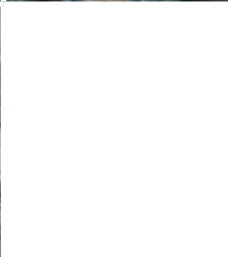
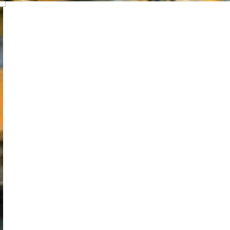




**GAS2GRID**

Annual Report 2012



**GAS2GRID LIMITED** ABN 46 112 138 780

## Directors

**David A Munns**

(Non-Executive Chairman)

**Dennis J Morton**

(Managing Director)

**Patrick W V M Sam Yue**

(Non-Executive)

**Darren W Reeder**

(Non-Executive)

## Company Secretary

**Patrick W V M Sam Yue**

## Registered Office and Principal Place of Business

Level 11, 10 Bridge Street

SYDNEY NSW 2000 AUSTRALIA

Telephone: +61 2 8298 3688

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## Branch office in Philippines

C/- Logistic & Marketing Phils, Inc.

3rd Floor, 111 Paseo de Roxas corner Legasi Street,  
Legasi Village, MAKATI CITY PHILIPPINES

## Share registry

**Gould Ralph Pty Limited**

Level 42, Suncorp Place

259 George Street

SYDNEY NSW 2000 AUSTRALIA

Telephone: +61 2 9032 3000

Facsimile: +61 2 9032 3088

## Auditor

**PricewaterhouseCoopers**

Darling Park Tower 2

201 Sussex Street

SYDNEY NSW 1171 AUSTRALIA

## Stock exchange listing

Gas2Grid Limited shares are listed on the Australian Securities Exchange under the code GGX.

## Website address

[www.gas2grid.com](http://www.gas2grid.com)

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

Dear Shareholders,

I am pleased to present you with the 2012 Gas2Grid Limited Annual Report which highlights the exciting 2012 exploration drilling program in Service Contract 44 ("SC 44"), onshore Cebu, Philippines. The Company has continued to receive financial support from the Board, management and long term shareholders, all of whom share a belief in the quality of the exploration assets and success with the planned drilling programs.

The Company has been successful in raising additional funds, which have been used to acquire and upgrade a workover rig (Rig-1), purchase, ship and conduct maintenance on a drilling rig (Rig-2) and are also to be applied to complete the Malolos-1 Phase 3 workover and flow test program and drill 3 new exploration wildcat wells in SC 44. These funds have been raised by way of exercise of 29,200,000 of the 30th September 2011 options (\$1,448,320), exercise 38,501,210 of the 15th June 2012 options (\$1,925,061) and placement of 123,250,000 shares with sophisticated investors and Directors (\$4,930,000). More recently on 7 September 2012 we raised a further \$2,032,025 with the placement of 31,261,923 shares. Additional funds will be raised, as and when required, in order to fully fund exploration operations.

During the year, the Company has been very active in onshore exploration in SC 44 in the Philippines and the St. Griede licence in France. The Company has focussed on these assets, as they are considered to be the most likely assets to convert the Company from an explorer into an oil & gas producer.

In SC 44 the Company completed seismic acquisition, processing and interpretation of seismic data over prospects that have been targeted for drilling in 2012. Seismic data quality is excellent and these new data have been integrated with all existing geological and geophysical information resulting in the detailing of three, very large, robust and exciting conventional oil and gas drilling prospects.

Three wildcat, exploration wells will be drilled in the 3rd-4th Quarter, 2012 and they have been named Jacob-1, Gumamela-1 and Ilang-1. Reservoir targets are Miocene age limestone reefs and channelised, marine, turbidite sandstones. These formations are of the same age and lithology as those that are hydrocarbon bearing elsewhere onshore Cebu and also they comprise the reservoir in producing fields offshore Palawan, Philippines and elsewhere within Southeast Asia (Indonesia and Malaysia). The prospects have individual recoverable oil potential ranging in size of 50, 15 and 5 million barrels (Jacob is the largest) and if successful could eventually prove to be large oil fields.

The Company purchased a drilling rig (Rig-2) in April in order to complete the 3 well exploration drilling program, thus providing certainty with timing and cost. The rig is a Gardner Denver 500, SCR (electric) drilling rig with capacity to drill to 2,740 metres with 4.5 inch (117 mm) drillpipe. This rig has a small "footprint" and is ideally suited to working in rural Cebu. The rig was purchased at a very low price and after routine maintenance has been completed it will be worth far more if the Company ever decides to sell it.

The acquisition of a workover rig (Rig-1 – Brewster 200) during the year will enable the Company to conduct the Malolos-1 workover and flow testing of the deeper targets. Malolos-1 has several oil bearing sandstones below 2,191 metres that in 1960 recovered oil in the drillpipe during open hole testing and where over 20 barrels of oil was also recovered during the Phase 2 workover. We now plan on drilling out the junk in the wellbore that is preventing us accessing and flow testing the oil bearing sandstones. Recent cased hole logging with a pulsed neutron tool has also identified 4 potentially gas bearing sandstone intervals below 1,646 metres that have not been previously flow tested. We also plan on flow testing these intervals as they may contain enough recoverable gas to fuel a 50 MW power station.

The Philippine Department of Energy has kindly granted an extension of time, until the 28th January, 2014, for the Company to complete the drilling of its three exploration wells. With the acquisition of the drilling and workover rigs, we now have stronger control over our own destiny, and will be able to complete the work in an economical manner to a time table set by ourselves, and not third parties.

In the St. Griede licence, France we purchased the remaining vintage seismic data and we have reprocessed and interpreted these data. These data have been incorporated with all other existing geophysical and geological data and numerous attractive leads have been identified. The Company has also outlined the locations of approximately 250 kilometres of new seismic program that will detail these leads and hopefully convert some of them into drilling targets. New seismic data acquisition is planned for late 2012-early 2013 with the first exploration wildcat well programmed to commence in first half 2013.

In August, 2011 the Company acquired the 50% interest that it did not previously own in the St. Griede licence for \$900,000 which reflected solely a past cost valuation. The Company has also submitted applications for three new licences, all located in the Aquitaine Basin, France.

EP 453 (100% ownership) located in the onshore, Canning Basin in Western Australia contains a previously drilled exploration well which flowed gas to surface and also numerous leads and prospects. Existing seismic data has been reprocessed and integrated with well data. Results of this work have not turned out as well as we would have liked. We also completed a technical study that assessed the petroleum potential of shale bearing formations within the licence – this type of play is being actively explored by other Canning Basin operators, including oil and gas majors. EP 453 appears to be located on the edge of the main shale play areas and has limited potential. The Company has written to the WA Government regarding its licence commitments and we are at this stage uncertain as to whether the Company will actively pursue new opportunities in EP 453.

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



**David Munns**

Chairman

18th September 2012

David Munns with DOE officials and Crew at Rig 2 Christening Ceremony on 1 September 2012



### SUMMARY

#### CORPORATE

- 29,200,000 of the 30th September 2011 options were exercised raising \$1.45 million
- 38,501,210 of the 15th June 2012 options were exercised raising \$1.93 million
- Placement of 123,250,000 shares raising \$4.93 million at 4 cents per share
- 2011 Annual General Meeting – David Munns and Darren Reeder re-elected as directors

#### SERVICE CONTRACT 44 (“SC44”) - Philippines

##### Seismic Surveys

- 2011 seismic survey completed (66.9 kms recorded)
- 2011 seismic interpretation completed with three drilling locations identified

##### Malolos-1 Well

- Phase 2 well workover completed in late 2011
- Over 20 barrels of oil plus gas recovered from Malolos-1
- Phase 3 workover main target is a 27 metre oil bearing sandstone (top at a depth of 2,173 metres and base at 2,199.5 metres) – currently cannot test this interval due to junk in hole
- Cased hole logging has been completed, processed and interpreted by wireline contractor
- Several, thick gas bearing sandstone reservoir intervals are interpreted as worth flow testing
- Company owned work-over rig (Rig-1 – refurbishment is near completion) to commence the well drillout and testing program in September, 2012

##### 3 New Exploration Wells

- Philippine Department of Energy granted SC44 Extension to Drill until 28th January, 2014
- Three exploration wells scheduled to commence in the second half 2012
- Philippine Department of Energy (“DOE”) approval has been granted for all three wells
- Landholder access arrangements have been finalized
- Site and road access civil works for all three wells near completion
- Purchased a drilling rig (Rig-2) – cost effective and timing certainty for exploration drilling program
- Rig-2 shipped safely to Cebu in June, 2012 – shipping delay
- Rig-2 maintenance work completed at end of August and mobilisation to Jacob-1 commenced on 2 September 2012
- First well due to start drilling in September, 2012

#### St. GRIEDE - France

- Company purchased the 50% of the St. Griede licence that it did not already own
- Second stage seismic reprocessing completed
- Interpretation of reprocessed seismic data completed
- The new 2012 seismic acquisition program determined and proceeding with approvals
- Drilling scheduled for first half 2013

#### EP 453 – Western Australia

- Technical review of shale potential completed
- Submitted request for Government review of licence conditions

**CORPORATE**

The Company has been successful in raising additional funds, which have been used to acquire and upgrade a workover rig (Rig-1), purchase, ship and conduct maintenance on a drilling rig (Rig-2) and are to be applied to complete the Malolos-1 Phase 3 workover and flow test program and drill 3 new exploration wildcat wells in SC 44. These funds have been raised during the year by way of exercise of 29,200,000 of the 30th September 2011 (\$1,448,320), exercise 38,501,210 of the 15th June 2012 options (\$1,925,061) and placement of 123,250,000 shares with sophisticated investors and Directors (\$4,930,000). The Board is pleased with the level of financial support that it has been able to attract. More recently on 7 September 2012 the Company raised a further \$2,032,025 with the placement of 31,261,923 shares. Additional funds will be raised, as and when required, in order to fully fund exploration operations.

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

**2011 SEISMIC PROGRAM:** The 2011 Seismic Program has been completed and the 66.9 kms of new data processed and interpreted. The seismic program delineated three new drilling prospects that will be tested by drilling in the second half of 2012. Numerous other potential prospects were identified that warrant further investigation.

