilling of the development of quartz rich reservoir quality sandstones over significant depth intervals, and a proven hydrocarbon system, a large area of SC 44, as well as the Malolos anticline itself, the Company believes that a large part of the licence area remains prospective for commercial hydrocarbon accumulations. The results of an offshore exploration well in close proximity to the western boundary of SC 44 to be drilled by Japex in late 2007/early 2008 will also bear importantly on the exploration focus in SC 44.

The totality of drilling and geological data derived from the drilling to date will bear importantly on the drilling and testing procedures adopted in any future drilling, and significantly improve the prospects for commercial discoveries in the area.

REVIEW OF OPERATIONS (continued)

PEP 38260, Onshore Canterbury Basin, New Zealand

During the year the Company entered into an agreement with Green Gate Limited, a private New Zealand corporation, to farm-in to the onshore portion of that company's Canterbury Basin exploration permit PEP 38260. Under the terms of the agreement, the Company will earn a 40% interest in the entire onshore area by funding the first $1.2 million, and its pro-rata share of costs over $1.2 million, of the cost of a well (Kate-1) on the Kate anticline, approximately 50 kilometres north of Christchurch.

PEP 38260 is a 5,200 square kilometre permit covering onshore and offshore portions of the Canterbury Basin to the north and east of Christchurch, on the South Island of New Zealand. The sparsely explored onshore portion of the permit covers over 2000 square kilometre. The Kate-1 well will test an anticlinal structure with prominent surface expression as well as seismic evidence of subsurface closures in the approximately 1050 metre thick sedimentary section.

The primary target is sandstone reservoirs in the Late Cretaceous Broken River Formation coal measures (450-1050 metres), with secondary targets in younger sandstones and limestones. Despite the relatively shallow depths, burial history and other modelling studies confirm that the source rock, maturation and charge risks for the prospect are relatively low. Importantly, an oil seep was uncovered during geotechnical works on the flank of the anticline in 2003. Soil gas surveys have further confirmed the presence of thermogenic hydrocarbons in the vicinity of the mapped structure.

The structure as mapped has the potential to reservoir upwards of 25 million barrels of oil in place in the Broken River Formation. The Company is working together with Green Gate to secure the necessary drilling approvals so as to be able to commence drilling late in 2007 or early in 2008.

New Ventures

In March 2006 the Company, together with 50% joint venture partner Gippsland Offshore Petroleum (ASX: GOP), lodged a comprehensive application with the French Government for a vacant area "St Griede" to the north east of the regional centre of Pau on the eastern margin of the Aquitaine Basin, Southwest France. At the time of the application, there were existing overlapping applications for parts of the area applied for, but the prevailing regulations give no formal preference to prior applications. Following the provision of additional supporting material in October 2006, the Company was advised that there were no further impediments to the publication of the application details in the French and European Gazettes.

Under the prevailing regulations, all applications are contestable for a fixed period after publication, and for this application the period in which the application could be further contested ended on August 15th, 2007. The Company has not been advised of any new contesting applications since the end of the contestability period, and the application remains in process. A determination anticipates an imminent successful determination of its application over at least part of the prospective area applied for.

The Aquitaine Basin is a proven hydrocarbon basin with a long history of discovery and production. Over 13 TCF of gas and 450 mmbbls of liquid hydrocarbons have been discovered in the basin, but there has been a hiatus in exploration since the 1980's – particularly on the basin margins. Markets and infrastructure well developed, and the commercialisation of even small discoveries is unlikely to be problematic.

Notwithstanding its existing commitments, the Company will continue to seek out and evaluate new opportunities to participate in exploration and/or appraisal projects in regions where the Company's officers and consultants have an appropriate skill/experience base. Operations in the past year have significantly expanded the skill/experience base available to the Company, as well as the access to capital to pursue any attractive opportunities which may arise.

Directors' report

Your directors present their report on the consolidated entity (referred to hereafter as the Group) consisting of Gas2Grid Limited and the entity it controlled at the end of, or during the year ended 30 June 2007.

Directors
The following persons were directors of Gas2Grid Limited during the whole of the financial 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.

Principal activities
During the year the principal continuing activities of the company consisted of:
(a) oil and gas exploration in the Philippines, New Zealand and France.

Operating results
The consolidated loss of the Group after providing for income tax was $322,482 (2006: $1,857,713).

Dividends – Gas2Grid Limited
The directors report that during the year ended 30 June 2007 no dividends were declared or paid (2006: nil).

Review of operations
A detailed review of the operations for the financial year is set out on pages 4 to 5.

Significant changes in the state of affairs
Significant changes in the state of affairs of the company during the financial year were as follows:-

An increase in contributed equity of $506,975 (from $10,038,545 to $10,545,520) as a result of:

Issue of 8,928,010 fully paid ordinary shares at 6 cents each	535,681
Less: Transaction costs arising on share issues	(28,706)
	$506,975

The share issue was undertaken in order to finance the continuing exploration activities of the Group and for general working capital purposes.

In the opinion of the directors there were no other significant changes in the state of affairs of the Group that occurred during the financial year under review, not otherwise disclosed in this report or the group financial statements.

Matters subsequent to the end of the financial year
On 12 June 2007 Gas2Grid Limited announced a placement of securities with professional and sophisticated investors of 29,465,576 fully paid ordinary shares at $0.06 each to raise $1.768 million, of which the placement of 20,537,566 shares ($1.232 million) were subject to the approval of shareholders at the general meeting held 25 July 2007. The placement was approved by shareholders and 20,537,566 shares were issued 26 July 2007.

As announced on 12 June 2007 Gas2Grid Limited has established a shareholder's Share Purchase Plan (SPP) for the issue of a maximum of 20,534,423 shares at $0.06 each to raise a total of $1.232 million. The SPP offer closed oversubscribed on 11 July 2007and the SPP shares were issued on 18 July 2007.

The funds raised by the Plan and placement will be used for the Company's oil and gas exploration programmes, *viz* farmin drilling in PEP 38260, in the Canterbury Basin, New Zealand; on going activities in the Philippines (SC 44) and the Aquitaine Basin of France (St Griede application area, GGX 50%); costs relating to the capital raising and working capital.

Except for the above, no other matter or circumstance has arisen since 30 June 2007 that has significantly affected, or may significantly affect:

(a) the Group's operations in future financial years, or
(b) the results of those operations in future financial years, or
(c) the Group's state of affairs in future financial years.

Likely developments and expected results of operations
In relation to the company's gas exploration activities, no indication as to likely developments in the future can be given. The Group proposes to continue its gas exploration programmes and investment activities.

Environmental regulation
The consolidated entity is required to carry out its activities in accordance with applicable regulations in each of the jurisdictions in which it undertakes its exploration, development and production activities. The consolidated entity is not aware of any matter which requires disclosure with respect to any significant environmental regulation in respect of its operating activities.

Information on directors
D A Munns Bachelor in Mechanical Engineering (Peterborough Technical College, United Kingdom). Chairman – non-executive.
Experience and expertise
David Munns has wide experience in drilling and engineering operations in South East Asia and particularly in the Philippines. He is the Chairman of Desco, Philippines – a drilling and engineering firm operating in the field of conventional and geothermal drilling.

Other public company directorships
None.

Former directorships in the last 3 years
None.

Special responsibilities
Chairman of the Board.

Interest in shares and options
6,711,800 ordinary shares in Gas2Grid Limited.
500,000 options in Gas2Grid Limited.

Information on directors (continued)
D W King PhD. Seismology, (Australian National University), MSc. Geophysics (Imperial College, London). Executive director.
Experience and expertise
David King held senior executive positions with Offshore Oil NL and Hartogen Energy before an appointment in 1988 as Managing Director of North Flinders Mines Ltd. In 1991, he joined Beach Petroleum/Claremont Petroleum as Director and Chief Executive Officer, a position he held until 1995. He is currently a Director of Eastern Star Gas Limited, Sapex Limited and Baron Partners Limited.

Other public company directorships
Eastern Star Gas Limited and Sapex Limited.

Former directorships in last 3 years
None.

Special responsibilities
Executive director (from March 2006).
Chief Financial Officer.

Interest in shares and options
3,313,259 ordinary shares in Gas2Grid Limited.
300,000 options in Gas2Grid Limited.

E D Espiritu Bachelor of Geology (University of Philippines). Non-executive director.
Experience and expertise
Eric Espiritu worked as a field and wellsite geologist for the Philippines National Oil Company PNOC before joining Exlog as a formation evaluation specialist for clients in Asia-Pacific. He formed his own wellsite consultancy group and has worked on exploration and development wells onshore and offshore Australia, China, Japan and South East Asia. His most recent projects included an assignment with Esso Angola in a deepwater turbidite reservoir exploration and development drilling program. He currently practices as a consulting geologist with a client base of major and junior oil and gas companies and is a member of AAPG, PESA and SPE.

Other public company directorships
White Sands Petroleum Limited.

Former directorships in last 3 years
None.

Special responsibilities
None.

Interest in shares and options
147,769 ordinary shares in Gas2Grid Limited

Company secretary
The company secretary is Mr S J Danielson FCA, BBus. Mr Danielson was appointed to the position of company secretary in 2004. He is also the secretary of several other natural resource exploration companies listed on the Australian Stock Exchange.