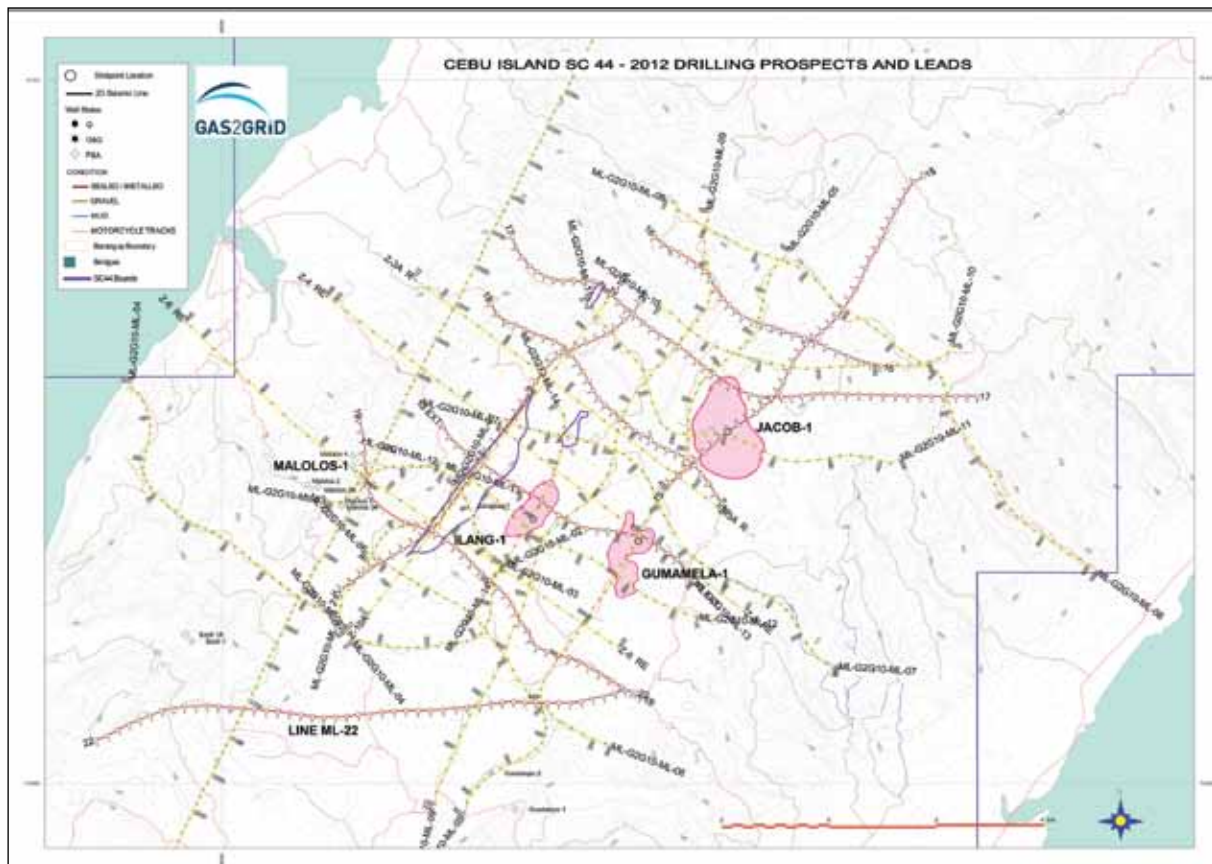


Figure 1: Service Contract 44: 2012 - Exploration Drilling Prospects



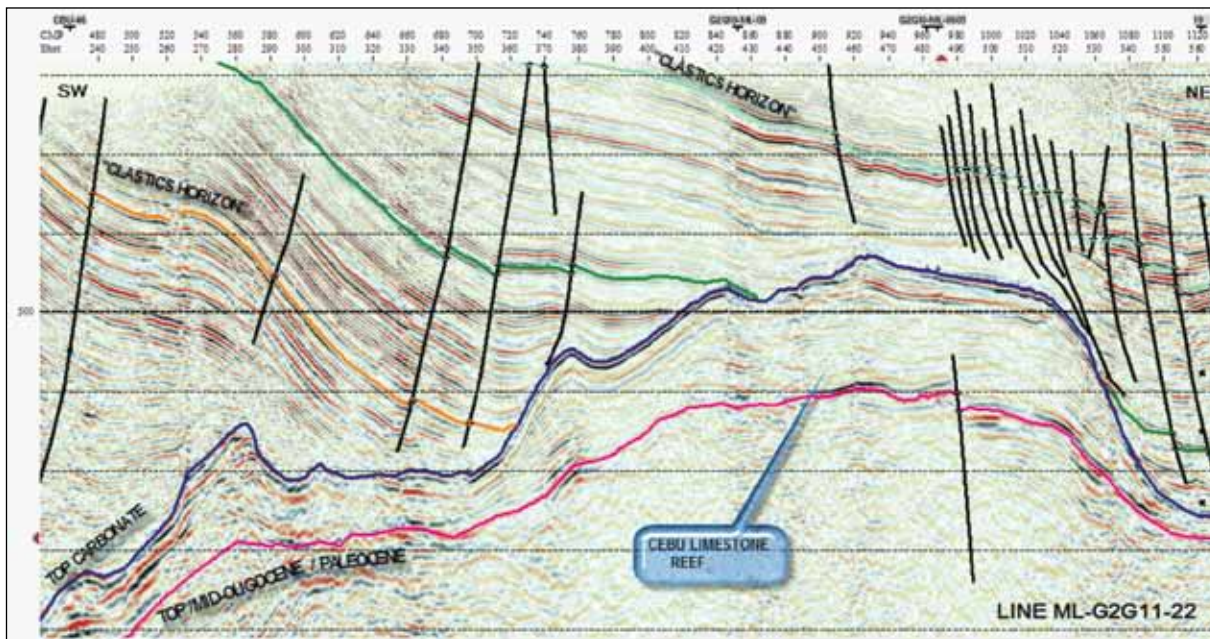


Figure 2: 2011 Seismic Section ML-22: Showing Miocene Age Limestone Reef

**2012 DRILLING PROGRAM:** The Company will drill three new exploration wells commencing in the second half of 2012. The new wells will target both the Miocene carbonate reefs and Tertiary age sandstone reservoirs trapped within anticlines. The three wells that will test these drilling prospects are Jacob-1, Gumamela-1 and Ilang-1 with programmed depths of between 1,000 to 1,300 metres. These prospects vary in size and the unrisks resource potential range from 5 million barrels up to an unrisks potential of 50 million barrels recoverable oil in the Jacob Prospect. All wells have been approved by the Philippine Department of Energy, landholders’ approvals have been granted and site preparations and road access are almost complete.

**Jacob-1** is designed to test the Miocene age Cebu Limestone trapped in a pinnacle reef with secondary targets being the Miocene age Malubog-Toledo Formation marine sandstone reservoirs, trapped in a drape anticline above the reef and also in onlap traps located on the side of the reef. The Jacob Prospect has an unrisks recoverable oil resource potential of 50 million barrels.

**Primary Objectives**

- Reefal carbonates of the Cebu Limestone

**Secondary Objectives**

- Malubog-Toledo Formation sandstones
- Cebu Coal Measures sandstones



Jacob-1 - Well Site Preparation

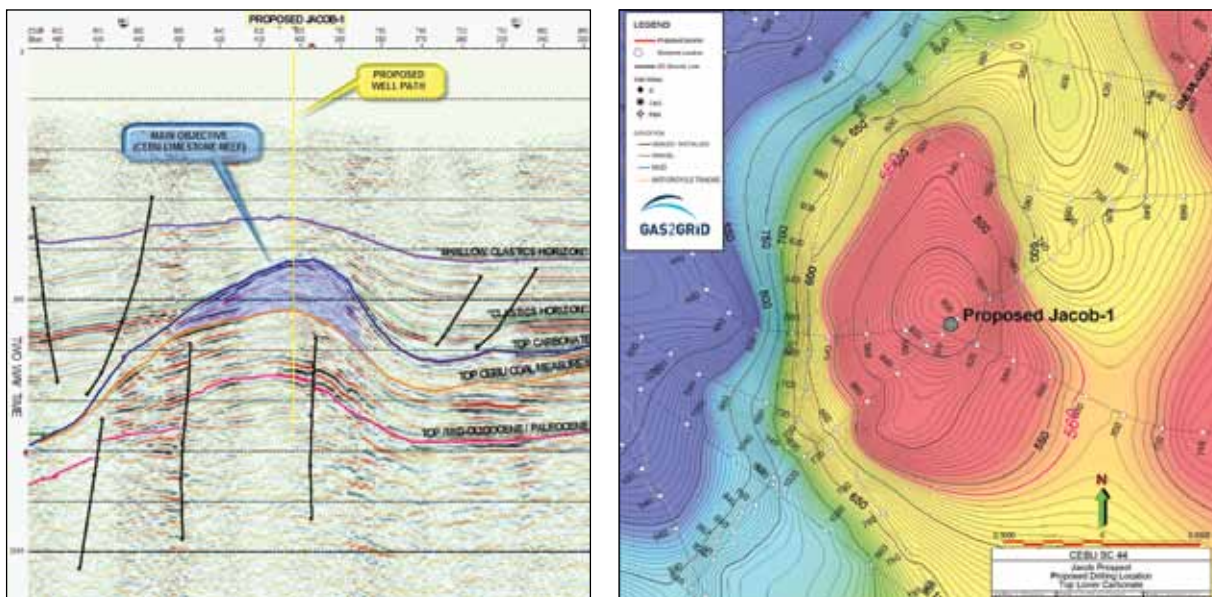


Figure 3: Jacob-1: Seismic Section and Time Structure Map – Top Reef

**Gumamela-1** is designed to test the Miocene age Cebu Limestone trapped in a pinnacle reef with secondary targets being the Miocene age Malubog-Toledo Formation marine sandstones, trapped in a drape anticline above the reef and also in onlap traps located on the side of the reef. The Gumamela Prospect has an unrisks recoverable oil resource potential of 15 million barrels.

**Primary Objectives**

- Reefal carbonates of the Cebu Limestone

**Secondary Objectives**

- Malubog-Toledo Formation sandstones
- Cebu Coal Measures sandstones

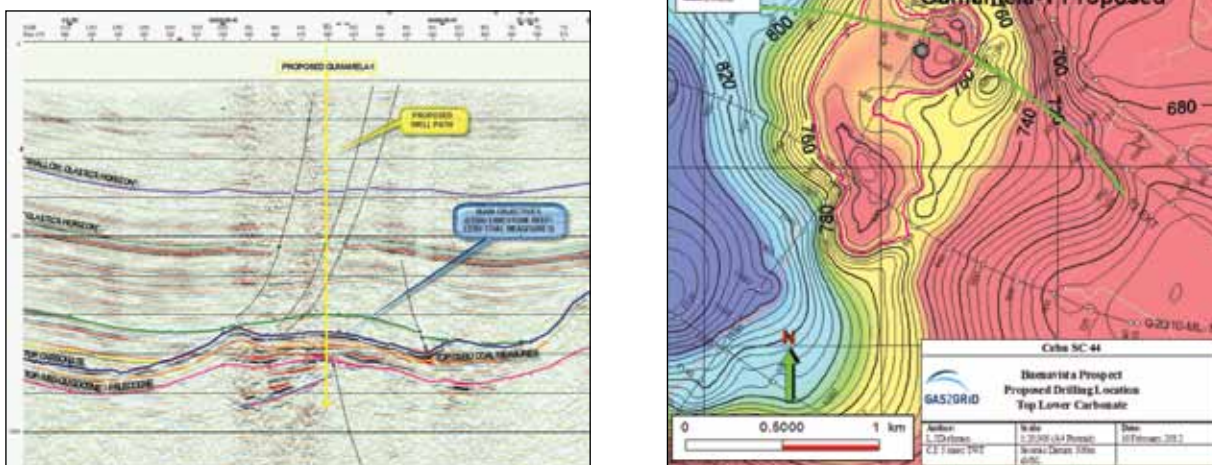


Figure 4: Gumamela-1: Seismic Section and Time Structure Map – Top Reef

Gumamela Well Site Preparation





**Ilang-1** is designed to test the Miocene aged, marine turbidite sandstones within the lower part of the Upper Malubog Formation trapped in an anticline. Secondary targets are the Cebu Limestone and Cebu Coal Measures, if present. The Ilang Prospect has an unrisks recoverable oil resource potential of 5 million barrels.

**Primary Objectives**

- Early Miocene aged, channelized turbidite sandstones within the lower part of the Upper Malubog Formation

**Secondary Objectives**

- Reefal carbonates of the Cebu Limestone, if present and the underlying Cebu Coal Measures.

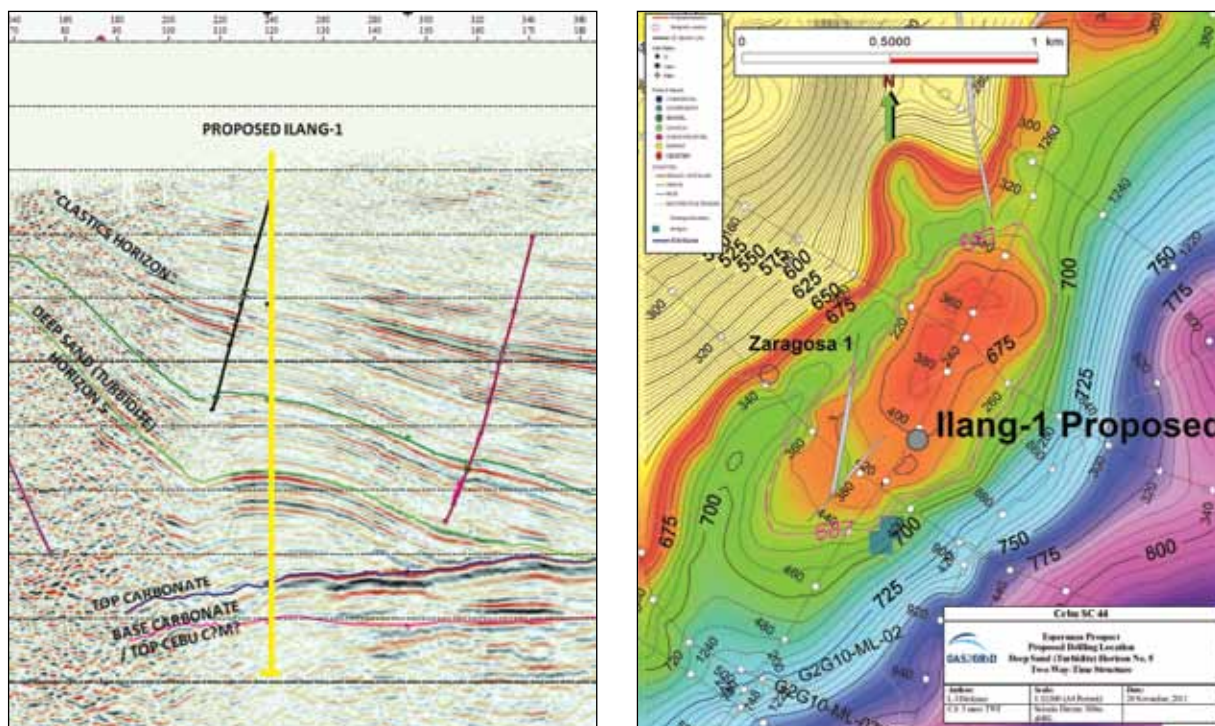


Figure 5: Ilang-1: Seismic Section and Time Structure Map – Sandstone Marker

**PHILIPPINE DEPARTMENT OF ENERGY:** On the 28th May, 2012 the Company applied to the Philippine Department of Energy (“DOE”) for an extension of time in which to drill the three exploration wells and complete the Malolos-1 workover. The previous deadline to complete this work was the 28th July, 2012. On the 6th June, 2012 the DOE formally approved an extension of time until the 28th January, 2014 to complete these work obligations. This extension of time will provide plenty of opportunity for the Company to complete its works program, although it is the Company’s intention to complete these works before the end of 2012, as outlined elsewhere in this report.

**MALOLOS-1 WORKOVER:** Malolos-1 was drilled to a total depth of 2,748 metres in 1960. Gas and oil bearing sandstones are present below 1,000 metres in the Malolos-1 well but they were not targeted during the Phase 1 workover, which was conducted in March, 2010. The Phase 1 workover targeted gas bearing sandstones above 1,000 metres in depth and this work proved the existence of natural gas and oil at these shallow depths. The workover also determined that the sandstone reservoirs are of good quality and they seem to be undamaged by previous drilling and completion work.

Oil (39° API) was recovered on several drillstem tests conducted over the gross interval 2,185-2,233 metres when the Malolos-1 well was originally drilled and tested in 1960. Sustained production from these oil bearing sandstones was not established at that time. The Company is now attempting to access this known oil reservoir and conduct tests to try and establish commercial oil production.

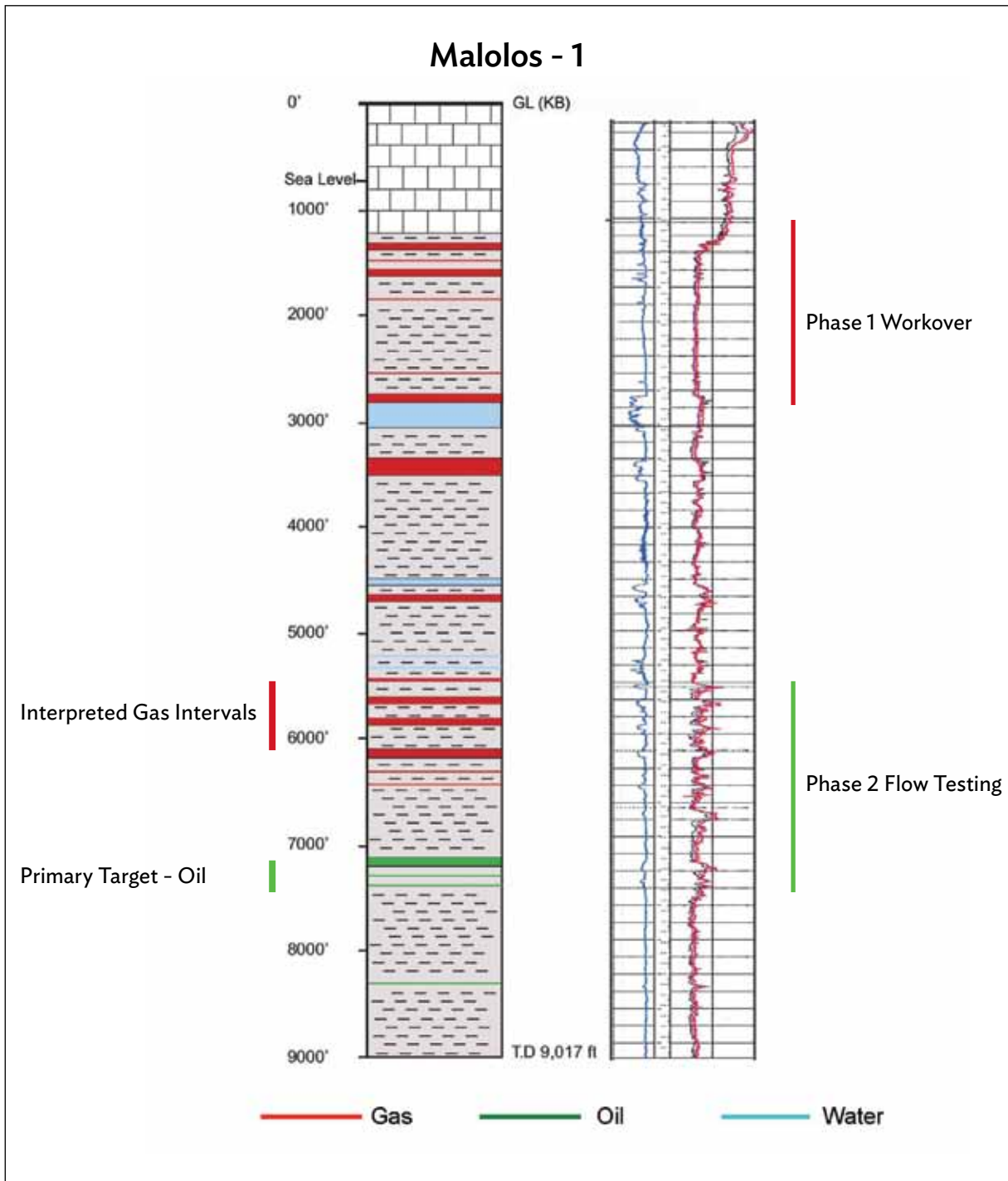


Figure 6: Malolos-1 Well Schematic



In November and December 2011 the Phase 2 workover was carried out when Malolos-1 was cleaned out to a depth of 7,190 feet (2,191.5 metres) using a coiled tubing unit. During this work-over, oil and gas flowed to surface for over 1 ½ hours – total oil recovered was just over 20 barrels.

At a depth of 7,190 feet (2,191.5 metres) an obstruction was intersected in the hole which has been determined to be 2 ⅞ inch tubing. It is likely that this tubing is attached to a packer, both of which (“junk”) form part of the original (1960) cased hole testing equipment which became stuck at that time and were left in the hole. Attempts to mill out the junk with a coiled tubing unit have been unsuccessful and the main oil bearing reservoirs were not able to be accessed for flow testing.

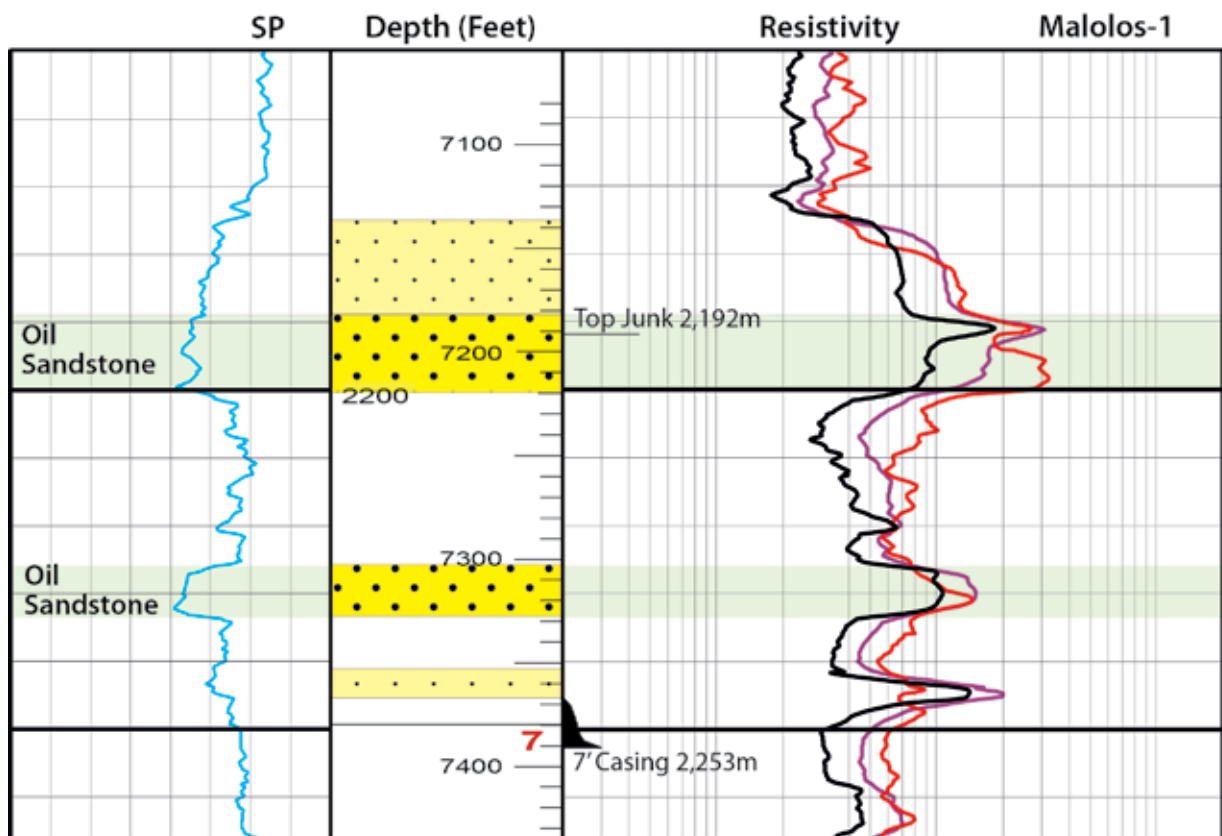


Figure 7: Malolos-1 Oil Bearing Intervals - SP-Resistivity Log Summary

**MALOLOS-1 CASED-HOLE WIRELINE LOGGING:** Cased-hole wireline logs were successfully recorded from above the junk in the hole located immediately above the oil sandstone reservoir (7,190 feet - 2,191.5 metres) to surface. Data quality is excellent. The main logging tool employed in the well is the pulsed neutron (PNN) which under good conditions has the ability to differentiate the sandstone reservoir intervals and also separately recognize oil, gas and water.

The new PNN data were processed and interpreted by the logging contractor with excellent results. Numerous sandstone reservoir intervals were identified and these intervals have a good correlation with those intervals interpreted from the original, open-hole wireline logs. In addition, previously perforated intervals (in 1960) have been identified.

The contractor has identified both possible gas and water bearing sandstone reservoir intervals. Six sandstone reservoir intervals have been interpreted as being gas bearing and they warrant cased-hole flow testing.

**MALOLOS-1 TESTING PROGRAM:** The forward plan is to use the newly acquired Rig-1 to drill out the junk currently in the bottom of the hole and then conduct flow testing of the oil bearing reservoirs followed by selected flow testing of the shallower reservoirs interpreted as being gas bearing. Work-over and testing operations will commence in September.

The flow test results will not in any way influence the likely success of the upcoming three exploration well drilling program described above. The three new wells are targeting different play types and the well locations have been determined based on good seismic control.

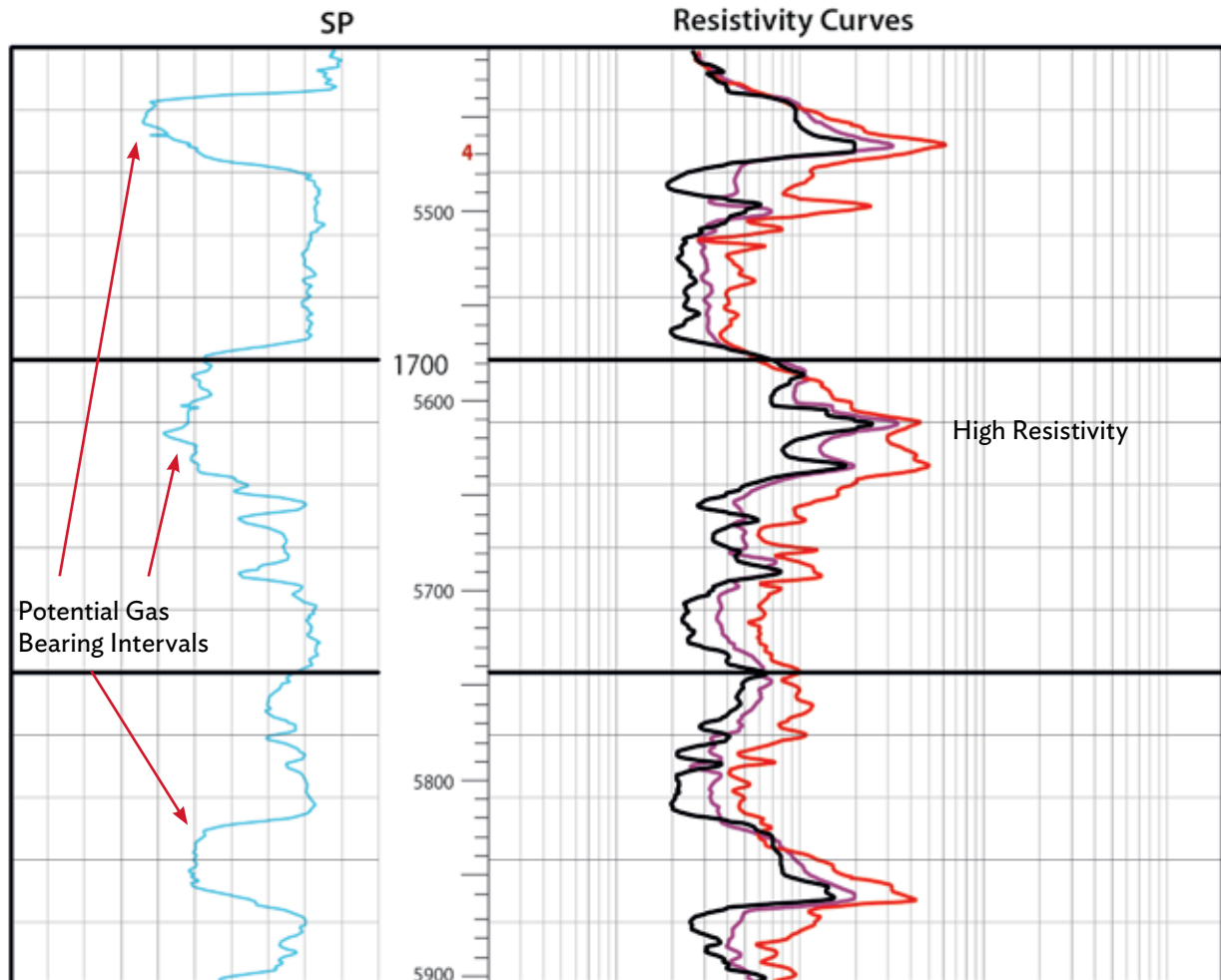


Figure 8: Malolos-1 SP-Resistivity Log Showing Interpreted Gas Bearing Sandstones

**DRILLING AND WORKOVER RIGS ACQUISITION:** The recently purchased Rig-2 (800 HP, Gardner Denver 500 SCR drilling rig with the capacity to drill to 2,750 metres with 114 mm drill-pipe) arrived in Cebu from Taiwan in mid-June, several months later than anticipated due to shipping facilities. Rig crews have been sourced locally in the Philippines with about 40 workers now employed on the maintenance of both Rig-1 and Rig-2.

Rig-2 maintenance work progressed faster than planned and despite the shipping delays the rig maintenance was completed at the end of August and is ready to start drilling in September. It is estimated that the total cost for this rig, including refurbishment, will equate to the total cost of engaging an external contractor to drill the 3 new exploration wells.

Rig-1 (Brewster N20 workover rig) has been undergoing extensive maintenance and whilst progress has been slow the quality of work has been excellent. Rig-1 is capable of setting surface conductor and surface casing as well as completing wells for production and conducting workovers. This rig will be used for the Malolos-1 workover and testing program which will commence in September, 2012.



Rig 2



Rig 1



After completion of the drilling and workover program, the Company will own 2 good drilling rigs, worth more than their actual cost. This will prove extremely beneficial for appraisal and development drilling of any oil/gas discoveries using equipment owned and operated by the Company. In addition these rigs can also be used for any other drilling opportunities that may arise.

**FRANCE: ST. GRIEDE (100% INTEREST), Onshore Aquitaine Basin**

The Company owns 100% of the St. Griede licence and it regards the oil and gas exploration potential within that licence as being exceptional and ownership of 100% provides a great opportunity to create significant value for shareholders. During the year the Company purchased the 50% of the St. Griede licence that it did not already own from its joint venture partner for a cash consideration of \$900,000. Approval by the French government of the transfer of the additional interest is currently under process.