Meetings of directors
The following table sets out the number of meetings of the company's directors held during the year ended 30 June 2007, and the number of meetings attended by each director:-

Meetings attended/held:	**A/B**
D A Munns	**5/5**
D W King	**5/5**
E D Espiritu (appointed 13 July 2006)	**3/5**
H M Royle (resigned 13 July 2006)	**0/1**
M H Stirzaker (resigned 13 July 2006)	**1/1**

A = Number of meetings attended
B = Number of meeting held during the time the director held office

Remuneration report
The remuneration report is set out under the following main headings:

A Principles used to determine the nature and amount of remuneration
B Details of remuneration
C Service agreements
D Share-based compensation
E Additional information.

The information provided under headings A-D includes remuneration disclosures that are required under Accounting Standard AASB 124 *Related Party Disclosures.* These disclosures have been transferred from the financial report and have been audited. The disclosures in Section E are additional disclosures required by the *Corporations Act 2001* and the *Corporations Regulations 2001* which have not been audited.

A Principles used to determine the nature and amount of remuneration (audited)

The objective of the Group's and Parent's executive reward framework is to ensure that reward for performance is competitive and appropriate.

During the year ended 30 June 2007, the company did not have a separate remuneration committee. Instead, the duties and responsibilities typically delegated to such a committee were considered to be the responsibility of the entire Board.

The Board ensures that executive reward satisfies the following key criteria for good reward governance practices:

- competitiveness and reasonableness
- acceptability to shareholders
- transparency
- capital management

Directors' fees

The current base remuneration was last reviewed with effect from 1 July 2006. Directors' fees are determined within an aggregate fee pool limit, which currently stands at $150,000 per annum.

The remuneration of the directors shall not be increased except pursuant to a resolution passed at a general meeting of the Company.

Base fees	**From 1 July 2006**	**From 1 July 2005 to 30 June 2006**
Chairman	35,000	35,000
Other directors (each)	25,000	25,000

Remuneration report (continued)

B Details of remuneration (audited)

Amounts of remuneration
Details of the remuneration paid or payable to the directors and the key management personnel (as defined in AASB 124 *Related Party Disclosures)* of Gas2Grid Limited and the Gas2Grid Limited Group are set out in the following tables.

The key management personnel of Gas2Grid Limited and the Group are the directors as per pages 7 – 9 above.

2007	**Short-term benefits**		**Post-employment benefits**		**Share-based payment**		
Name	**Directors' Base Fee**	**Percentage of total remuneration**	**Superannuation**	**Percentage of total remuneration**	**Options**	**Remune-ration consis-ting of options**	**Total**
	$	%	$	%	$	%	$
Executive directors of Gas2Grid Limited and the Group							
H M Royle	-	-	-	-	-	-	-
D W King	22,936	91.74	2,064	8.26	-	-	25,000
Non-executive directors of Gas2Grid Limited and the Group							
D A Munns, non-executive Chairman	32,110	91.74	2,890	8.26	-	-	35,000
M H Stirzaker	-	-	-	-	-	-	-
E D Espiritu	22,936	91.74	2,064	8.26	-	-	25,000
Total	77,982	91.74	7,018	8.26	-	-	85,000

Remuneration report (continued)

2006	Short-term benefits		Post-employment benefits		Share-based payment		
Name	**Directors' Base Fee** $	**Percentage of total remuneration** %	**Superannuation** $	**Percentage of total remuneration** %	**Options** $	**Remune-ration consis-ting of options** %	**Total** $
Executive directors of Gas2Grid Limited and the Group							
H M Royle	27,522	91.74	2,478	-	-	-	30,000
D W King	22,936	91.74	2,064	8.26	-	-	25,000
Non-executive directors of Gas2Grid Limited and the Group							
D A Munns, non-executive Chairman	32,110	91.74	2,890	8.26	-	-	35,000
M H Stirzaker	22,936	91.74	2,064	8.26	-	-	25,000
Total	105,504	91.74	9,496	8.26	-	-	115,000

No other officers or directors received any emoluments from the company.

Directors fees are not currently paid out as cash, and continue to accrue by agreement with the directors.

C Service agreements (audited)

As at the date of this report, there were no service agreements with the directors.

D Share-based compensation (audited)

Options
Options over unissued ordinary shares of Gas2Grid Limited were granted under an Option Deed in February 2005 and pursuant to the prospectus lodged with the Australian Securities and Investments Commission on 4th March 2005 by the company. The options vested upon grant.

The terms and conditions of each grant of options affecting remuneration in the previous, this or future reporting periods are as follows:-

Date options granted	Expiry Date	Exercise Price	Value per option at grant date	Date exercisable
February 2005	15 March 2009	$0.30	$0.04	Immediately

Remuneration report (continued)

Options granted under the plan carry no dividend or voting rights. When exercisable, each option is convertible into one ordinary share. Options were granted under the plan for no consideration.

D Share-based compensation (audited)

Details of options over ordinary shares in the company provided as remuneration to each director of Gas2Grid Limited are set out below.

Directors	**Number of options granted during the year**		**Number of options vested during the year**	
	2007	2006	**2007**	2006
D A Munns, non-executive Chairman	**None**	None	**None**	None
D W King	**None**	None	**None**	None
H M Royle	**None**	None	**None**	None
M H Stirzaker	**None**	None	**None**	None
E D Espiritu	**None**	None	**None**	None

The amounts disclosed for emoluments relating to options above are the assessed fair values at grant date, which is also the vesting date, of options granted to executive directors and other executives. Fair values at grant date are independently determined using a Black-Scholes option pricing model that takes into account the exercise price, the term of the option, the vesting criteria, the impact of dilution, the non-tradeable nature of the option, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk-free interest rate for the term of the option.

The model inputs for options granted during the year ended 30 June 2005 included:

a. options are granted for no consideration and are immediately exercisable
b. exercise price: $0.30
c. grant date: February 2005
d. expiry date: 15 March 2009
e. share price at grant date: $0.24
f. expected price volatility of the company's shares: 45%
g. expected dividend yield: 0%
h. risk-free interest rate: 5%

E Additional information – unaudited

No element of remuneration is determined in relation to the financial performance of the company. As there is no link to financial performance there is no further discussion of the matters required by section 300A and Part 2M of the *Corporations Act 2001.* These sections require discussion over the current year and previous 4 years of the link between rewards and :

- earnings
- dividends
- share price movements

Other transactions of directors and director-related entities
Note.

Loans to directors
There are no outstanding loans to directors and no loans have been issued during the period.

Remuneration report (continued)

Shares under option
Unissued ordinary shares of Gas2Grid Limited under option at the date of this report are as follows:

Date options granted	Expiry date	Exercise price of shares	Number under option
February 2005	15 March 2009	$0.30	2,600,000

These options vested upon grant. No options have been issued since 30 June 2005. No options have been forfeited during the year.

Insurance of officers
During the financial year, a premium of $30,543 was paid to insure the directors of the company and the consolidated entity.

The liabilities insured are legal costs that may be incurred in defending civil or criminal proceedings that may be brought against the officers in their capacity as officers of entities in the Group, and any other payments arising from liabilities incurred by the officers in connection with such proceedings. This does not include such liabilities that arise from conduct involving a wilful breach of duty by the officers or the improper use by the officers of their position or of information to gain advantage for themselves or someone else or to cause detriment to the company. It is not possible to apportion the premium between amounts relating to the insurance against legal costs and those relating to other liabilities.

Proceedings on behalf of the company
No person has applied to the Court under section 237 of the *Corporations Act 2001* for leave to bring proceedings on behalf of the company, or to intervene in any proceedings to which the company is a party, for the purpose of taking responsibility on behalf of the company for all or part of those proceedings.

No proceedings have been brought or intervened in on behalf of the company with leave of the Court under section 237 of the *Corporations Act 2001*.

Non-audit services
The company may decide to employ the auditor on assignments additional to their statutory audit duties where the auditor's expertise and experience with the company and/or the Group are important.

Details of the amounts paid or payable to the auditor (PricewaterhouseCoopers) for audit services provided during the year are set out in note 21 in the financial statements.

There has been no provision of non-audit services by the auditor during the year.

Auditor's independence declaration
A copy of the auditors' independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 15.

Auditor
PricewaterhouseCoopers continues in office in accordance with section 327 of the *Corporations Act 2001.*

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

D W King
Director

Sydney
28 September 2007

PRICEWATERHOUSECOOPERS

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Auditor's Independence Declaration

As lead auditor for the audit of Gas2Grid Limited for the year ended 30 June 2007, 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 entities it controlled during the period.

Marc Upcroft
Partner
PricewaterhouseCoopers

Sydney
28 September 2007

Corporate Governance Statement

The Board of Directors of Gas2Grid Limited is committed to attaining and implementing the highest standards of corporate governance. The board has reviewed the company's corporate governance practices in relation to the best practice recommendations released by the Australian Stock Exchange Corporate Governance Council. The Board supports the intent of the best practice recommendations and recognises that given the limited size and scope of the company it is not practical to institute all of the best practice recommendations at present.

A description of the company's main corporate governance practices is set out hereunder. Unless stated otherwise, all of the following practices were in place for the entire year.

The Board of Directors
The Board of Directors are responsible to the shareholders for the performance of the company and the implementation of corporate governance policies. The Board operates in accordance with the following principles:-

- The Board should comprise between 3 and 10 directors, with a mix of executive and non-executive directors;
- The Board should comprise directors with a range of skills and experience that are appropriate and assist the directors in performing their duties within the scope of the company's operations.

Terms of office
Directors are initially appointed by the full Board and are subject to re-election at the annual general meeting by shareholders at three-yearly intervals, or at the next annual general meeting after their initial appointment.

The Chairman of the Board is a non-executive director who is elected by the full Board.

Corporate governance best practice recommendations 2.1, 2.2, 2.3 which requires the majority of the Board to be independent directors, the Chairman to be an independent director and the roles of Chairman and Chief Executive Officer to be exercised by different individuals have not been adopted by the company. The Board is of the opinion that the company is best served by its current board composition of executive and non-executive directors and a Chairman who is a non-executive director. At present, the Board also has an independent director, Mr E.D. Espiritu.

The company considers corporate governance best practice recommendation 1.1 which requires formalisation and disclosure of the functions reserved to the Board and those delegated to management inappropriate given the size of the company's operations, the number of directors constituting the Board and the fact that the company has no employees. Accordingly, the Board is responsible for the functions typically delegated to management in addition to its usual Board functions.

Conflict of Interest
If any business dealings between the consolidated entity and any entity connected with a director occur, the director concerned is required to declare his interests in those dealings to the company and take no part in decisions relating to them. The details of any such business dealings are set out in note 22 to the financial statements.

Independent Professional Advice
Directors have the right, in connection with their duties and responsibilities as directors, to seek independent professional advice at the company's expense. Prior approval of the Chairman is required, which will not be unreasonably withheld.

Performance Assessment
The Board undertakes annual self assessment of its collective performance and the performance of the Chairman.

The Chairman undertakes an annual assessment of the performance of individual directors. The Directors' performance is measured against specific performance goals as set out by the Board annually.

Corporate reporting
The CFO has made the following certifications to the board:

- that the company's financial reports are complete and present a true and fair view, in all material respects, of the company's financial condition and operational results of the company and the Group and are in accordance with relevant accounting standards.

- that the above statement is founded on a sound system of risk management and internal compliance and control which implements the policies adopted by the board and that the company's risk management and internal compliance and control is operating efficiently and effectively in all material respects.

Board committees
Given the size of the company's operations no other committees have been formed, all responsibilities remain with the board.

Nomination and Remuneration of Directors
Corporate governance best practice recommendations 2.4, 4.2 and 9.2 require listed entities to establish a nomination committee, an audit committee and a remuneration committee respectively. During the year ended 30 June 2007, the company did not have a separate nomination, audit or remuneration committee. However, the duties and responsibilities typically delegated to such committees are considered to be the responsibility of the full Board.

Due to the relatively small size of the company's operations and the number of directors constituting the Board, the Board of Directors unanimously believe that the company's policies relating to the nomination and remuneration of directors and the review of external audit arrangements are best catered for by the involvement of the entire Board. The main procedures that the company has in place regarding the nomination and remuneration of directors and reviewing the adequacy of existing external audit arrangements are set out below.

Nomination of Directors
Any Board member may make recommendations on Board composition and appointments, however appointments are subject to the final approval of the full Board.

Remuneration of Directors
The amount of remuneration payable to directors is determined and reviewed by the full Board. Further information on directors' remuneration is set out in the Directors' Report at pages 9 - 13.

Review of External Audit Arrangements
The assessment of the scope and quality of the company's audit is carried out by the full Board. Assessment procedures include:-

- Reviewing external audit reports to ensure that any significant deficiencies or breakdowns in controls or procedures have been identified and remedied;

- Liaising with the auditors and ensuring that the annual statutory audit and half-year review are conducted in an effective manner;
- Reviewing internal controls; and
- Monitoring compliance with statutory responsibilities.

Ethical Standards
The Board expects all directors to perform their duties in a manner which is ethical, honest and objective and at all times endeavour to maintain and improve the performance and reputation of the company. A code of conduct, as purported in best practice recommendation 3.1 and 10.1, has not been formally established as the Chairman consistently and continuously ensures that all members of the Board have a clear understanding of their duties, responsibilities and their accountability to the company and its shareholders for their conduct.

The purchase and sale of company securities by Directors is permitted. However, buying or selling of the company's shares is not allowed at any time by any person who possesses unpublished information which may affect the price of the company's shares.

Communication with Shareholders and Continuous Disclosure
The company aims to provide relevant and timely information to its shareholders and the broader investment community in accordance with its continuous disclosure obligations under the ASX Listing Rules.
The Board has established policies and procedures to ensure compliance with ASX Listing Rule disclosure requirements and accountability at a senior management level for that compliance. However, the Board believes that the formalisation of these policies and procedures in a written form as recommended in best practice recommendation 5.1 is not necessary as the Board is satisfied that all Board members are acutely aware of the importance of making timely and balanced disclosure.
Dr D.W. King, director and Mr. S.J. Danielson, company secretary, have been nominated as the persons responsible for communications with the Australian Stock Exchange (ASX). This role includes responsibility for ensuring compliance with the continuous disclosure requirements in the ASX listing rules and overseeing and co-ordinating information disclosure to the ASX, analysts, brokers, shareholders, the media and the public.

Risk Assessment and Management
The Board is responsible for ensuring there are adequate policies in relation to risk management, compliance and internal control systems.
The assessment of identified and potential significant business risk is monitored by the executive directors. The executive directors are responsible for the development and implementation of appropriate risk management strategies in order to mitigate such risk.
The Chairman has declared, in writing to the Board, that the financial reporting risk management and associated compliance and controls have been assessed and found to be operating efficiently and effectively. All risk assessments covered the whole financial year and the period up to the signing of the annual financial report for all material operations in the company.

GAS2GRID Limited ABN 46 112 138 780
Annual financial report – 30 June 2007

Contents

This financial report covers both Gas2Grid Limited as an individual entity and the consolidated entity consisting of Gas2Grid Limited and its subsidiary. The financial report is presented in the Australian currency.

Gas2Grid Limited is a company limited by shares, incorporated and domiciled in Australia. Its registered office is:

c/- Mitchell & Partners
Level 7, 10 Barrack Street
Sydney NSW 2000

A description of the nature of the consolidated entity's operations and its principal activities is included in the directors' report on page 6, which is not part of this financial report.

The financial report was authorised for issue by the directors on 28 September 2007. The company has the power to amend and reissue the financial report.

Through the use of the internet, we have ensured that our corporate reporting is timely, complete, and available globally at minimum cost to the company. All press releases, financial reports and other information are available on our website: www.gas2grid.com

Gas2Grid Limited
Income statements
For the year ended 30 June 2007

		Consolidated		Parent entity	
		2007	2006	**2007**	2006
	Notes	**$**	$	**$**	$
Revenue from continuing operations	4	**18,458**	103,833	**18,458**	103,833
Other income	5	**1,887**	89,797	**-**	51,965
Impairment of investment in subsidiary		**-**	-	**(5,772,901)**	-
Administration expense		**(106,138)**	(96,098)	**(115,087)**	(92,727)
Auditor's remuneration	20	**(50,536)**	(40,519)	**(34,000)**	(33,047)
Employee benefits expense		**(85,000)**	(115,000)	**(85,000)**	(115,000)
Depreciation and amortisation expense	6	**(861)**	(6,599)	**(861)**	(6,599)
Insurance costs		**(30,543)**	(7,247)	**(30,543)**	(7,247)
Rental expenses		**(13,910)**	(15,255)	**(13,910)**	(15,255)
Travelling expenses		**(5,211)**	(10,673)	**(2,962)**	(9,432)
Other expenses		**(23,304)**	(25,336)	**(22,500)**	(19,411)
Loss before income tax		**(295,158)**	(123,097)	**(6,045,270)**	(142,920)
Income tax expense	7	**(27,324)**	(1,734,616)	**-**	-
Loss from continuing operations		**(322,482)**	(1,857,713)	**(6,045,270)**	(142,920)
Loss for the year		**(322,482)**	(1,857,713)	**(6,045,270)**	(142,920)
Loss attributable to members of Gas2Grid Limited		**(322,482)**	(1,857,713)	**(6,045,270)**	(142,920)
		Cents	Cents		
		Cents	Cents		
Earnings per share for loss attributable to the ordinary equity holders of the company:					
Basic earnings per share	26	**(0.05)**	(0.03)		
Diluted earnings per share	26	**(0.05)**	(0.03)		