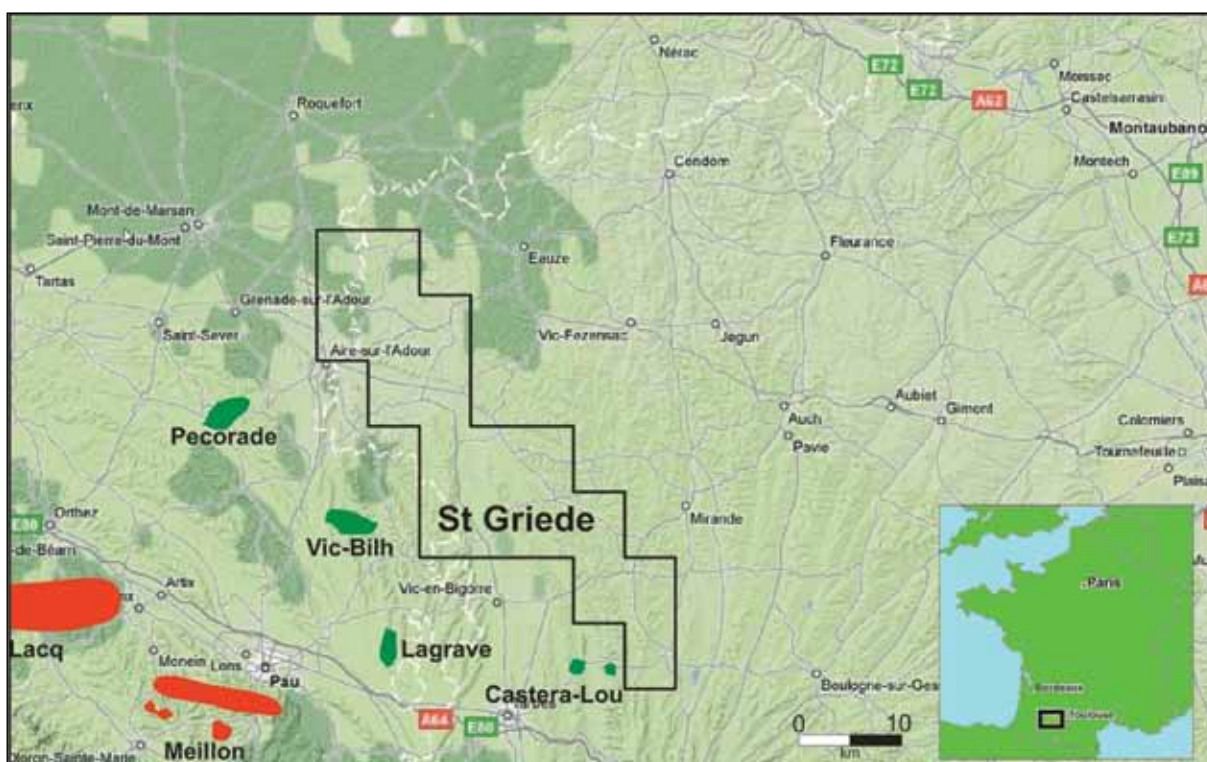


Figure 9: St. Griede Exploration Licence – Aquitaine Basin, South-West France

In 2010 a total of 740 kilometres of vintage seismic data (1960-1980) was purchased and these data were reprocessed to determine their quality and application to exploration. These seismic data showed excellent improvements due to the reprocessing. Interpretation of these data was integrated with the newly acquired aero-gravity data set indicating excellent exploration potential for structural hydrocarbon traps.

In 2011 a decision was made to reprocess all the other, available vintage seismic data within the St. Griede licence and a few additional vintage seismic lines that tied nearby producing fields and wells to provide additional geological control.

A total of 1,232.6 kilometres of vintage field seismic data was purchased from the BRGM. These data were supplied to the Company by BRGM in two batches. All these data have been reprocessed with a noticeable improvement in data quality. These data have now been interpreted and the location of a new seismic program has been laid out. The new program will provide sufficient coverage over several prospective drilling targets to allow the siting of at least one exploration well for drilling in 2013. It is planned to acquire the new seismic data in late 2012-early 2013.

The Aquitaine Basin is a prolific hydrocarbon province with a long history of discovery and production. Over 13,000 petajoules (approximately 13 trillion cubic feet) of gas and 450 million barrels of liquid hydrocarbons have been produced from the basin, mainly by the large French Government-owned corporations. There has been a hiatus in exploration activity since the 1980s, but a resurgence of licensing activity and operations has occurred recently, coincident with the increase in both oil and natural gas prices. Markets and gas pipeline infrastructure are well developed and the commercialisation of even small discoveries is feasible.

**2012/2013 Planned Activities:** The Company plans on the following work activities for 2012/2013:

- Complete the acquisition of a new seismic survey to determine at least one drilling location on a conventional oil and gas prospect
- Drill one exploration well

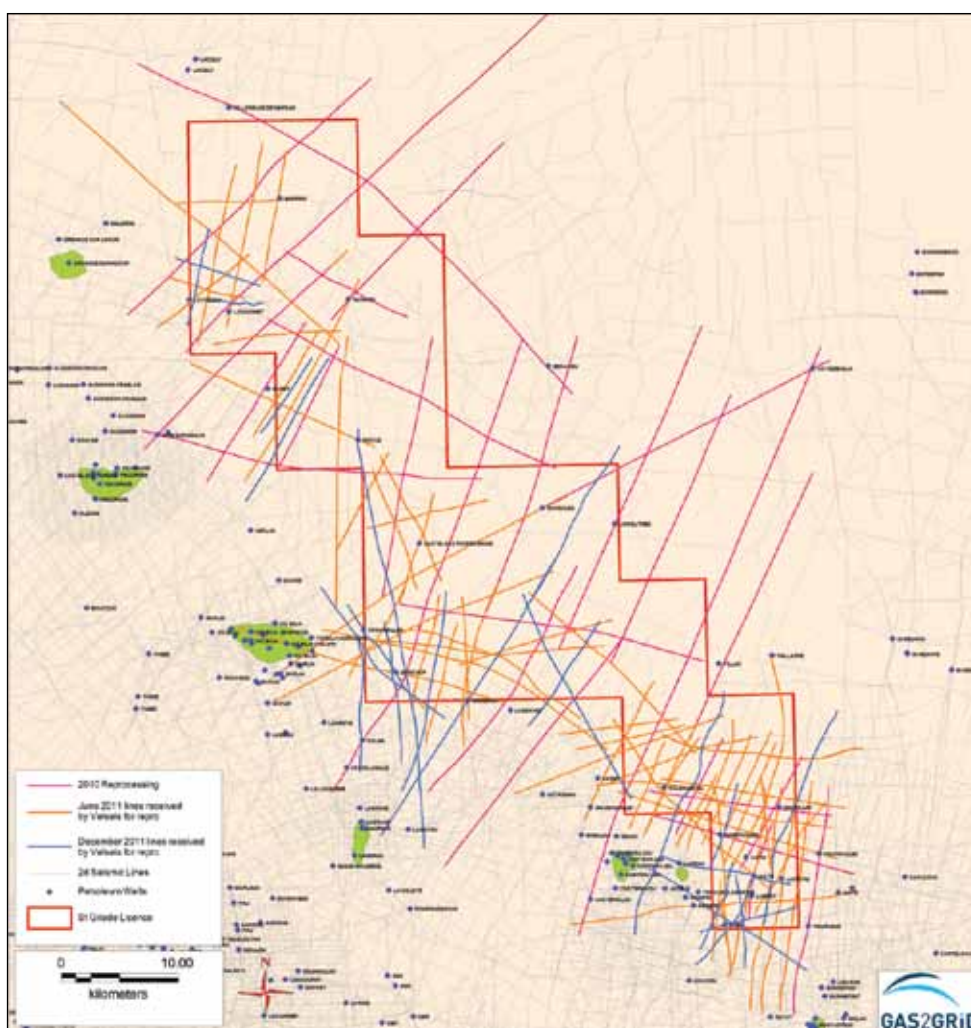


Figure 10: St. Griede: Seismic Reprocessing

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

A technical review of the petroleum potential of shale formations within EP 453 was completed. Limited shale potential exists within the licence area. The Company has written to the Western Australia Department of Mines and Petroleum regarding the outstanding licence work commitments which were due to be satisfied in 2011. These commitments will no longer be achieved and the Company hopes to meet with Government officials in the near future.

## CORPORATE GOVERNANCE STATEMENT

This table on Corporate Governance Statement sets out the extent to which the group has followed the recommendations of the ASX Corporate Governance Principles and Recommendations. The Corporate Governance Statement is posted on the group's website ([www.gas2grid.com](http://www.gas2grid.com)) for reference on disclosures.

	Principles and Recommendations	Compliance	Comment
<b>1.</b>	<b>Lay solid foundations for management and oversight</b>		
1.1	Companies should establish the functions reserved to the board and those delegated to senior executives and disclose those functions.	Complies	The group's Corporate Governance Statement includes a Board Charter, which states the specific responsibilities of the Board. The Board delegates responsibility for the day to day operations and administration of the group to the Managing Director.
1.2	Companies should disclose the process for evaluating the performance of senior executives.	Complies	The Board evaluates the performance of senior executives on an annual basis.
1.3	Companies should provide the information indicated in the Guide to reporting on Principle 1.	Complies	There are no departures from the Recommendations 1.1, 1.2 and 1.3. The Corporate Governance Statement is posted on the group's website.
<b>2.</b>	<b>Structure the Board to Add Value</b>		
2.1	A majority of the board should be independent directors.	Does not comply	<p>The Board consists of four directors: three Non-Executive Directors (D A Munns, D W Reeder and P W V M Sam Yue); and one Managing Director (D J Morton).</p> <p>D A Munns and D W Reeder are not independent directors because they have substantial shareholding interests in the Company.</p> <p>P W V M Sam Yue is an independent director as he has no relationships with the other Directors or a substantial shareholder and does not have a substantial shareholding in the Company.</p> <p>The current stage of establishment and size of the group does not justify the cost of increasing the number of directors.</p>
2.2	The chair should be an independent director.	Does not comply	The Chairman is a non-executive and not considered to be independent because he has a substantial shareholding interest in the Company.
2.3	The roles of chair and chief executive officer should not be exercised by the same individual.	Complies	The Chairman is not an executive.



	Principles and Recommendations	Compliance	Comment
2.4	The board should establish a nomination committee	Does not comply	Given the present size of the group, the existing Board structure is able to meet the needs of the group in the examination of selection and appointment practices without the establishment of a nomination committee of the Board.
2.5	Companies should disclose the process for evaluating the performance of the board, its committees and individual directors.	Complies	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. Any deficiency identified in a Director's performance is addressed directly with the relevant Director.
2.6	Companies should provide the information indicated in the Guide to reporting on Principle 2.	Complies	Explanation of departures from the Recommendations 2.1, 2.2 and 2.4 are set out in this section. There are no departures from the Recommendations 2.3, 2.5 and 2.6. The Corporate Governance Statement is posted on the group's website.
<b>3.</b>	<b>Promote ethical and responsible decision-making</b>		
3.1	Companies should establish a code of conduct and disclose the code or a summary of the code as to: <ul style="list-style-type: none"> <li>the practices necessary to maintain confidence in the Company's integrity;</li> <li>the practices necessary to take into account their legal obligations and the reasonable expectations of their stakeholders; and</li> <li>the responsibility and accountability of individuals for reporting and investigating reports of unethical practices.</li> </ul>	Complies	The group's Corporate Governance Statement includes a Code of Conduct on Ethical Standards, which provides a guide to ethical conduct of Directors and management.  The group's Corporate Governance Statement also includes a Code of Conduct on Securities Trading and a Securities Trading Policy has been lodged with the Australian Securities Exchange.
3.2	Companies should establish a policy concerning diversity and disclose the policy or a summary of that policy. The policy should include requirements for the board to establish measurable objectives for achieving gender diversity for the board to assess annually both the objectives and progress in achieving them	Complies	The group's Corporate Governance Statement includes a policy concerning diversity, outlining measurable diversity objectives in relation to gender, age, cultural background and ethnicity. The objectives and the progress in achieving them are assessed annually by the Board.  The group values diversity and recognises the benefits it can bring to the group in achieving its goals operating internationally and in multi-cultural societies.

Principles and Recommendations	Compliance	Comment												
3.3 Companies should disclose in each annual report the measurable objectives for achieving gender diversity set by the board in accordance with the diversity policy and progress towards achieving them.	Complies	The Board has established the following measurable objectives in relation to gender diversity with the aim to achieve them over the next few years as director and senior executive positions become vacant or need to be increased and appropriately qualified and experienced candidates are available:												
3.4 Companies should disclose in each annual report the proportion of women employees in the whole organisation, women in senior executive positions and women on the board.	Complies	<table border="1"> <thead> <tr> <th></th> <th>Objective %</th> <th>Actual %</th> </tr> </thead> <tbody> <tr> <td>Number of female participants in operations and support positions</td> <td>30</td> <td>11</td> </tr> <tr> <td>Number of females in senior executive positions</td> <td>20</td> <td>-</td> </tr> <tr> <td>Number of women on the Board</td> <td>20</td> <td>-</td> </tr> </tbody> </table>		Objective %	Actual %	Number of female participants in operations and support positions	30	11	Number of females in senior executive positions	20	-	Number of women on the Board	20	-
	Objective %	Actual %												
Number of female participants in operations and support positions	30	11												
Number of females in senior executive positions	20	-												
Number of women on the Board	20	-												
3.5 Companies should provide the information indicated in the Guide to reporting on Principle 3.	Complies	There are no departures from the Recommendations 3.1, 3.2, 3.3, 3.4 and 3.5. The Corporate Governance Statement is posted on the group's website.												
<b>4. Safeguard integrity in financial reporting</b>														
4.1 The board should establish an audit committee.	Complies	The Board has established an Audit Committee, consisting of three Directors, to assist in matters relating to the audit functions and to safeguard the integrity of the group's financial reporting.												
4.2 The audit committee should be structured so that it: <ul style="list-style-type: none"> <li>consists of only non-executive directors;</li> <li>consists of a majority of independent directors;</li> <li>is chaired by an independent chair, who is not chairperson of the board; and</li> <li>has at least three members.</li> </ul>	Does not comply fully	<p>The Audit Committee consists of 3 members as follows:</p> <ul style="list-style-type: none"> <li>P W V M Sam Yue – Chairman of the Audit Committee, Non-Executive and independent Director;</li> <li>D A Munns – Non-Executive Director; and</li> <li>D W Reeder - Non-Executive Director</li> </ul> <p>D A Munns and D W Reeder are not independent directors because they have substantial shareholding interests in the Company.</p>												
4.3 The audit committee should have a formal charter.	Complies	The Audit Committee has a formal charter (policy) that is included within the Corporate Governance Statement.												