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

Gas2Grid Limited
Balance sheets
As at 30 June 2007

	Notes	Consolidated 2007 $	Consolidated 2006 $	Parent entity 2007 $	Parent entity 2006 $
ASSETS					
Current assets					
Cash and cash equivalents	8	**2,094,158**	795,442	**2,085,290**	784,101
Trade and other receivables	9	**11,722**	44,894	**11,722**	29,696
Other financial assets at fair value	10	**2,592**	2,531	**2,592**	2,531
Total current assets		**2,108,472**	842,867	**2,099,604**	816,328
Non-current assets					
Other financial assets	11	**-**	-	**3,789,714**	9,130,336
Plant and equipment	12	**1,914**	11,264	**1,914**	11,264
Exploration expenditure and rights	13	**5,152,076**	5,782,054	**40,336**	24,371
Total non-current assets		**5,153,990**	5,793,318	**3,831,964**	9,165,971
Total assets		**7,262,462**	6,636,185	**5,931,568**	9,982,299
LIABILITIES					
Current liabilities					
Trade and other payables	14	**1,518,064**	633,230	**1,432,556**	202,492
Total current liabilities		**1,518,064**	633,230	**1,432,556**	202,492
Non-current liabilities					
Deferred tax liabilities	15	**1,761,940**	1,734,616	**-**	-
Trade and other payables	16	**257,500**	-	**257,500**	
Total non-current liabilities		**2,019,440**	1,734,616	**257,500**	-
Total liabilities		**3,537,504**	2,367,846	**1,690,056**	202,492
Net assets		**3,724,958**	4,268,339	**4,241,512**	9,779,807
EQUITY					
Contributed equity	17	**6,757,617**	6,250,642	**10,545,520**	10,038,545
Reserves	18(a)	**(623,282)**	104,592	**84,000**	84,000
Retained profits	18(b)	**(2,409,377)**	(2,086,895)	**(6,388,008)**	(342,738)
Total equity		**3,724,958**	4,268,339	**4,241,512**	9,779,807

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

Gas2Grid Limited
Statements of changes in equity
For the year ended 30 June 2007

		Consolidated		Parent entity	
		2007	2006	**2007**	2006
	Notes	**$**	$	**$**	$
Total equity at the beginning of the financial year		**4,268,339**	5,515,660	9,779,807	9,332,927
Exchange differences on translation of foreign operations	18(a)	**(727,874)**	20,592	**-**	-
Net income recognised directly in equity	18(a)	**(727,874)**	20,592	**-**	-
Loss for the year		**(322,482)**	(1,857,713)	**(6,045,270)**	(142,920)
Total recognised income and expense for the year		**(1,050,356)**	(1,837,121)	**(6,045,270)**	(142,920)
Transactions with equity holders in their capacity as equity holders:					
Contributions of equity, net of transaction costs	17	**506,975**	589,800	**506,975**	589,800
Share-based payments	18(a)	**-**	-	**-**	-
		506,975	589,800	**506,975**	589,800
Total equity at the end of the financial year		**3,724,958**	4,268,339	**4,241,512**	9,779,807
Total recognised income and expense for the year is attributable to:					
Members of Gas2Grid Limited		**(322,482)**	(1,837,121)	**(6,045,270)**	(142,920)
		(322,482)	(1,837,121)	**(6,045,270)**	(142,920)

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

Gas2Grid Limited
Cash flow statements
For the year ended 30 June 2007

	Notes	Consolidated 2007 $	Consolidated 2006 $	Parent entity 2007 $	Parent entity 2006 $
Cash flows from operating activities					
Interest received		**18,458**	103,833	**18,458**	103,833
Receipts from customers (inclusive of goods and services tax)		**-**	11,591	**-**	-
Payments to suppliers and employees (inclusive of goods and services tax)		**(151,691)**	(142,168)	**(143,071)**	(142,168)
Net cash (outflow) inflow from operating activities	25	**(133,233)**	(26,744)	**(124,613)**	(38,335)
Cash flows from investing activities					
Exploration expenditure		**(402,017)**	(4,673,045)	**(1,534)**	(24,371)
Payments for plant and equipment		**(1,193)**	(17,863)	**(1,193)**	(17,863)
Payments for other financial assets		**-**	(2,531)	**-**	(2,531)
Additional investment in subsidiary	22(d)	**-**	-	**(432,279)**	(4,361,570)
Repayment of loans by related parties		**-**	-	**-**	-
Net cash (outflow) inflow from investing activities		**(403,210)**	(4,693,439)	**(435,006)**	(4,406,335)
Cash flows from financing activities					
Proceeds from issues of shares	17(b)	**535,681**	500,000	**535,681**	500,000
Share issue transaction costs	17(b)	**(28,706)**	-	**(28,706)**	-
Share application money received		**1,353,833**		**1,353,833**	-
Repayment of borrowings		**-**	(3,170)	**-**	(3,170)
Net cash inflow (outflow) from financing activities		**1,860,808**	496,830	**1,860,808**	496,830
Net increase (decrease) in cash and cash equivalents		**1,324,365**	(4,223,353)	**1,301,189**	(3,947,840)
Cash and cash equivalents at the beginning of the financial year		**795,442**	5,084,379	**784,101**	4,731,941
Effects of exchange rate changes on cash and cash equivalents		**(25,649)**	(65,584)	**-**	-
Cash and cash equivalents at end of year	8	**2,094,158**	795,442	**2,085,290**	784,101

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

1 Summary of significant accounting policies

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 years presented, unless otherwise stated. The financial report includes separate financial statements for Gas2Grid Limited as an individual entity and the consolidated entity consisting of Gas2Grid Limited and its subsidiary.

(a) Basis of preparation

This general purpose financial report has been prepared in accordance with Australian equivalents to International Financial Reporting Standards (AIFRSs), other authoritative pronouncements of the Australian Accounting Standards Board, Urgent Issues Group Interpretations and the *Corporations Act 2001.*

Compliance with IFRSs
Australian Accounting Standards include AIFRSs. Compliance with AIFRSs ensures that the consolidated financial statements and notes of Gas2Grid Limited comply with International Financial Reporting Standards (IFRSs). The parent entity financial statements and notes also comply with IFRSs except that it has elected to apply the relief provided to parent entities in respect of certain disclosure requirements contained in AASB 132 *Financial Instruments: Presentation and Disclosure.*

Historical cost convention
These financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets, financial assets and liabilities (including derivative instruments) at fair value through profit or loss, certain classes of property, plant and equipment and investment property.

Critical accounting estimates
The preparation of financial statements in conformity with AIFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 3.

(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 30 June 2007 and the results of its subsidiary for the 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.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group (refer to note 1(v)).

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

1 Summary of significant accounting policies (continued)

necessary to ensure consistency with the policies adopted by the Group.

Investments in subsidiaries are accounted for at cost in the individual financial statements of Gas2Grid Limited.

(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 segments operating in other economic environments.

(d) 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 financial assets and liabilities are reported as part of the fair value gain or loss. Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss. Translation differences on non-monetary financial assets such as equities classified as available-for-sale financial assets are included in the fair value reserve in equity.

(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 where applicable.

1 Summary of significant accounting policies (continued)

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entities and translated at the closing rate.

(e) 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.

(f) 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.
Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

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.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

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

(g) 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 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

1 Summary of significant accounting policies (continued)

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).

(h) 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.

(i) Trade receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost, less provision for doubtful debts. Trade receivables are due for settlement no more than 120 days from the date of recognition for land development and resale debtors, and no more than 30 days for other debtors.

Collectibility of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off. A provision for doubtful receivables is established when there is objective evidence that the company will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The amount of the provision is recognised in the income statement.

(j) Investments and other financial assets

Classification

The Group classifies its investments in the following categories; financial assets at fair value through profit or loss, loans and receivables. 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.

(i) Financial assets at fair value through profit or loss
Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are classified as held for trading unless they are designated as hedges. Assets in this category are classified as current assets.

(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.

Recognition and derecognition
Regular purchases and sales of financial assets 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 carried at fair value through profit or loss are initially recognised at fair value and transaction

1 Summary of significant accounting policies (continued)

costs are expensed in the income statement. 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.

Fair value
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 include the use of recent arm's length transactions reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models making maximum use of market inputs and relying as little as possible on entity-specific inputs.

Impairment
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 as an indicator that the securities are 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 or loss – is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments classified as available-for-sale are not reversed through the income statement.

(k) 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.

(l) Property, 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(g)). Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the income statement.

1 Summary of significant accounting policies (continued)

(m) 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.

(n) 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.

(o) Employee benefits

(i) Wages and salaries
Liabilities for wages and salaries, including non-monetary benefits expected to be settled within 12 months of the reporting date are recognised in other payables in respect of employees' services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled.

(ii) Share-based payments
Share-based compensation benefits are provided to the Founders via the Gas2Grid Limited Option Plan. Information relating to this plan is set out in note 27.

The fair value of options granted under the Gas2Grid Limited Option Plan is recognised as an employee benefit expense with a corresponding increase in equity. The fair value is measured at grant date and recognised over the period during which the Founders become unconditionally entitled to the options.

The fair value at grant date is independently determined using a Black-Scholes option pricing model that takes into account the exercise price, the term of the option, the impact of dilution, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the option.

The fair value of the options granted is adjusted to reflect market vesting conditions, but excludes the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. At each balance sheet date, the entity revises its estimate of the number of options that are expected to become exercisable. The employee benefit expense recognised each period takes into account the most recent estimate.

Upon the exercise of options, the balance of the share-based payments reserve relating to those options is transferred to share capital and the proceeds received, net of any directly attributable transaction costs, are credited to share capital.

1 Summary of significant accounting policies (continued)

(p) Contributed equity

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares 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 for the acquisition of a business are not included in the cost of the acquisition as part of the purchase consideration.

(q) 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 ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the 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.

(r) Investment in subsidiaries

Investments in subsidiaries are accounted for at cost. Such investments include both investments in shares issued by the subsidiary and other parent entity interests that in substance form part of the parent entity's investment in the subsidiary. These include investments in the form of interest-free loans which have no fixed repayment terms and which have been provided to subsidiaries as an additional source of long term capital. Trade amounts receivable from subsidiaries in the normal course of business and other amounts advanced on commercial terms and conditions are included in receivables.

(s) Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the taxation authority. In this case it is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the taxation authority is included with other receivables or payables in the balance sheet.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to the taxation authority, are presented as operating cash flow.

(t) Dividends

Provision is made for the amount of any dividend declared, being appropriately authorised and no longer at the discretion of the entity, on or before the end of the financial year but not distributed at balance date.

1 Summary of significant accounting policies (continued)

(u) 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 and exploitation of the area of interest, or alternatively by its sale; 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.

(v) Business combinations

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, when 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(m)). 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 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.

(w) New accounting standards and UIG interpretations

Certain new accounting standards and UIG interpretations have been published that are not mandatory for 30 June 2007 reporting periods. The group's assessment of the impact of these new standards and interpretations is set out below.

1 Summary of significant accounting policies (continued)

(i) AASB 7 *Financial Instruments: Disclosures and AASB 2005-10 Amendments to Australian Accounting Standards [AASB 132, AASB 101, AASB 114, AASB 117, AASB 133, AASB 139, AASB 1, AASB 4, AASB 1023 & AASB 1038]*
AASB 7 and AASB 2005-10 are applicable to annual reporting periods beginning on or after 1 January 2007. The group has not adopted the standards early. Application of the standards will not affect any of the amounts recognised in the financial statements, but will impact the type of information disclosed in relation to the group's financial instruments.

(ii) AASB-I 10 *Interim Financial Reporting and Impairment]*
AASB-I 10 applies to annual reporting periods beginning on or after 1 November 2006. It prohibits impairment losses recognised in an interim period on goodwill, investments in equity instruments and investments in financial assets carried at cost to be reversed at a subsequent balance sheet date. The Group will apply AASB-I 10 from 1 July 2007 but it is not expected to have any impact on the Group's financial statements.

(iii) Revised AASB 101 *Presentation of Financial Statements*
A revised AASB 101 was issued in October 2006 and is applicable to annual reporting periods beginning on or after 1 January 2007. The Group has not adopted the standard early. Application of the revised standard will not affect any of the amounts recognised in the financial statements, but will remove some of the disclosures currently required.

(iv) AASB 8 *Operating Segments and* AASB 2007-3 *Amendments to Australian Accounting Standards arising from* AASB 8

AASB 8 and AASB 2007-3 are effective for annual reporting periods commencing on or after 1 January 2009. AASB 8 will result in a significant change in the approach to segment reporting, as it requires adoption of a "management approach" to reporting on the financial performance. The formation being reported will be based on what the key decision-makers use internally for evaluating segment performance and deciding how to allocate resources to operating segments. The Group has not yet decided when to adopt AASB 8. Application of AASB 8 may result in different segments, a segment results and different type of information being reported in the segment note of the financial report. However, it will not affect any of the amounts recognised in the financial statements.

2 Financial risk management

The Group's activities expose it to a variety of financial risks mainly market risk, in particular currency risk and to a lesser extent fair value interest rate risk. Risk management is carried out by the Board and the financial risks faced by the Group are considered minimal at this stage.

(a) Market risk

(i) Foreign exchange risk
Foreign exchange risk arises when future commercial transactions and recognised assets and liabilities are denominated in a currency that is not the entity's functional currency.

The Group operates internationally and is exposed to foreign exchange risk arising from currency exposures to the US dollar.

No action is taken to manage foreign exchange risk as the Group considered the impact of the risk will be insignificant.

1 Summary of significant accounting policies (continued)

(b) Cash flow and fair value interest rate risk

As the company has no significant interest-bearing assets, the company's income and operating cash flows are not materially exposed to changes in market interest rates.

3 Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that may have a financial impact on the entity and that are believed to be reasonable under the circumstances.

(a) Critical accounting estimates and assumptions

The group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(i) Estimated impairment of exploration expenditure
The Group tests annually whether exploration expenditure carried forward has suffered any impairment, in accordance with the accounting policy stated in note 1(u).

4 Revenue

	Consolidated		Parent entity	
	2007	2006	**2007**	2006
	$	$	**$**	$
From continuing operations				
Other revenue				
Interest	**18,458**	103,833	**18,458**	103,833
	18,458	103,833	**18,458**	103,833

5 Other income

Foreign exchange gains (net) (note (a))	**1,887**	89,797	**-**	51,965
	1,887	89,797	**-**	51,965

(a) Net foreign exchange gains

Net foreign exchange gains included in other income for the year	**1,887**	89,797	**-**	51,965
Net foreign exchange gains recognised in loss before income tax for the year (as either other income or expense)	**1,887**	89,797	**-**	51,965

6 Expenses

Loss before income tax includes the following specific expenses:

Depreciation				
Plant and equipment	**861**	6,599	**861**	6,599
Total depreciation	**861**	6,599	**861**	6,599
Net foreign exchange loss	-	-	**1,871**	-
Superannuation	**7,018**	9,068	**7,018**	9,068
Impairment of investment in subsidiary	**-**	-	**(5,772,901)**	-

7 Income tax expense

	Consolidated		Parent entity	
	2007	2006	**2007**	2006
	$	$	**$**	$
(a) Income tax expense				
Current tax	**-**	-	**-**	-
Deferred tax	**27,324**	1,734,616	**-**	-
Under (over) provided in prior years	**-**	-	**-**	-
	27,324	1,734,616	**-**	-
Income tax expense is attributable to:				
Loss from continuing operations	**27,324**	1,734,616	**-**	-
Aggregate income tax expense	**27,324**	1,734,616	**-**	-
Deferred income tax (revenue) expense included in income tax expense comprises:				
Decrease (increase) in deferred tax assets	**-**	-	**-**	-
(Decrease) increase in deferred tax liabilities	**27,324**	1,734,616	**-**	-
	27,324	1,734,616	**-**	-
(b) Numerical reconciliation of income tax expense to prima facie tax payable				
Loss from continuing operations before income tax expense	**(295,158)**	(123,097)	**(6,045,270)**	(142,920)
Tax at the Australian tax rate of 30% (2006-30%)	**(88,547)**	(36,929)	**(1,813,581)**	(42,876)
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:				
Exploration expenditure	**27,324**	1,734,616	**-**	-
	(61,223)	1,697,687	**(1,813,581)**	(42,876)
Deferred tax asset not recognised/(brought to account)	**88,547**	36,929	**1,813,581**	42,876
Income tax expense	**27,324**	1,734,616	**-**	-
(c) Tax losses				
Unused tax losses for which no deferred tax asset has been recognised	**(647,437)**	(352,279)	**(6,388,008)**	(342,738)
Potential tax benefit @ 30%	**194,231**	105,684	**1,916,402**	102,821

All unrecognised tax losses were incurred by Australian and Singapore entities.

8 Current assets - Cash and cash equivalents

	Consolidated		Parent entity	
	2007	2006	**2007**	2006
	$	$	**$**	$
Cash at bank and in hand	**2,094,158**	795,442	**2,085,290**	784,101
Deposits at call	**-**	-	**-**	-
	2,094,158	795,442	**2,085,290**	784,101

(a) Reconciliation to cash at the end of the year

The above figures are reconciled to cash at the end of the financial year as shown in the statement of cash flows as follows:

Balances as above	**2,094,158**	795,442	**2,085,290**	784,101
Balances per statement of cash flows	**2,094,158**	795,442	**2,085,290**	784,101

(b) Cash at bank and on hand

These are interest bearing.

The weighted average interest rate for the year ended 30 June 2007 was 5.25% (2006 4.69%).

9 Current assets - Trade and other receivables

	Consolidated		Parent entity	
	2007	2006	**2007**	2006
	$	$	**$**	$
Other receivables	**11,722**	23,765	**11,722**	8,567
Prepayments	**-**	21,129	**-**	21,129
	11,722	44,894	**11,722**	29,696

Other receivables

These amounts relate to the Goods and Services Tax (GST) paid on various Australian expenses for the quarter ended 30 June 2007 together with the GST portion on accruals for the year then ended.

10 Current assets - Other financial assets at fair value through profit or loss

At beginning of year	**2,531**	-	**2,531**	-
Additions	**-**	2,531	**-**	2,531
Foreign exchange difference on translation	**61**	-	**61**	-
At end of year	**2,592**	2,531	**2,592**	2,531
Philippines Treasury Bills	**2,592**	2,531	**2,592**	2,531
	2,592	2,531	**2,592**	2,531

Changes in fair values of other financial assets at fair value through profit or loss are recorded in other income in the income statement.

(b) Interest rate risk

The Group's exposure to interest rate risk and the effective weighted average interest rate by maturity periods is set out in the following tables.