Principles and Recommendations	Compliance	Comment
4.4 Companies should provide the information indicated in Guide to reporting on Principle 4.	Complies	Explanation of departure from the Recommendation 4.2 is set out in this section. There are no departures from the Recommendations 4.1, 4.3 and 4.4. The Corporate Governance Statement is posted on the group's website.
<b>5. Make timely and balanced disclosure</b>		
5.1 Companies should establish written policies designed to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at a senior executive level for that compliance and disclose those policies or a summary of those policies	Complies	<p>The group's Corporate Governance Statement states the policy and procedures to ensure compliance with ASX Listing Rule disclosure requirements.</p> <p>The Board has delegated the function of continuous disclosure as required under the ASX Listing Rule to the Managing Director and the Company Secretary to assess the type of information that needs to be disclosed and to ensure that group's announcements are made in a timely manner, are factual, do not omit material information and are in compliance with the ASX Listing Rules. Information which is considered to be price sensitive is approved by the Board before its release.</p>
5.2 Companies should provide the information indicated in the Guide to reporting on Principle 5.	Complies	There is no departure from the Recommendations 5.1 and 5.2. The Corporate Governance Statement is posted on the group's website.
<b>6. Respect the rights of shareholders</b>		
6.1 Companies should design a communications policy for promoting effective communication with shareholders and encouraging their participation at general meetings and disclose their policy or a summary of that policy.	Complies	<p>The Board's policy is for all investors to have equal and timely access to material information concerning the group, including its financial position, performance, ownership and governance.</p> <p>The Board has established practices to facilitate communication with the Company's shareholders. The Managing Director oversees this process through the group's website. Briefings are held with professional investors. Prior to such briefings, information to be given will be first released to ASX (if not previously released) and posted on the group's website.</p> <p>All shareholders are notified in writing of general meetings and encouraged to attend and participate.</p>
6.2 Companies should provide the information indicated in the Guide to reporting on Principle 6.	Complies	There is no departure from the Recommendations 6.1 and 6.2. The Corporate Governance Statement is posted on the group's website.

	Principles and Recommendations	Compliance	Comment
<b>7.</b>	<b>Recognise and manage risk</b>		
7.1	Companies should establish policies for the oversight and management of material business risks and disclose a summary of those policies.	Complies	<p>The group's Corporate Governance Statement includes a business risk oversight and management policy.</p> <p>The Board monitors and receives advice as required on areas of operational and financial risk, and considers appropriate risk management strategies.</p> <p>Specific areas of risk that are identified are regularly considered by Board discussions. Included in these areas are performance of activities, human resources, health, safety and the environment, continuous disclosure obligations, asset protection and financial exposures</p>
7.2	The board should require management to design and implement the risk management and internal control system to manage the company's material business risks and report to it on whether those risks are being managed effectively. The board should disclose that management has reported to it as to the effectiveness of the company's management of its material business risks.	Complies	The Board requires the Managing Director to provide such a report at the relevant time.
7.3	The board should disclose whether it has received assurance from the chief executive officer (or equivalent) and the chief financial officer (or equivalent) that the declaration provided in accordance with section 295A of the Corporations Act is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks.	Complies	The Board requires the Managing Director to provide such a statement at the relevant time. The Chairman of the Audit Committee reviews the existence and effective operations of risk management and internal control.
7.4	Companies should provide the information indicated in Guide to reporting on Principle 7.	Complies	There is no departure from the Recommendations 7.1, 7.2, 7.3 and 7.4. The Corporate Governance Statement is posted on the group's website.

	Principles and Recommendations	Compliance	Comment
<b>8.</b>	<b>Remunerate fairly and responsibly</b>		
8.1	The board should establish a remuneration committee	Complies	The Board has established a Remuneration Committee consisting of three Non-Executive Directors, D A Munns, D W Reeder and P W V M Sam Yue.
8.2	The remuneration committee should be structured so that it: <ul style="list-style-type: none"> <li>. consists of a majority of independent directors</li> <li>. is chaired by an independent chair</li> <li>. has at least three members</li> </ul>	Does not comply fully	The Remuneration Committee consists of three Non-Executive Directors and is chaired by P W V M Sam Yue an independent director. The other two members are D A Munns and D W Reeder who are not independent because they have substantial shareholding interests in the Company
8.3	Companies should clearly distinguish the structure of non-executive directors' remuneration from that of executive directors and senior executives.	Complies	The Company's constitution provides that the remuneration of Non-Executive Directors will be not more than the aggregate fixed sum determined by a general meeting.  The Remuneration Committee reviews the remuneration packages and policies applicable to all Directors and senior executives on an annual basis and makes recommendations to the Board. Where necessary, the Remuneration Committee will obtain independent advice.
8.4	Companies should provide the information indicated in the Guide to reporting on Principle 8.	Complies	Explanation of departure from the Recommendation 8.2 is set out in this section. There is no departure from the Recommendations 8.1, 8.3 and 8.4. The Corporate Governance Statement is posted on the group's website.

# Annual Financial Report 30 June 2012

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## 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 2012.

### Directors

The following persons were Directors of Gas2Grid Limited during the whole of the financial year and up to the date of this report:

David A Munns

Dennis J Morton

Patrick W V M Sam Yue

Darren W Reeder

### Principal activities

During the year the principal continuing activities of the group consisted of oil and gas exploration in the Philippines, France and Australia.

### Operating results

The consolidated loss of the group after income tax was \$1,217,924 (2011: \$2,258,301).

### Dividends – Gas2Grid Limited

The Directors' report that during the year ended 30 June 2012 no dividends were declared or paid (2011: \$nil).

### Review of operations

A detailed review of the operations for the financial year is set out on pages 3 to 13.

### Significant changes in the state of affairs

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

Contributed equity increased by \$8,757,812 as the result of the issue of 211,152,205 fully paid ordinary shares by private placements, on exercise of options, in payment to Directors for outstanding management and Director's fees and payment to suppliers in settlement of their invoices.

The group acquired 2 drilling rigs to ensure timing certainty of its well drilling program for next financial year in the Philippines where it has been very difficult to secure drilling contractors.

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

There has not arisen in the interval since 30 June 2012 and up to the date of this report, any matter that, in the opinion of the Directors, has significantly affected or may significantly affect the operations of the group, the results of those operations or the state of affairs of the group in future financial years other than the following:

- On 19 July 2012, the Company registered wholly owned subsidiary Wellfin Pty Ltd ("Wellfin") in Australia and ownership of the group workover Rig-1 and drilling Rig-2 and other equipment associated with well drilling operations is transferred to Wellfin. Well drilling services on group projects will be provided on an arm length charge basis by Wellfin.

- on 24 July 2012, the Company issued 2,375,000 fully paid ordinary shares at \$0.049 per share to eligible persons under the Gas2Grid Limited Employee Incentive Plan and granted non-recourse loans at \$0.08 per share totalling \$190,000 for subscription of the shares under the plan. The closing market price at the date of grant was \$0.049 per share.
- on 7 September 2012, the Company issued 31,261,923 fully paid ordinary shares at \$0.065 by private placement raising \$2,032,025. The closing market price at the date of issue was \$0.08 per share.

### **Likely developments and expected results of operations**

In relation to the Company's oil and gas exploration activities, no indication as to likely developments in the future can be given. The group proposes to continue its oil and gas exploration programmes and investment activities.

### **Environmental regulation**

The group is required to carry out its activities in accordance with applicable regulations in each of the jurisdictions in which it undertakes its exploration activities. The group 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**

#### **David 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 listed company directorships***

None

#### ***Former directorships of listed companies in the last 3 years***

None

#### ***Special responsibilities***

Chairman of the Board

#### ***Interest in shares and options***

42,474,766 ordinary shares in Gas2Grid Limited

#### **Dennis J Morton BSc (Hons), (Macquarie University) Managing Director**

#### ***Experience and expertise***

Dennis Morton was co-founder and until late in 2007 Managing Director of Eastern Star Gas Limited. He has extensive experience in the management of oil and gas exploration entities. He was previously in senior executive positions with Bow Valley (Australia) Ltd, Capital Energy Limited, Hartogen Energy Limited, and Esso Australia Limited.

#### ***Other listed company directorships***

None



**Former directorships of listed companies in last 3 years**

Orion Petroleum Limited from July 2007 to June 2011

**Special responsibilities**

Managing Director (since 31 March 2008)

**Interest in shares and options**

112,860,597 ordinary shares in Gas2Grid Limited

**Patrick W V M Sam Yue, CA, FCIS, F Fin.** Non-executive Director

**Experience and expertise**

Patrick Sam Yue had several years' experience in international accounting and finance working in the United Kingdom, Africa and the Middle-East before he joined the finance industry in Australia in 1985 prior to moving to the resources industry. He has over 20 years' experience in financial and corporate management in Australia having held senior executive and company secretary positions with ASX listed entities in the oil and gas and minerals industry.

**Other listed company directorships**

None

**Former directorships of listed companies in last 3 years**

Premium Exploration Inc. from January 2010 to October 2011.

Ord River Resources Limited from December 2007 to September 2009.

**Interest in shares and options**

18,241,000 ordinary shares in Gas2Grid Limited.

**Darren W Reeder** Non-executive Director

**Experience and expertise**

Darren Reeder has 30 years of experience in the global well intervention, well servicing and oilfield engineering business both onshore & offshore and was until recently a co-owner and vice-chairman of ASEP Holding. He is active in the geothermal & oil and gas industry throughout SE Asia, particularly in the Philippines, through his company Black Diamond Well Services. He has previously held senior management roles with The Expro Group & ASEP BV.

**Other listed company directorships**

None

**Former directorships of listed companies in last 3 years**

None

**Interest in shares and options**

57,325,911 ordinary shares in Gas2Grid Limited

**Company Secretary**

The Company Secretary Mr Patrick W V M Sam Yue was appointed to the position in September 2011. He is also a Non-executive director.

### Meetings of Directors

The following table sets out the number of meetings of the Company's Directors held during the year ended 30 June 2012, and the number of meetings attended by each Director:-

<b>Directors' Meetings</b>		
	Number eligible to attend	Number Attended
D A Munns	4	4
D J Morton	4	4
P W V M Sam Yue	4	4
D W Reeder	4	3

### 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; and
- (e) Additional information.

The information provided in this remuneration report has been audited as required by section 308(3C) of the *Corporations Act 2001*.

#### **(a) Principles used to determine the nature and amount of remuneration**

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

During the year ended 30 June 2012, the group 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

#### **Director's fees**

The current base remuneration was last reviewed with effect from 1 July 2011. Director's fees are determined within an aggregate fee pool limit, which currently stands at \$150,000 per annum. That limit shall not be increased except pursuant to a resolution passed at a general meeting of the Company.

Base fees	From 1 July 2011	From 1 July 2010 to June 2011
Chairman	35,000	35,000
Other Directors (each)	25,000	25,000

**Additional fees**

In addition to base Director's fees Dennis J Morton and Patrick W V M Sam Yue receive monthly management fees of \$10,000 and \$8,000 respectively for additional technical, corporate and administrative duties performed on a regular basis.

**(b) Details of remuneration**

*Amounts of remuneration*

The following tables show details of the remuneration received by the Directors and the key management personnel of the group for the current and previous financial year.

The key management personnel of the group are the Directors.

Director's Name	Short-term benefits		Post-employment benefits		Remuneration consisting of EIP shares		Total
	Director's and Management Fees	Percentage of total remuneration	Super-annuation	Percentage of total remuneration	Shares	Percentage of total remuneration	
	\$	%	\$	%	\$	%	\$
<b>2012</b>							
<i>Executive Director</i>							
D J Morton	145,000	44	-	-	182,500	56	327,500
<i>Non-Executive Directors</i>							
D A Munns	35,000	49	-	-	36,500	51	71,500
P W V M Sam Yue	121,000	49	-	-	127,750	51	248,750
D W Reeder	25,000	58	-	-	18,250	42	43,250
<b>Total</b>	<b>326,000</b>	<b>47</b>	<b>-</b>	<b>-</b>	<b>365,000</b>	<b>53</b>	<b>691,000</b>
<b>2011</b>							
<i>Executive Director</i>							
D J Morton	145,000	100	-	-	-	-	145,000
<i>Non-Executive Director</i>							
D A Munns	35,000	9	-	-	366,700	91	401,700
P W V M Sam Yue	121,000	25	-	-	366,700	75	487,700
D W Reeder (appointed 7 Dec 10)	14,212	100	-	-	-	-	14,212
<b>Total</b>	<b>315,212</b>	<b>30</b>	<b>-</b>	<b>-</b>	<b>733,400</b>	<b>70</b>	<b>1,048,612</b>

**(c) Service agreements**

As at the date of this report, there are no service agreements with the Directors.

**(d) Share-based compensation**

**Employee Incentive Plan ("EIP")**

The Company has established a Gas2Grid Limited Employee Incentive Plan under which the Directors may offer options and ordinary shares in the Company to eligible persons. The Directors may also offer interest free non-recourse loans for terms of up to 5 years under the plan for subscription of shares and under such loans the Company holds a lien over the issued shares. The loans are repayable at the option of the eligible persons to be able to deal with the shares. The options are issued free at grant. The shares may not be subscribed for less than the market value of the shares at the time an offer is made under the plan.

Subject to approval of shareholders, Directors may also be offered shares with non-recourse loans or options under the plan as a long-term benefit supplementing the short-term-benefits that aligns their interests with those of all shareholders.

**Other transactions of Directors and Director-related entities**

Refer to Note 17 of the financial statements for details of other transactions with key management personnel.

**(e) Additional information**

**Loans to Directors**

There are no outstanding loans to Directors and no loans have been issued during the period, other than non-recourse loans structured under the Employee Incentive Plan.

**Shares under option**

Nil

**Insurance of officers**

During the financial year, a premium of \$28,337 was paid to insure the Directors of the group 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 group. 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 group, or to intervene in any proceedings to which the group 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 group with leave of the Court under section 237 of the *Corporations Act 2001*.

**Non-audit services**

The Company may decide to engage the auditor on assignments additional to their statutory audit duties where the auditor's expertise and experience with the group are important.

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

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

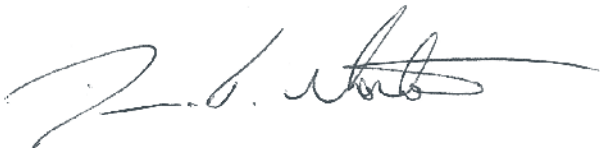
**Auditor's independence declaration**

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 28.

**Auditor**

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

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

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

Dennis J Morton  
Director

Sydney

18th September 2012



### Auditor's Independence Declaration

As lead auditor for the audit of Gas2Grid Limited for the year ended 30 June 2012, I declare that to the best of my knowledge and belief, there have been:

- a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
- b) no contraventions of any applicable code of professional conduct in relation to the audit.