		Fixed interest maturing in:							
2007	Floating interest rate	1 year or less	Over 1 to 2 years	Over 2 to 3 years	Over 3 to 4 years	Over 4 to 5 years	Over 5 years	Non-interest bearing	Total
	$	$	$	$	$	$	$	$	$
Cash	2,094,158	-	-	-	-	-	-	-	2,094,158
Related party receivable	-	-	-	-	-	-	-	-	-
Other receivables	-	-	-	-	-	-	-	11,722	11,722
Other financial assets at fair value	2,592								2,592
	2,096,750	-	-	-	-	-	-	11,722	2,108,472
Weighted average interest rate	5.25%	-	-	-	-	-	-		

10 Non current assets – Receivables (continued)

2006	Floating interest rate	1 year or less	Over 1 to 2 years	Over 2 to 3 years	Over 3 to 4 years	Over 4 to 5 years	Over 5 years	Non-interest bearing	Total
	$	$	$	$	$	$	$	$	$
Cash	794,862							580	795,442
Related party receivable	-	-	-	-	-	-	-	-	-
Other receivables	-	-	-	-	-	-	-	23,765	23,765
Other financial assets at fair value	2,531								2,531
	797,393	-	-	-	-	-	-	24,345	821,738
Weighted average interest rate	4.69%	-	-	-	-	-	-	-	

(c) Credit risk

There is no significant credit risk with respect to receivables.

11 Non-current assets - Other financial assets

	Consolidated		Parent entity	
	2007	2006	**2007**	2006
	$	$	**$**	$
Shares in subsidiaries (note 23)	**-**	-	**3,789,714**	3,789,714
Investment in subsidiaries – other investments (*)	**-**	-	**-**	5,340,622
	-	-	**3,789,714**	9,130,336

These financial assets were carried at cost.

* Other investments in subsidiaries include parent entity interests in subsidiaries as described in note 23

12 Non-current assets - Plant and equipment

Consolidated	**2007**	**2006**
	$	**$**
Furniture, fittings and equipment		
Opening net book amount	**11,264**	-
Additions	**1,193**	17,863
Disposal	**(9,862)**	-
Depreciation charge	**(861)**	(6,599)
Closing net book amount	**1,914**	11,264
Cost or fair value	**2,595**	17,863
Accumulated depreciation	**(861)**	(6,599)
Net book amount	**1,914**	11,264

12 Non-current assets - Property, plant and equipment (continued)

Parent entity	**2007**	**2006**
	$	**$**
Furniture, fittings and equipment		
Opening net book amount	**11,264**	-
Additions	**1,193**	17,863
Disposal	**(9,682)**	-
Depreciation charge	**(861)**	(6,599)
Closing net book amount	**1,914**	11,264
Cost or fair value	**2,595**	17,863
Accumulated depreciation	**(861)**	(6,599)
Net book amount	**1,914**	11,264

13 Non-current assets – Exploration expenditure and rights

	Consolidated		**Parent entity**	
	2007	2006	**2007**	2006
	$	$	**$**	$
Exploration expenditure and rights				
At cost	**5,152,076**	5,782,054	**40,336**	24,371
	5,152,076	5,782,054	**40,336**	24,371

Reconciliation of the carrying amount of exploration expenditure and rights

Exploration expenditure and rights:				
Carrying amount at beginning of year	**5,782,054**	616,154	**24,371**	-
Exploration expenditure and rights	**100,460**	5,147,764	**15,965**	24,371
Exploration expenditure and rights written off	**-**	-	**-**	-
Foreign exchange difference	**(730,438)**	18,136		
Carrying amount at end of year	**5,152,076**	5,782,054	**40,336**	24,371

14 Current liabilities – Trade and other payables

Trade payables	**77,838**	422,231	**-**	-
Other payables	**86,393**	210,999	**78,723**	202,492
Share application monies (Note 24) (*)	**1,353,833**	-	**1,353,833**	-
	1,518,064	633,230	**1,432,556**	202,492

(*) This is proceeds received from share issue that had not received shareholders approval at year end and as such was held as a liability. Subsequent to year end shareholders approval was given and the balance was transferred to share capital.

15 Non-current liabilities – Deferred tax liabilities

	Consolidated		Parent entity	
	2007	2006	**2007**	2006
	$	$	**$**	$
The balance comprises temporary differences attributable to:				
Amounts recognised in profit or loss				
Exploration expenditure	**27,324**	1,734,616	**-**	-
Movements:				
Opening balance at 1 July	**1,734,616**	-	**-**	-
Charged/(credited) to the income statement (note 7)	**27,324**	1,734,616	**-**	-
Closing balance at 30 June	**1,761,940**	1,734,616	**-**	-

Deferred tax liabilities are expected to be settled after more than 12 months.

16 Non-current liabilities – Trade and other payables

Other payables	**257,500**	-	**257,500**	-
	257,500	-	**257,500**	-

These are accrued directors fees payable which will continue to accrue until such time as it is mutually agreed that the company is in a position to pay those fees.

17 Contributed equity

	Notes	Consolidated and Parent entity 2007 Shares	2006 Shares	Consolidated and Parent entity 2007 $	2006 $
(a) Share capital					
Ordinary shares- fully paid	(b),(c)	**68,448,077**	59,520,067	**10,545,520**	10,038,545
Total contributed equity – parent entity				**10,545,520**	10,038,545

(b) Movements in ordinary share capital:

Date	Details	Notes	Number of shares	Issue price	$
1 July 2005	Opening balance		54,133,400		9,448,745
5 July 2005	Share issue	(d)	75,000	0.20	15,000
12 September 2005	Share issue	(d)	311,667	0.24	74,800
8 May 2006	Share issue	(d)	5,000,000	0.10	500,000
	Less: Transaction costs arising on initial public offer				(520,919)
22 June 2007	Share issue	(e)	8,928,010	0.06	535,681
	Less: Transaction costs				(28,706)
30 June 2007	Balance		68,448,077		**10,545,520**

(c) Ordinary shares

Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of the company in proportion to the number of and amounts paid on the shares held.

On a show of hands every holder of ordinary shares present at a meeting in person or by proxy, is entitled to one vote, and upon a poll each share is entitled to one vote.

(d) Share issue

On 5 July and 12 September 2005 the company issued 75,000 and 311,667 ordinary shares respectively at $0.20 and $0.24 per share respectively. The purpose of those share issues was in lieu of cash payments to trade and other payables. The issue price was based on the market value of the company's shares at that time.

On 8 May 2006 the company issued 5,000,000 ordinary shares at an issue price of $0.10 for each ordinary share. The purpose of the share issue was to raise additional working capital.

(e) Share issue

On 22 June 2007, the company issued 8,928,010 ordinary shares at $0.06 per share. The purpose of the share issues was to raise funds to be used for the Company's oil and gas exploration programmes, viz farmin drilling in PEP 38260, in the Canterbury Basin, New Zealand (see Company release to Australian Stock Exchange on 12 June 2007); on going activities in the Philippines (SC 44)

17 Contributed equity (continued)

and the Aquitaine Basin of France (St Griede application area, GGX 50%); costs relating to the capital raising and working capital.

(f) Options

Information relating to employee options is set out in note 27.

18 Reserves and retained profits

	Consolidated		Parent entity	
	2006	2005	**2007**	2006
	$	$	**$**	$
(a) Reserves				
Share-based payments reserve	**84,000**	84,000	**84,000**	84,000
Foreign currency translation reserve	**(707,282)**	20,592	**-**	-
	(623,282)	104,592	**84,000**	84,000
Movements:				
Share-based payment reserve				
Balance 1July	**84,000**	84,000	**84,000**	84,000
Option expense	**-**	-	**-**	-
Balance 30 June	**84,000**	84,000	**84,000**	84,000
Foreign currency translation reserve				
Balance 1 July	**20,592**	-	**-**	-
Currency translation differences arising during the year	**(727,874)**	20,592	**-**	-
Balance 30 June	**(707,282)**	20,592	**-**	-

18 Reserves and retained profits (continued)

	Consolidated		Parent entity	
	2007	2006	**2007**	2006
	$	$	**$**	$

(b) Retained profits

Movements in retained profits were as follows:

Balance 1 July	**(2,086,895)**	(229,182)	**(342,738)**	(199,818)
Loss for the year	**(322,482)**	(1,857,713)	**(5,772,901)**	(142,920)
Balance 30 June	**(2,409,377)**	(2,086,895)	**(6,115,639)**	(342,738)

(c) Nature and purpose of reserves

(i) Share-based payments reserve
The share-based payments reserve is used to recognise the fair value of options issued but not exercised.

(ii) Foreign currency translation reserve
Exchange differences arising on translation of the foreign controlled entity are taken to the foreign currency translation reserve, as described in note 1(d). The reserve is recognised in profit and loss when the net investment is disposed of.

19 Commitments

(a) Exploration commitments

In order to maintain current rights to tenure to exploration tenements, the company has the following discretionary exploration expenditure requirements up until expiry of leases. These obligations, which are subject to renegotiation upon expiry of the leases are not provided for in the financial statements and are payable:-

	Consolidated		Parent entity	
	2007	2006	**2007**	2006
	$	$	**$**	$
Not later than one year	**-**	1,116,000	**-**	-
Later than one year but not later than 5 years	**-**	-	**-**	-
	-	1,116,000	**-**	-

20 Remuneration of auditors

During the year the following fees were paid or payable for services provided by the auditor of the parent entity, its related practices and non-related audit firms:

	Consolidated		Parent entity	
	2007	2006	**2007**	2006
	$	$	**$**	$
(a) Assurance services				
Audit services				
PricewaterhouseCoopers Australian firm				
Audit and review of financial reports and other audit work under the *Corporations Act 2001*	**34,000**	33,047	**34,000**	33,047
Related practices of PricewaterhouseCoopers Australian firm	**16,536**	7,472	**-**	-
Total remuneration for audit services	**50,536**	40,519	**34,000**	33,047

No non audit services provided.