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

A handwritten signature in black ink, appearing to read 'Peter Buchholz', with a long horizontal stroke extending to the right.

Peter Buchholz  
Partner  
PricewaterhouseCoopers

Sydney  
18 September 2012

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These financial statements are the consolidated financial statements of the consolidated entity consisting of Gas2Grid Limited and its subsidiary. The financial statements are presented in the Australian currency.

Gas2Grid Limited is a company limited by shares, incorporated and domiciled in Australia.

A description of the nature of the consolidated entity's operations and its principal activities is included in the Directors' report on page 21, which is not part of these financial statements.

The financial statements were authorised for issue by the Directors on 18 September 2012. The Directors have the power to amend and reissue the financial statements.

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](http://www.gas2grid.com)

**CONSOLIDATED INCOME STATEMENT AND STATEMENT OF COMPREHENSIVE INCOME**  
For the year ended 30 June 2012

	Notes	2012 \$	2011 \$
<b>Revenue from continuing operations</b>	5	35,500	13,981
<b>Expenses</b>			
Impairment of deferred exploration expenditure		(25,463)	(529,010)
Administration expense		(250,771)	(340,284)
Auditor's remuneration	21	(53,800)	(63,972)
Merger costs		-	(190,989)
Employee benefits expense		(150,435)	(99,212)
Depreciation	6	(33,432)	(4,143)
Finance costs		(13,996)	-
Insurance costs		(39,799)	(33,622)
Rental expenses		(102,429)	(37,900)
Share-based payments	25	(400,010)	(831,668)
Other expenses		(183,289)	(141,482)
<b>Loss before income tax</b>		<b>(1,217,924)</b>	<b>(2,258,301)</b>
Income tax expense	7	-	-
<b>Loss from continuing operations</b>		<b>(1,217,924)</b>	<b>(2,258,301)</b>
<b>Other comprehensive income</b>			
Exchange differences on translation of foreign operations		-	(1,036,211)
<b>Other comprehensive loss for the year, net of tax</b>		<b>-</b>	<b>(1,036,211)</b>
<b>Total comprehensive loss for the year</b>		<b>-</b>	<b>(3,294,512)</b>
Loss for the year attributable to the owners of Gas2Grid Limited		(1,217,924)	(2,258,301)
Total comprehensive loss for the year attributable to owners of Gas2Grid Limited		(1,217,924)	(3,294,512)
<b>Earnings per share for loss from continuing operations attributable to the ordinary equity holders of the Company:</b>		<b>Cents</b>	<b>Cents</b>
Basic and diluted earnings per share	24	(0.30)	(0.96)

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



**CONSOLIDATED BALANCE SHEET**  
As at 30 June 2012

	Notes	2012 \$	2011 \$
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents	8	3,113,760	1,374,931
Trade and other receivables	9	1,191,452	141,418
Other financial assets at fair value	10	2,153	2,153
<b>Total current assets</b>		<b>4,307,365</b>	<b>1,518,502</b>
<b>Non-current assets</b>			
Plant and equipment	11	1,005,825	11,331
Exploration expenditure and rights	12	11,795,628	7,442,753
<b>Total non-current assets</b>		<b>12,801,453</b>	<b>7,454,084</b>
<b>Total assets</b>		<b>17,108,818</b>	<b>8,972,586</b>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Trade and other payables	13	642,842	550,623
<b>Total current liabilities</b>		<b>642,842</b>	<b>550,623</b>
<b>Non-current liabilities</b>			
Provisions	14	104,115	-
<b>Total non-current liabilities</b>		<b>104,115</b>	<b>-</b>
<b>Total liabilities</b>		<b>746,957</b>	<b>550,623</b>
<b>Net assets</b>		<b>16,361,861</b>	<b>8,421,963</b>
<b>EQUITY</b>			
Contributed equity	15	25,329,385	16,571,573
Reserves	16 (a)	(521,245)	(921,255)
Accumulated losses	16 (b)	(8,446,279)	(7,228,355)
<b>Total equity</b>		<b>16,361,861</b>	<b>8,421,963</b>

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY  
For the year ended 30 June 2012

Consolidated	Contributed Equity \$	Accumulated Losses \$	Reserves \$	Total Equity \$
Balance at 1 July 2010	13,421,509	(4,970,054)	(714,720)	7,736,735
Total comprehensive loss for the year	-	(2,258,301)	(1,036,211)	(3,294,512)
<b>Transactions with owners in their capacity as owners:</b>				
Contributions of equity, net of transaction costs	3,150,064	-	-	3,150,064
Employee Incentive Plan	-	-	829,676	829,676
<b>Balance at 30 June 2011</b>	<b>16,571,573</b>	<b>(7,228,355)</b>	<b>(921,255)</b>	<b>8,421,963</b>
Total comprehensive loss for the year	-	(1,217,924)	-	(1,217,924)
<b>Transactions with owners in their capacity as owners:</b>				
Contributions of equity, net of transaction costs	8,757,812	-	-	8,757,812
Employee Incentive Plan	-	-	400,010	400,010
<b>Balance at 30 June 2012</b>	<b>25,329,385</b>	<b>(8,446,279)</b>	<b>(521,245)</b>	<b>16,361,861</b>

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

**CONSOLIDATED STATEMENT OF CASH FLOWS**  
For the year ended 30 June 2012

	Notes	2012 \$	2011 \$
<b>Cash flows from operating activities</b>			
Interest received		18,755	13,947
Other revenue		28,719	-
Payments to suppliers and employees (inclusive of goods and services tax)		(419,537)	(810,479)
<b>Net cash outflow from operating activities</b>	22	<b>(372,063)</b>	<b>(796,532)</b>
<b>Cash flows from investing activities</b>			
Payments for exploration expenditure		(4,222,803)	(1,272,098)
Payments for plant and equipment		(1,912,367)	(11,075)
<b>Net cash outflow from investing activities</b>		<b>(6,135,170)</b>	<b>(1,283,173)</b>
<b>Cash flows from financing activities</b>			
Proceeds from issues of shares	15(b)(ii)	7,807,381	3,075,384
Proceeds from borrowings		1,300,000	-
Repayment of borrowings		(804,000)	-
Share issue transaction costs		(22,828)	(164,243)
Interest paid		(13,613)	-
Share-based payment transaction costs		(110)	(1,992)
<b>Net cash inflow from financing activities</b>		<b>8,266,830</b>	<b>2,909,149</b>
<b>Net increase in cash and cash equivalents</b>		<b>1,759,597</b>	<b>829,444</b>
Cash and cash equivalents at the beginning of year		1,374,931	569,858
Effects of exchange rate changes on cash and cash equivalents		(20,768)	(24,371)
<b>Cash and cash equivalents at end of year</b>	8	<b>3,113,760</b>	<b>1,374,931</b>

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2012

## 1. Summary of significant accounting policies

The principal accounting policies adopted in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated. The financial statements are for the consolidated entity consisting of Gas2Grid Limited and its subsidiary.

### (a) Basis of preparation

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board and the *Corporations Act 2001*. Gas2Grid Limited is a for-profit entity for the purpose of preparing the financial statements.

#### *i. Compliance with IFRS*

The consolidated financial statements of the Gas2Grid Limited group also comply with International Financial Reporting Standards (IFRS) as issued by the International Financial Reporting Standards Board (IASB).

#### *ii. Historical cost convention*

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

#### *iii. 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.

#### *iv. Significant matters relating to the ongoing viability of operations*

The Company has made significant progress over the past 12 months in completing the seismic program and have identified 3 new prospects for drilling that will commence in the first half of 2013 financial year in SC 44. Philippine Department of Energy ("DOE") has granted an extension for completing the work commitments of the tenement until 28th January, 2014.

The Company now owns 100% of the St Griede licence after purchasing joint venture partner Flow Energy Limited's 50% interest in August 2011 for a cash consideration of \$900,000. Vintage field seismic data was purchased and the processing of the first batch of data was completed on 26 December 2011 and the second data batch has been completed soon after 30 June 2012. The Directors will further progress the various funding options currently being considered to fund the development of the projects. The continuing viability of the Company and its ability to continue as a going concern and meet its commitments as and when they fall due is dependent upon the Company being successful in either one or a combination of the following alternatives:

- Undertaking further capital raisings.
- Selling part of the Company's interest in SC 44 and entering into a joint venture for the potential development of the project.
- Obtaining debt finance.

As a result of these matters, there is a material uncertainty whether the Company will continue as a going concern and realise the value of its assets in the normal course of business and at the amounts stated in the financial report.

#### Conclusion

The Directors believe the Company has sufficient funds to settle its debts as and when they become due and payable. The Company will need to secure sufficient funding through borrowings, equity raising and other arrangements to enable sufficient cash to be available to further its development plans. The Directors expect the Company will be able to secure the necessary funding through one, or a combination of, the aforementioned alternatives.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2012 *continued*

On that basis the Directors have prepared the financial report on a going concern basis. At this time, the Directors are of the opinion that no asset is likely to be realised for an amount less than the amount at which it is recorded in the financial report at 30 June 2012. Accordingly, no adjustments have been made to the financial report relating to the recoverability and classification of the asset carrying amounts or the amounts and classification of liabilities that might be necessary should the Company not continue as a going concern.

### **(b) Principles of consolidation**

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Gas2Grid Limited ("Company" or "Parent Entity") as at 30 June 2012 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 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 acquisition method of accounting is used to account for the acquisition of subsidiaries by the group (refer to Note 1(j)).

Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated.

Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred.

Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the group.

### **(c) Segment reporting**

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Managing Director.

### **(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 or are attributable to part of the net investment in foreign operation.

Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Translation differences on assets and liabilities carried at fair value are reported as part of the fair value gain or loss. For example, translation differences on non-monetary 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 and translation differences on non-monetary assets such as equities classified as available-for-sale financial assets are included in the fair value reserve in equity.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2012 *continued*

### *iii. Group companies*

The results and financial position of foreign operations (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 in other comprehensive income.

On consolidation, exchange differences arising from the translation of any net investment in foreign entities, and of borrowings and other financial instruments designated as hedges of such investments, are recognised in other comprehensive income. When a foreign operation is sold or borrowings repaid a proportionate share of such exchange difference is reclassified to profit or loss, as part of the gain or loss on sale where applicable.

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

#### **(e) Revenue recognition**

Interest revenue is recognised on a proportional basis taking into account the interest rates applicable to the financial assets.

Other revenue is recognised as they accrue.

#### **(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 applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences 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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2012 *continued*

### **(g) Impairment of assets**

Goodwill and intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are tested 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 use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows which are largely independent of the cash inflows from other assets or groups of assets (cash generating units). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

### **(h) Cash and cash equivalents**

For the purposes of presentation in the statement of cash flows, 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 using the effective interest method, less provision for impairment. Trade receivables are generally due for settlement within 30 days.

Collectability of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off by reducing the carrying amount directly. An allowance account (provision for impairment of trade receivables) is used when there is objective evidence that the group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired. The amount of the impairment allowance 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. Cash flows relating to short-term receivables are not discounted if the effect of discounting is immaterial.

The amount of the impairment loss is recognised in the income statement within other expenses. When a trade receivable for which an impairment allowance had been recognised becomes uncollectible in a subsequent period, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against other expenses 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 and 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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2012 *continued*

### *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 de-recognition**

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 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.

#### **Subsequent Measurement**

Loans and receivables and held-to-maturity investments are carried at amortised cost using the effective interest method.

Financial assets at fair value through profit and loss are subsequently carried at fair value. Gains or losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are presented in the income statement within other income or other expenses in the period in which they arise. Dividend income from financial assets at fair value through profit and loss is recognised in the income statement as part of revenue from continuing operations when the group's right to receive payments is established.

Changes in the fair value of monetary securities denominated in a foreign currency and classified as available-for-sale are analysed between translation differences resulting from changes in amortised cost of the security and other changes in the carrying amount of the security. The translation differences related to changes in the amortised cost are recognised in profit or loss, and other changes in carrying amount are recognised in other comprehensive income. Changes in the fair value of other monetary and non-monetary securities classified as available-for-sale are recognised in other comprehensive income.

#### **Impairment**

If there is evidence of impairment for any of the group's financial assets carried at amortised cost, the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, excluding future credit losses that have not been incurred. The cash flows are discounted at the financial asset's original effective interest rate. The loss is recognised in 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) 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.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2012 *continued*

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 or diminishing value method to allocate their cost or revalued amounts, net of their residual values, over their estimated useful lives, as follows:

(i) Furniture, fittings and equipment	3-8 years
(ii) Leasehold improvements	5 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.

### **(m) Intangible assets**

#### **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 may be provided to employees via an Employee Incentive Plan.

Non-market vesting conditions are included in assumptions about the number of options that are expected to vest. The total expense is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. At the end of each period, the entity revises its estimates of the number of options that are expected to vest based on the non-marketing vesting conditions. It recognises the impact of the revision to original estimates, if any, in profit or loss, with a corresponding adjustment to equity.

The fair value of options granted under an Employee Incentive Plan is recognised as an employee benefits expense with a corresponding increase in equity. The total amount to be expensed is determined by reference to the fair value of the options granted, which includes any market performance conditions but excludes the impact of any service and non-market performance vesting conditions and the impact of any non-vesting conditions.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2012 *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 subsidiary**

Investments in subsidiary are accounted for at cost. Such investment includes both investment 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 the subsidiary in the normal course of business and other amounts advanced on commercial terms and conditions are included in receivables.

### **(s) Goods and Service 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.

### **(u) Exploration and evaluation expenditure**

Exploration and evaluation expenditure is accumulated in respect of each indefinable area of interest, and carried forward in the balance sheet where:

- (i) rights to tenure of the area of interest are current; and
- (ii) one of the following conditions is met:
  - (i) such costs are expected to be recouped through successful development and exploitation of the area of interest or by its sale; or

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2012 *continued*

- (ii) exploration and/or evaluation activities in the area of interest have not at balance date yet reached a stage which permits a reasonable estimate of the existence or otherwise of economically recoverable mineral reserves, and active and significant operations in, or in relation to, the area are continuing.

Indirect costs relating to exploration and evaluation in areas of interest are capitalised in the year they are incurred.