21 Key management personnel disclosures

(a) Directors

The following persons were directors of Gas2Grid Limited during the financial year:

(i) Chairman – non-executive
D A Munns

(ii) Executive directors
D W King, Executive Director (from March 2006)
H M Royle, Managing Director (to March 2006)

H M Royle resigned from the position of director on 13 July 2006.

(iii) Non-executive directors
M H Stirzaker
E D Espiritu

M H Stirzaker resigned from the position of director on 13 July 2006.

E D Espiritu was appointed to the position of non-executive director on 13 July 2006.

(b) Key management personnel compensation

	Consolidated		**Parent entity**	
	2007	2006	**2007**	2006
	$	$	**$**	$
Short-term employee benefits	**85,000**	115,000	**85,000**	115,000
Share-based payments	**-**	-	**-**	-
	85,000	115,000	**85,000**	115,000

The company has taken advantage of the relief provided by the Corporations Regulations and has transferred the detailed remuneration disclosures to the directors' report. The relevant information can be found in sections A-C of the remuneration report on pages 9 to 13.

The directors' fees totalling $257,500 form part of accounts payable at balance date.

(c) Equity instruments disclosures relating to key management personnel

(i) Options provided as remuneration
Details of options provided as remuneration, together with terms and conditions of the options, can be found in section D of the remuneration report on page 12.

21 Key management personnel disclosures (continued)

(ii) Option holdings

The number of options over ordinary shares in the company held during the financial year by each director of Gas2Grid Limited, including their personally related parties, are set out below.

2007 Name	Balance at the start of the year	Granted during the year as compensation	Exercised during the year	Other changes	Balance at the end of the year	Vested and exercisable during the year
Directors of Gas2Grid Limited						
D A Munns	500,000	-	-	-	500,000	500,000
D W King (i)	300,000	-	-	-	300,000	300,000
H M Royle	1,000,000	-	-	-	1,000,000	1,000,000
M H Stirzaker (ii)	300,000	-	-	-	300,000	300,000
E D Espiritu	-	-	-	-	-	-

2006 Name	Balance at the start of the year	Granted during the year as compensation	Exercised during the year	Other changes	Balance at the end of the year	Vested and exercisable during the year
Directors of Gas2Grid Limited						
D A Munns	500,000	-	-	-	500,000	500,000
D W King (i)	300,000	-	-	-	300,000	300,000
H M Royle	1,000,000	-	-	-	1,000,000	1,000,000
M H Stirzaker (ii)	300,000	-	-	-	300,000	300,000
E D Espiritu	-	-	-	-	-	-

(iii) Share holdings

The numbers of shares in the company held during the financial year by each director of Gas2Grid Limited, including their personally related parties are set out below. There were no shares granted during the reported period as compensation.

2007 Name	Balance at the start of the year	Received during the year on exercise of options	Other changes during the year	Balance at the end of the year
Directors of Gas2Grid Limited				
D A Munns	6,711,800	-	-	6,711,800
D W King (i)	3,223,400	-	89,859	3,313,259
H M Royle	3,355,800	-	-	3,355,800
M H Stirzaker (ii)	472,000	-	-	472,000
E D Espiritu (iii)	147,769	-	-	147,769

2006 Name	Balance at the start of the year	Received during the year on exercise of options	Other changes during the year	Balance at the end of the year
Directors of Gas2Grid Limited				
D A Munns	6,711,800	-	-	6,711,800
D W King (i)	3,223,400	-	-	3,223,400
H M Royle	3,355,800	-	-	3,355,800
M H Stirzaker (ii)	472,000	-	-	472,000
E D Espiritu	-	-	147,769	147,769

21 Key management personnel disclosures (continued)

(i) 3,223,400 shares and 300,000 options are held by Seistend Pty Limited, an entity associated with and controlled by David King

(ii) 472,000 shares and 300,000 options are held by Stith Pty Limited, an entity of which Michael Stirzaker is a director and could be a beneficiary.

(iii) 147,769 shares are held by Ejey Holdings Pty Limited, an entity of which Eric Espiritu is a director and could be a beneficiary.

At balance date, the director-related parties held a relevant interest in the share capital of the company as follows:-

	Beneficially held Fully paid	**Number of options**
B. Rumph (i)	100,000	-
H M Royle & B Rumph Superannuation Fund (ii)	35,000	-
S C Stirzaker (iii)	10,000	-

(i) Brian Rumph is the spouse of Hildegunde Royle

(ii) H M Royle & B Rumph Superannuation Fund is a self-managed superannuation fund, of which Hildegunde Royle and Brian Rumph are members

(iii) Clare Stirzaker is the spouse of Michael Stirzaker

(d) Loans to key management personnel

There are no loans outstanding to directors of Gas2Grid Limited.

(e) Other transactions with key management personnel

None.

Aggregate amounts of each of the above types of other transactions with key management personnel of Gas2Grid Limited:

	2007	2006
	$	$
Amounts recognised as expense		
Consultancy fees	**-**	151,712
Rent of office building	**-**	14,817
	-	166,529
Amounts recognised as non current assets		
Exploration expenditure and rights	**-**	1,110,438
	-	1,110,438

22 Related party transactions

(a) Parent entities

The parent entity within the Group is Gas2Grid Limited.

22 Related party transactions (continued)

(b) Subsidiaries

Interests in subsidiaries are set out in note 23.

(c) Key management personnel

Disclosures relating to key management personnel are set out in note 21.

(d) Loans from related parties and investments in subsidiaries

	Consolidated		Parent entity	
	2007	2006	**2007**	2006
	$	$	**$**	$
Investments in subsidiaries				
Beginning of the year	**-**	-	**5,340,622**	979,052
Additional investment in subsidiary	**-**	-	**432,279**	4,361,570
Impairment of investment in subsidiary	**-**	-	**(5,772,901)**	-
End of year	**-**	-	**-**	5,340,622
Loans from other related parties				
Beginning of the year	**-**	3,170	**-**	3,170
Loans received	**-**	-	**-**	-
Loan repayments made	**-**	(3,170)	**-**	(3,170)
End of year	**-**	-	**-**	-

No provisions for doubtful debts have been raised in relation to any outstanding balances, and no expense has been recognised in respect of bad or doubtful debts due from related parties.

23 Subsidiaries

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiary in accordance with the accounting policy described in note 1(b).

Name of entity	**County of incorporation**	**Class of shares**	**Equity holding***	
			2007	2006
			%	%
Gas2Grid Pte Limited	Singapore	Ordinary	**100**	100

* The proportion of ownership interest is equal to the proportion of voting power held.

24 Events occurring after the balance sheet date

On 12 June 2007 Gas2Grid Limited announced a placement of securities with professional and sophisticated investors of 29,465,576 fully paid ordinary shares at $0.06 each to raise $1.768 million and the establishment of a shareholder's Share Purchase Plan (SPP) for the issue of a maximum of 20,534,423 shares at $0.06 each to raise a total of $1.232 million. The funds raised by the Plan and placement will be used for the Company's oil and gas exploration programmes, viz farmin drilling in PEP 38260, in the Canterbury Basin, New Zealand; on going activities in the Philippines (SC 44) and the Aquitaine Basin of France (St Griede application area, GGX 50%); costs relating to the capital raising and working capital. The SPP offer closed on 11 July 2007. Part of the share placement (20,537,566 shares) was subject to the approval of shareholders at the general meeting held 25 July 2007. The placement was approved by shareholders and the shares were issued on 26 July 2007.