A regular review is undertaken to determine the appropriateness of continuing to carry forward costs in relation to that area of interest.

Accumulated expenditure on areas which have been abandoned, or are considered to be of no value, is written off in the year in which such a decision is made.

### **(v) New accounting standards and interpretation**

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2012 reporting periods. The group's assessment of the impact of these new standards and interpretations is set out below.

- i. *AASB 9 financial instruments, AASB 2009-11 amendments to Australian Accounting Standards arising from AASB 9 and AASB 2010-7 amendments to Australian Accounting Standards arising from AASB 9 (December 2010) (effective from 1 January 2013)*

AASB 9 financial instruments addresses the classification, measurement and derecognition of financial assets and financial liabilities. The standard is not applicable until 1 January 2013 but is available for early adoption. When adopted, the standard will affect in particular the group's accounting for its available-for-sale financial assets, since AASB 9 only permits the recognition of fair value gains and losses in other comprehensive income if they relate to equity investments that are not held for trading. Fair value gains and losses on available-for-sale debt investments, for example, will therefore have to be recognised directly in profit or loss. In the current reporting period, the group did not recognise any such gains in other comprehensive income.

There will be no impact on the group's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss and the group does not have any such liabilities. The derecognition rules have been transferred from AASB 139 financial instruments: recognition and measurement and have not been changed. The group has not yet decided when to adopt AASB 9.

- ii. *AASB 1053 application of tiers of Australian Accounting Standards and AASB 2010-2 amendments to Australian Accounting Standards arising from reduced disclosure requirements (effective from 1 July 2013).*

On 30 June 2010 the AASB officially introduced a revised differential reporting framework in Australia.

Under this framework, a two-tier differential reporting regime applies to all entities that prepare general purpose financial statements. Gas2Grid Limited is listed on the ASX and is not eligible to adopt the new Australian Accounting Standards – reduced disclosure requirements. The two standards will therefore have no impact on the financial statements of the group.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2012 *continued*

- iii. *AASB 13 fair value measurement and AASB 2011-8 amendments to Australian Accounting Standards arising from AASB 13 (effective 1 January 2013)*

AASB 13 was released in September 2011. It explains how to measure fair value and aims to enhance fair value disclosures. The group has yet to determine which, if any, of its current measurement techniques will have to change as a result of the new guidance. It is therefore not possible to state the impact, if any, of the new rules on any of the amounts recognised in the financial statements. However, application of the new standard will impact the type of information disclosed in the notes to the financial statements. The group does not intend to adopt the new standard before its operative date, which means that it would be first applied in the annual reporting period ending 30 June 2014.

- iv. *AASB 2011-9 amendments to Australian Accounting Standards – presentation of items of other comprehensive income (effective 1 July 2012)*

In September 2011, the AASB made an amendment to AASB 101 presentation of financial statements which requires entities to separate items presented in other comprehensive income into two groups, based on whether they may be recycled to profit or loss in the future. This will not affect the measurement of any of the items recognised in the balance sheet or the profit or loss in the current period. The group intends to adopt the new standard from 1 July 2012.

- v. *AASB 2011-4 amendments to Australian Accounting Standards to remove individual key management personnel disclosure requirements (effective 1 July 2013)*

In July 2011 the AASB decided to remove the individual key management personnel (“KMP”) disclosure requirements from AASB 124 related party disclosures, to achieve consistency with the international equivalent standard and remove a duplication of the requirements with the *Corporations Act 2001*. While this will reduce the disclosures that are currently required in the notes to the financial statements, it will not affect any of the amounts recognised in the financial statements. The amendments apply from 1 July 2013 and cannot be adopted early. The *Corporations Act 2001* requirements in relation to remuneration reports will remain unchanged for now, but these requirements are currently subject to review and may also be revised in the near future.

- vi. *AASB 2012-3 amendments to Australian Accounting Standard - offsetting financial assets and financial liabilities and AASB 2012-2 disclosures - offsetting financial assets and financial liabilities (effective 1 January 2014 and 1 January 2013 respectively)*

In June 2012, the AASB approved amendments to the application guidance in AASB 132 financial instruments: presentation, to clarify some of the requirements for offsetting financial assets and financial liabilities in the balance sheet. These amendments are effective from 1 January 2014. They are unlikely to affect the accounting for any of the entity's current offsetting arrangements. However, the AASB has also introduced more extensive disclosure requirements into AASB 7 which will apply from 1 January 2013. When they become applicable, the group will have to provide a number of additional disclosures in relation to its offsetting arrangements. The group intends to apply the new rules for the first time in the financial year commencing 1 July 2013.

### **w) Parent entity financial information**

The financial information for the Parent Entity, Gas2Grid Limited, disclosed in Note 20 has been prepared on the same basis as the consolidated financial statements.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2012 *continued*

### 2. Financial risk management

The group's activities expose it to a variety of financial risks: market risk (including interest rate risk and currency risk), credit risk and liquidity risk. The group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the group.

Risk management is carried out by the Board and the interest rates risk and credit risks faced by the group are considered minimal at this stage.

The group holds the following financial instruments:

	Average Interest Rate	2012	2011
	%	\$	\$
<b>Financial assets</b>			
Cash and cash equivalents	1.5	3,113,760	1,374,931
Trade and other receivables		1,191,452	141,418
Other financial assets at fair value		2,153	2,153
		<b>4,307,365</b>	<b>1,518,502</b>
<b>Financial liabilities</b>			
Trade and other payables		642,842	550,623
		<b>642,842</b>	<b>550,623</b>

#### (a) Market risk

##### i. Foreign exchange risk

The group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the US dollar, Euro and Philippine Peso.

Foreign exchange risk arises from future commercial transactions and recognised assets and liabilities denominated in a currency that is not the group's functional currency and net investments in foreign operations. The risk is measured using sensitivity analysis and cash flow forecasting.

The group's exposure to foreign currency risk at the reporting date, other than translation of overseas subsidiaries, was not material.

##### ii. Cash flow and fair value interest rate risk

The group's main interest rate risk arises from cash and cash equivalents and deposits with banks. The group is not exposed to price risk.

##### iii. Group sensitivity

At 30 June 2012, if interest rates had changed by +/- 100 basis points from the year-end rates with all other variables held constant, post-tax loss for the year would have been \$31,137 lower/higher (2011 - change of 100 bps: \$13,749 lower/higher), as a result of lower/higher interest income from cash and cash equivalents and deposits with banks.

#### (b) Credit risk

Credit risk arises from cash and cash equivalents and deposits with banks, as well as credit exposures in respect of outstanding receivables and committed transactions.

The maximum exposure to credit risk at the reporting date is the carrying amount of the financial assets.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2012 *continued*

### (c) Liquidity risk

The group manages liquidity risk by monitoring actual cash flows and maintaining sufficient cash or finance facilities to fund operations. Surplus funds are generally only invested in short term deposits with Australian banks.

#### *Financing arrangements*

The group had access to an undrawn borrowing facility bearing interest at a fixed rate of 9% allowing the drawing of up to \$1,250,000 until 30 September 2013.

#### *Maturities of financial liabilities*

The tables below analyse the group's financial liabilities into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date. The amounts disclosed in the table are the contractual cash flows.

	Less than 6 months	6 – 12 months	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Total contractual cash flows	Carrying amount (assets) / liabilities
	\$	\$	\$	\$	\$	\$	\$
<b>At 30 June 2012</b>							
<b>Non-derivatives</b>							
Non-interest bearing	642,842	-	-	-	-	642,842	642,842
Variable rate	-	-	-	-	-	-	-
<b>Total non-derivatives</b>	<b>642,842</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>642,842</b>	<b>642,842</b>
<b>At 30 June 2011</b>							
<b>Non-derivatives</b>							
Non-interest bearing	550,623	-	-	-	-	550,623	550,623
Variable rate	-	-	-	-	-	-	-
<b>Total non-derivatives</b>	<b>550,623</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>550,623</b>	<b>550,623</b>

### (d) Fair value estimation

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

The fair value of financial instruments that are not traded in an active market is determined using valuation techniques. The group uses a variety of methods and makes assumptions that are based on market conditions existing at each balance date.

The carrying value less impairment provision of receivables and payables are assumed to approximate their fair values due to their short-term nature.

## 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.

### **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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2012 *continued*

### *Estimated impairment of exploration expenditure*

The group tests semi-annually whether exploration expenditure carried forward has suffered any impairment, in accordance with the accounting policy stated in Note 1(u).

### 4. Segment information

The group operates a petroleum exploration business performing geological and geophysical studies, exploratory drilling of wells and seismic surveys in the Philippines, France, New Zealand and Western Australia. The group manages these activities from its head office in Sydney, Australia, a branch office in Manila, Philippines and an office in Singapore.

	Revenue		Segment Results		Segment Assets		Segment Liabilities	
	2012	2011	2012	2011	2012	2011	2012	2011
	\$	\$	\$	\$	\$	\$	\$	\$
Australia	35,500	13,981	(1,120,556)	(2,202,381)	5,311,036	1,529,761	505,779	315,342
Singapore	-	-	(9,650)	(10,126)	-	-	-	-
France	-	-	-	(37,194)	2,135,406	781,891	62,431	3,080
New Zealand	-	-	-	(8,600)	-	-	-	-
Philippines	-	-	(87,718)	-	9,662,376	6,660,934	178,747	232,201
Consolidated	35,500	13,981	(1,217,924)	(2,258,301)	17,108,818	8,972,586	746,957	550,623

	2012	2011
	\$	\$

### 5. Revenue

#### From continuing operations

Interest	18,781	13,981
Other revenue	16,719	-
	35,500	13,981

### 6. Expenses

#### Loss before income tax includes the following specific expenses:

Depreciation		
Plant and equipment	33,432	4,143
Net foreign exchange loss	30,151	57,101
	63,583	61,244

### 7. Income tax expense

#### (a) Numerical reconciliation of income tax expense to prima facie tax payable

Loss from continuing operations before income tax expense	(1,217,924)	(2,258,301)
Tax at the Australian tax rate of 30% (2011- 30%)	(365,377)	(677,490)
Deferred tax asset not recognised/(brought to account)	365,377	677,490
Income tax expense	-	-

#### (b) Tax losses

Unused tax losses for which no deferred tax asset has been recognised	11,688,064	10,470,002
Potential tax benefit @ 30%	3,506,419	3,141,001

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
For the year ended 30 June 2012 *continued*

	2012 \$	2011 \$
<b>8. Current assets - Cash and cash equivalents</b>		
Cash at bank and in hand	3,113,760	1,374,931
<b>9. Current assets - Trade and other receivables</b>		
Other receivables (a)	59,270	110,251
Prepayments		
- Rig and well drilling materials (b)	1,107,070	-
- Other	25,112	31,167
	<b>1,191,452</b>	<b>141,418</b>
<b>Credit risk</b>		
There is no significant credit risk with respect to receivables and prepayments.		
(a) These amounts generally arise from transactions outside the usual operating activities of the group		
(b) These amounts are deposit payments made to suppliers on placement of orders for equipment and materials for the refurbishment of two Company owned rigs and the 3 well drilling program in SC 44 which have not yet been delivered to the Company at balance date.		
<b>10. Current assets - Other financial assets at fair value</b>		
At beginning of year	2,153	2,534
Foreign exchange difference on translation	-	(381)
At end of the year	<b>2,153</b>	<b>2,153</b>
Philippines Treasury Bills	<b>2,153</b>	<b>2,534</b>
<b>11. Non-current assets - Property, plant and equipment</b>		
<b>Leasehold improvements</b>		
Cost or fair value	113,863	-
Accumulated depreciation	(20,875)	-
	<b>92,988</b>	<b>-</b>
<b>Plant and equipment</b>		
Cost or fair value	910,512	19,875
Accumulated depreciation	(19,430)	(8,662)
	<b>891,082</b>	<b>11,213</b>
<b>Furniture and fittings</b>		
Cost or fair value	27,352	1,497
Accumulated depreciation	(5,596)	(1,380)
	<b>21,756</b>	<b>117</b>
<b>Total property, plant and equipment</b>	<b>1,005,825</b>	<b>11,331</b>



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2012 *continued*

### Movements during the year

Movements in the carrying amount for each class of property, plant and equipment between the beginning and the end of the current financial year are as follows:

	Plant & equipment \$	Furniture & fittings \$	Leasehold improvements \$	Total \$
Balance at beginning of year	11,214	117	-	11,331
Additions	890,636	25,855	113,863	1,030,354
Depreciation charge	(8,341)	(4,216)	(20,875)	(33,432)
Depreciation charged to exploration expenditure	(2,428)	-	-	(2,428)
<b>Balance at the end of year</b>	<b>891,081</b>	<b>21,756</b>	<b>92,988</b>	<b>1,005,825</b>

	2012 \$	2011 \$

### 12. Non-current assets – Exploration expenditure and rights

Exploration expenditure and rights

At cost

	11,795,628	7,442,753
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#### Reconciliation of the carrying amount of exploration expenditure and rights

Exploration expenditure and rights:

Balance at beginning of year	7,442,753	7,802,919
Exploration expenditure and rights	4,378,338	1,311,643
Exploration expenditure and rights written off	(25,463)	(529,010)
Foreign exchange difference	-	(1,142,799)
<b>Balance at end of year</b>	<b>11,795,628</b>	<b>7,442,753</b>

### 13. Current liabilities – Trade and other payables

Trade payables	475,942	360,902
Fees owing to Directors (see Note 17(d)(ii))	166,900	189,721
	<b>642,842</b>	<b>550,623</b>

### 14. Provisions

#### Non-current

Lease make good provision	16,558	-
Lease incentive provision	87,557	-
	<b>104,115</b>	<b>-</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2012 *continued*

The Company is required to restore leased premises to their original condition at the end of the lease. A provision has been recognised for the present value of the estimated expenditure to remove any leasehold improvements. These costs have been capitalised as part of the cost of leasehold improvements and are amortised over the term of the lease.

Lease incentives received for fit-out are capitalised as part of the cost of leasehold improvements and are depreciated over the term of the lease.