25 Reconciliation of profit after income tax to net cash inflow from operating activities

	Consolidated		Parent entity	
	2007	2006	**2007**	2006
	$	$	**$**	$
Loss for the year	**(322,482)**	(1,857,713)	**(6,045,270)**	(142,920)
Depreciation and amortisation	**861**	6,599	**861**	6,599
Loss on disposal of fixed assets	**1,179**	-	**1,179**	-
Impairment of investment in subsidiary	**-**	-	**5,772,901**	-
Change in operating assets and liabilities				
(Increase) decrease in trade and other receivables	**33,172**	(5,080)	**17,913**	3,155
(Increase) decrease in other operating assets	**-**	-	**-**	-
Increase in trade and other payables	**343,031**	94,834	**127,803**	94,831
(Decrease) increase in deferred tax liabilities	**(188,994)**	1,734,616	**-**	-
(Decrease) increase in other provisions	**-**	-	**-**	-
Net cash (outflow) inflow from operating activities	**(133,233)**	(26,744)	**(124,613)**	(38,335)

26 Earnings per share

	Consolidated	
	2007	2006
	Cents	Cents
(a) Basic earnings per share		
Loss from continuing operations attributable to the ordinary equity holders of the company	**(0.05)**	(0.03)
Loss attributable to the ordinary equity holders of the company	**(0.05)**	(0.03)
(b) Diluted earnings per share		
Loss from continuing operations attributable to the ordinary equity holders of the company	**(0.05)**	(0.03)
Loss attributable to the ordinary equity holders of the company	**(0.05)**	(0.03)

26 Earnings per share (continued)

	Consolidated	
	2007	2006
	$	$
(c) Reconciliations of earnings used in calculating earnings per share		
Basic earnings per share		
Loss from continuing operations	**(322,482)**	(1,857,713)
Loss from continuing operations attributable to the ordinary equity holders of the company used in calculating basic earnings per share	**(322,482)**	(1,857,713)
Diluted earnings per share		
Loss from continuing operations attributable to the ordinary equity holders of the company used in calculating basic earnings per share	**(322,482)**	(1,857,713)
Loss from continuing operations attributable to the ordinary equity holders of the company used in calculating diluted earnings per share	**(322,482)**	(1,857,713)

	Consolidated	
	2007	2006
	Number	Number
(d) Weighted average number of shares used as the denominator		
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	**59,715,749**	55,196,638
Adjustments for calculation of diluted earnings per share:		
Options	**-**	-
Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted earnings per share	**59,715,749**	55,196,638

(e) Information concerning the classification of securities

(i) Options

Options granted to the Founders under the Gas2Grid Option Plan are considered to be potential ordinary shares and have been included in the determination of diluted earnings per share to the extent to which they are dilutive. The options have not been included in the determination of basic earnings per share. Details relating to the options are set out in note 27.

27 Share-based payments

(a) Option Plan

Options were granted in February 2005 in recognition of the considerable time and effort expended and to be expended by the Founders, and as a reward for the risks to be undertaken by the Founders. Options were granted for a four year period.

When exercised, each option is convertible into one ordinary share. Shares issued on exercise of options are to rank equally with all other shares on issue at the time of exercise of the options.

Set out below are summaries of options granted under the plan.

Grant date	Expiry date	Exercise price	Balance at start of the year Number	Granted during the year Number	Exercised during the year Number	Expired during the year Number	Balance at end of the year Number	Exercisable at end of the year Number
Consolidated and parent entity - 2006								
Feb 2005	15 Mar 2009	$0.30	2,600,000	-	-	-	2,600,000	2,600,000
Total			2,600,000	-	-	-	2,600,000	2,600,000
Weighted average exercise price			-	-	-	-	-	-
Consolidated and parent entity – 2005								
Feb 2005	15 Mar 2009	$0.30	-	2,600,000	-	-	2,600,000	2,600,000
Total			-	2,600,000	-	-	2,600,000	2,600,000
Weighted average exercise price			-	-	-	-	-	-

No options were forfeited during the periods covered by the above tables.

Details of the method used to calculate the fair value of options has been disclosed in page 13.

(b) Expenses arising from share-based payment transactions

Total expenses arising from share-based payment transactions recognised during the period as part of employee benefit expense were as follows:

	Consolidated		Parent entity	
	2007	2006	**2007**	2006
	$	$	**$**	$
Options issued under option plan	**-**	-	**-**	-
	-	-	**-**	-

28 Segment reporting

The Group operates as an exploration company performing exploratory drilling wells in the SC 44 license in Cebu, Republic of Philippines and manages this activity from its head office in Sydney, Australia.

In the directors' opinion:

(a) the financial statements and notes set out on pages 20 to 51 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 company's financial position as at 30 June 2007 and of its performance, as represented by the results of their operations, changes in equity and their cash flows, for the financial year ended on that date; and

(b) there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable; and

(c) the audited remuneration disclosures set out on pages 9 to 13 of the directors' report comply with Accounting Standards AASB 124 *Related party Disclosures* and the *Corporations Regulations 2001*; and

The directors have been given the declaration by the chief executive office required by section 295A of the *Corporations Act 2001.*

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

David King
Director

Sydney
28 September 2007

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Independent auditor's report to the members of Gas2Grid Limited

Report on the financial report and the AASB 124 Remuneration disclosures contained in the directors' report

We have audited the accompanying financial report of Gas2Grid Limited (the company), which comprises the balance sheet as at 30 June 2007, and the income statement, statement of changes in equity and cash flow statement for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration for both Gas2Grid Limited and the Gas2Grid Limited Group (the consolidated entity). The consolidated entity comprises the the company and the entities it controlled at the year's end or from time to time during the financial year.

We have also audited the remuneration disclosures contained in the directors' report. As permitted by the *Corporations Regulations 2001*, the company has disclosed information about the remuneration of directors and executives ("remuneration disclosures"), required by Accounting Standard AASB 124 *Related Party Disclosures*, under the heading "remuneration report" in pages 9 to 12 of the directors' report and not in the financial report.

Directors' responsibility for the financial report and the AASB 124 Remunerations disclosures contained in the directors' report

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the 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. In Note 3, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that compliance with the Australian equivalents to International Financial Reporting Standards ensures that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards.

The directors of the company are also responsible for the remuneration disclosures contained in the directors' report.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

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Our responsibility is to also express an opinion on the remuneration disclosures contained in the directors' report based on our audit.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report and the remuneration disclosures contained in the directors' report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report and the remuneration disclosures contained in the directors' report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report and the remuneration disclosures contained in the directors' report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report and the remuneration disclosures contained in the directors' report.

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

For further explanation of an audit, visit our website http://www.pwc.com/au/financialstatementaudit.

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*.

Auditor's opinion on the financial report

In our opinion:

(a) the financial report of Gas2Grid Limited is in accordance with the *Corporations Act 2001*, including:

(i) giving a true and fair view of the company's and consolidated entity's financial position as at 30 June 2007 and of their performance for the year ended on that date; and

(ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*; and

(b) the consolidated financial statements and notes also comply with International Financial Reporting Standards as disclosed in Note 1.

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Auditor's opinion on the AASB 124 Remuneration disclosures contained in the directors' report

In our opinion, the remuneration disclosures that are contained in pages 9 to 12 of the directors' report comply with Accounting Standard AASB 124.

PricewaterhouseCoopers

Marc Upcroft
Partner

Sydney
28 September 2007

The shareholder information set out below was applicable as at 24 September 2007.

1. Substantial Holders

Substantial holders in the company are set out below:-

Ordinary Shares

	Number held
Westpac Custodian Nominees Limited	7,000,000
David Munns	6,711,800
Dennis Morton	3,355,800
Keith Schulstad	3,203,400

2. Voting Rights

The voting rights attaching to the shares are, on a show of hands every member present in person or by proxy shall have one vote and upon a poll, are one vote for each share held.

3. On-Market Buy-Back

There is no current on-market buy-back.

4. Distribution of Shareholders

(i) Analysis of numbers of shareholders by size of holding:-

No. of Shares	No. of Shareholders
1 – 1,000	82
1,001 – 5,000	29
5,001 – 10,000	85
10,001 – 100,000	313
100,001 and over	135
	644

(ii) There were 125 holders of less than a marketable parcel of shares.

5. Twenty Largest Shareholders

Name of Shareholders:	Number Held:	Percentage of Issued Shares:
1. Custodial Services Limited	7,970,665	7.28
2. National Nominess Limited	6,915,074	6.31
3. Mr. David Munns	6,711,800	6.13
4. UBS Nominees Pty Limited	5,060,392	4.62
5. Mr. Dennis Morton	4,234,066	3.87
6. Julian Peters Pty Limited	3,824,919	3.49
7. Seistend Pty Limited <DWK Super A/C>	3,164,933	2.89
8. Kathbe Pty Limited <Ryan Family No 2 A/C>	3,044,933	2.78
9. Mr. Keith Schulstad	2,626,345	2.40
10. Fortis Clearing Nominees Pty Limited	2,390,108	2.18
11. Airtrust (Singapore) Pte Limited	2,000,000	1.83
12. Walleroo Pty Limited	2,000,000	1.83
13. Mrs. Hildegunde Royle & Mr. Brian Rumph	1,905,024	1.74
14. Berenes Nominees Pty Limited	1,711,600	1.56
15. Mr. Robert Goold	1,695,000	1.55
16. Walleroo Pty Limited	1,694,933	1.55
17. Rowen Company Limited	1,666,666	1.52
18. Mr. Paul Grainger	1,544,933	1.41
19. Mr. Darren Hall	1,473,031	1.34
20. Mr. Graeme Adams	1,428,266	1.30
	63,062,688	57.58

6. Option Holders - Unquoted

Name of Option holders:	Number Held:	Percentage of Options Held:
1. Mrs. Hildegunde Maria Royle	1,000,000	38.46
2. Mr. David Munns	500,000	19.23
3. Mr. Dennis Morton	300,000	11.54
4. Seistend Pty Limited <DWK Super A/C>	300,000	11.54
5. Stith Pty Limited	300,000	11.54
6. Mr. Robert Goold	100,000	3.85
7. Mr. Keith Schulstad	100,000	3.85
	2,600,000	100

SCHEDULE OF MINERAL TENEMENTS

LOCATION	TENEMENT	HOLDER	INTEREST	AREA	CURRENT TO
Cebu Island, The Philippines	SC44	Gas2Grid Limited	100%	10,000km2	28/11/2011

Key to Tenement Types
SC Service Contract

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