### Movements in provisions

Movements in each class of provision during the financial year are set out below:

	Make good provision	Lease incentive provision	Total
	\$	\$	\$
Balance at beginning of year	-	-	-
Additional provision recognised	16,558	98,000	114,558
(Credited) to profit or loss	-	(10,443)	(10,443)
Balance at end of year	<b>16,558</b>	<b>87,557</b>	<b>104,115</b>

### 15. Contributed equity

	Notes	2012 Shares	2011 Shares	2012 \$	2011 \$
<b>a) Share capital</b>					
Ordinary shares - fully paid	(b),(c)	<b>567,424,436</b>	356,272,231	<b>25,329,385</b>	16,571,573

Ordinary shares have no par value and the Company does not have a limited amount of authorised capital.

### b) Movements in ordinary share capital:

Details		Notes	Number of shares	Issue price	\$
1 July 2011	Balance at beginning of year		356,272,231		16,571,573
<b>(i) Non- cash transactions</b>					
11 August 2011	Shares issued – Payment of creditors		794,444	0.063	50,050
30 September 2011	Shares issued – Payment of creditors		198,413	0.063	12,500
30 September 2011	Shares issued – Payment of creditors		461,404	0.057	26,300
30 September 2011	Shares issued – Payment of creditors		692,315	0.054	37,385
30 September 2011	Exercise of Options – 30 Sept 2011	17(d)(iii)	10,000,000	0.049	496,000
1 December 2011	Shares issued – Payment of Directors	(e)	2,894,419	0.05	144,721
1 December 2011	Shares issued under EIP	(d)	10,000,000	0.049	-
21 March 2012	Shares issued under EIP	(d)	900,000	0.05	-
18 May 2012	Shares issued – Payment of Directors	(e)	3,800,000	0.05	190,000
18 May 2012	Shares issued – Payment of creditors		460,000	0.05	23,000
<b>Sub-total</b>			<b>30,200,995</b>	<b>-</b>	<b>979,956</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2012 *continued*

	Details	Notes	Number of shares	Issue price	\$
<b>(ii) Cash transactions</b>					
11 August 2011	Exercise of Options – 15 June 2012		800,000	0.05	40,000
30 September 2011	Exercise of Options – 30 Sept 2011		19,200,000	0.049	952,320
30 September 2011	Exercise of Options – 15 June 2012		42,320	0.05	2,116
24 March & 7 May 2012	Shares issued under private placement		78,750,000	0.04	3,150,000
7 May – 18 June 2012	Exercise of Options – 15 June 2012		37,658,890	0.05	1,882,945
18 May 2012	Shares issued to Directors	(e)	35,000,000	0.04	1,400,000
1 & 8 June 2012	Shares issued under private placement		9,500,000	0.04	380,000
<b>Sub-total</b>			<b>180,951,210</b>	<b>-</b>	<b>7,807,381</b>
	Less: Transaction costs		-	-	(29,525)
<b>Total</b>			<b>211,152,205</b>	<b>-</b>	<b>8,757,812</b>
<b>30 June 2012</b>	<b>Balance at end of year</b>		<b>567,424,436</b>	<b>-</b>	<b>25,329,385</b>

### 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) Employee Incentive Plan shares

Information relating to the employee share scheme, including details of shares issued under the scheme, is set out in Note 25.

### e) Share issue

On 1 December 2011 the Company issued 2,894,419 fully paid ordinary shares at a deemed issue price of \$0.05 per share (the market price at the date of issue was \$0.049). These shares were issued to Directors as payment for Director's and management fees outstanding. The shares were approved for issue at the annual general meeting held on 30 November 2011.

On 18 May 2012 the Company issued 35,000,000 fully paid ordinary shares to Directors under a private placement for cash at \$0.04 per share (the market price at the date of issue was \$0.049) being the same price that shares were placed with other investors on 24 March 2012 after the placement, including those with Directors, was announced to the Australian Securities Exchange on 14 March 2012. The shares were approved for issue at a general meeting held on 3 May 2012

On 18 May 2012 the Company issued 4,260,000 fully paid ordinary shares at \$0.05 per share. These shares were issued to Directors as payment for Director's fees and accounts payable as agreed with the Directors. The shares were approved for issue at a general meeting held on 3 May 2012.

### f) Options

#### Unlisted Options

	2012 Shares	2011 Shares
Exercisable at \$0.0496 per ordinary share on or before 30 September 2011	-	34,000,000
Exercisable at \$0.050 per ordinary share on or before 15 June 2012	-	71,891,909

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2012 *continued*

	2012 \$	2011 \$
<b>16. Reserves and accumulated losses</b>		
<b>a) Reserves</b>		
Share-based payments reserve	1,313,686	913,676
Foreign currency translation reserve	(1,834,931)	(1,834,931)
	<u>(521,245)</u>	<u>(921,255)</u>
<b>Movements:</b>		
<i>Share-based payments reserve</i>		
Balance at beginning of year	913,676	84,000
Option expense	400,010	831,668
Less: costs of issue	-	(1,992)
Balance at end of year	<u>1,313,686</u>	<u>913,676</u>
<i>Foreign currency translation reserve</i>		
Balance at beginning of year	(1,834,931)	(798,720)
Currency translation differences arising during the year	-	(1,036,211)
Balance at end of year	<u>(1,834,931)</u>	<u>(1,834,931)</u>
<b>b) Accumulated losses</b>		
Movements in accumulated losses were as follows:		
Balance at beginning of year	(7,228,355)	(4,970,054)
Loss for the year	(1,217,924)	(2,258,301)
Balance at end of year	<u>(8,446,279)</u>	<u>(7,228,355)</u>
<b>c) Nature and purpose of reserves</b>		
<i>i. Share-based payments reserve</i>		
The share-based payments reserve is used to recognise the fair value of options issued but not exercised.		
<i>ii. Foreign currency translation reserve</i>		
Exchange differences arising on translation of the foreign subsidiary 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.		
<b>17. Key management personnel disclosures</b>		
<b>a) Key management personnel compensation</b>		
Short-term employee benefits	326,000	315,212
Post-employment benefits	-	-
Long-term benefits	-	-
Termination benefits	-	-
Remuneration consisting of EIP shares	365,000	733,400
	<u>691,000</u>	<u>1,048,612</u>

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) - (d) of the remuneration report on pages 24 to 26.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2012 *continued*

### b) 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 the remuneration report on pages 24 to 26

#### ii. Option holdings

The number of options, both listed and unlisted, over ordinary shares in the Company held during the financial year by each Director of Gas2Grid Limited, including their related parties, are set out below.

Name	Balance at beginning of year	Granted during the year as compensation	Exercised during the year	Other changes during the year <sup>1</sup>	Expired during the year	Balance at end of year	Vested and exercisable during the year
<b>Directors of Gas2Grid Limited</b>							
<b>2012</b>							
D A Munns	2,474,533	-	(2,474,533)	-	-	-	-
D J Morton	24,455,274	-	(24,455,274)	-	-	-	-
P W V M Sam Yue	-	-	(3,250,000)	3,250,000	-	-	-
D W Reeder	29,666,665	-	-	(18,000,000)	(11,666,665)	-	-
<b>2011</b>							
D A Munns	6,711,800	-	(2,000,000)	4,474,533	(6,711,800)	2,474,533	2,474,533
D J Morton	17,604,066	-	(2,000,000)	26,455,274	(17,604,066)	24,455,274	24,455,274
P W V M Sam Yue	-	-	-	-	-	-	-
D W Reeder	11,666,665	-	(2,000,000)	20,000,000	-	29,666,665	29,666,665

<sup>1</sup> Other changes in 2012 arise from offmarket acquisitions and disposals of options. In 2011 the other changes arose from issue of options attached to shares issued by the Company under a rights issue.

#### iii. Share holdings

The number of fully paid ordinary shares in the Company held during the financial year by each Director of Gas2Grid Limited, including their related parties, is set out below.

Name	Balance at the beginning of year	Received during the year on exercise of options	Other changes during the year	Balance at the end of year
<b>Directors of Gas2Grid Limited</b>				
<b>2012</b>				
D A Munns(i)	28,856,900	2,474,533	11,143,333	42,474,766
D J Morton (ii)	64,544,483	24,455,274	23,860,840	112,860,597
P W V M Sam Yue (iii)	6,500,000	3,250,000	8,491,000	18,241,000
D W Reeder	48,666,665	-	8,659,246	57,325,911
<b>2011</b>				
D A Munns	16,021,256	2,000,000	10,835,644	28,856,900
D J Morton	30,450,320	2,000,000	32,094,163	64,544,483
P W V M Sam Yue	-	-	6,500,000	6,500,000
D W Reeder	46,666,665	2,000,000	-	48,666,665

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2012 *continued*

- i. 5,907,656 shares are registered in the name of TD International SA. 1,000,000 shares are registered in the name of Ann Patricia Munns.
- ii. 67,957,222 shares are registered in the name of Budside Pty Limited Employees Superannuation Fund. 29,903,375 shares are registered in the name of Budside Pty Ltd.
- iii. 2,741,000 shares are registered in the name of Oni Design Pty Ltd. 7,000,000 are registered in the name of W V M Sam Yue & M L Sam Yue ATF Samyue Super Fund.

### c) Employee Incentive Plan shares to key management personnel

During the year fully paid ordinary shares were issued under the Gas2Grid Limited Employee Incentive Plan (see Note 25) at market price of \$0.049 per share to Directors for which they were granted interest free non-recourse loans of \$0.08 per share to acquire the shares and the loans are repayable at their option to be able to deal with the shares as follows:

Name	2012			2011		
	Number of shares granted	Amount payable at \$0.08 per share on or before 30 November 2016 at the Directors' option	Fair value expensed under share based payments	Number of shares granted	Amount payable at \$0.05 per share on or before 20 January 2016 at the Director's option	Fair value expensed under share based payments
		\$	\$		\$	\$
<b>Directors of Gas2Grid Limited</b>						
D A Munns	1,000,000	80,000	36,500	5,000,000	250,000	366,700
D J Morton	5,000,000	400,000	182,500	-	-	-
P W V M Sam Yue	3,500,000	280,000	127,750	5,000,000	250,000	366,700
D W Reeder	500,000	40,000	18,250	-	-	-
	<b>10,000,000</b>	<b>800,000</b>	<b>365,000</b>	<b>10,000,000</b>	<b>500,000</b>	<b>733,400</b>

### d) Other transactions with key management personnel

- (i) Directors were issued the following fully paid shares during the year as payment for Director's and management fees owing for current and prior years:

	2012		2011	
	Shares	\$	Shares	\$
D A Munns	933,333	46,667	1,361,111	40,833
D J Morton	3,860,840	193,042	5,638,889	169,167
P W V M Sam Yue	1,241,000	62,050	1,500,000	45,000
D W Reeder	659,246	32,962	-	-
	<b>6,694,419</b>	<b>334,721</b>	<b>8,500,000</b>	<b>255,000</b>

- (ii) Summary of goods and services due and payable to Directors and their related entities:

	2012	2011
	\$	\$
<b>Management fees to the following entities recognised as expense</b>		
Budside Pty Ltd <sup>1</sup>	120,000	120,000
Oni Design Pty Ltd <sup>2</sup>	96,000	96,000
	<b>216,000</b>	<b>216,000</b>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
For the year ended 30 June 2012 *continued*

	2012 \$	2011 \$
<b>Director's fees recognised as expense</b>		
Budside Pty Ltd	25,000	25,000
Oni Design Pty Ltd	25,000	25,000
TD International SA <sup>3</sup>	35,000	35,000
D W Reeder	25,000	25,000
	110,000	110,000
<b>Management and Director's fees owing at balance date</b>		
Budside Pty Ltd	36,541	93,042
Oni Design Pty Ltd	115,359	62,050
TD International SA	8,750	20,417
D W Reeder	6,250	14,212
	166,900	189,721
<b>Amounts recognised as non-current assets</b>		
Exploration expenditure for services performed and goods provided by Desco Incorporated <sup>3</sup>	55,954	43,575
For services performed on rig maintenance by TD International SA	6,169	-
Exploration expenditure for services performed and goods provided by Black Diamond Well Services Pte Ltd <sup>4</sup>	983,737	-
	1,045,860	43,575

The amounts due and payable for the services in Philippines were on an arm length basis by reference to industry standards and where available third party charges for equivalent work.

Related entities of the following Directors:

<sup>1</sup>D J Morton, <sup>2</sup>P W V M Sam Yue, <sup>3</sup>D A Munns, <sup>4</sup>D W Reeder

(iii) During the year Budside Pty Ltd made loans totalling \$1,300,000 to the Company. The loans were reduced by \$496,000 to offset against exercise money payable by Budside Pty Ltd on the exercise of 10 million options at \$0.0496 per share on 30 September 2011. The loan balance of \$804,000 was repaid in cash in February 2011. Interest calculated at 9% per annum amounting to \$13,298 was paid to Budside Pty Ltd during the year.

## 18. Related party transactions

### a) Parent entities

The Parent Entity within the group is Gas2Grid Limited and this is also the ultimate Parent Entity within the group.

### b) Subsidiary

Interest in subsidiary is set out in Note 19.

#### Investment by Parent Entity in subsidiary

At beginning of year	-	3,789,714
Impairment of investment in subsidiary	-	(3,789,714)
At end of year	-	-

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2012 *continued*

### c) Key management personnel

Disclosures relating to key management personnel are set out in Note 17.

### 19. 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	Country of incorporation	Class of shares	Equity holding*	
			2012 %	2011 %
Gas2Grid Pte Limited	Singapore	Ordinary	100	100

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

### 20. Parent entity financial information

#### a) Summary financial information

The individual financial statements for the Parent Entity show the following aggregate amounts:

	2012 \$	2011 \$
<b>Balance sheet</b>		
Current assets	4,307,365	1,518,502
Total assets	17,108,818	8,972,586
Current liabilities	(642,842)	(550,623)
Non-current liabilities	(104,115)	-
Total liabilities	(746,957)	(550,623)
	16,361,361	8,421,963
<i>Shareholders' equity</i>		
Issued capital	25,329,385	16,571,573
Reserves	(521,245)	(921,255)
Accumulated losses	(8,446,279)	(7,228,355)
	16,361,861	8,421,963
<b>Loss for the year</b>	(1,217,924)	(973,911)
<b>Total comprehensive loss</b>	(1,217,924)	(973,911)

#### b) Guarantees entered into by the Parent Entity

The Parent Entity has not entered into any financial guarantees as at 30 June 2012 or 30 June 2011.

#### c) Contingent liabilities of the Parent Entity

The Parent Entity did not have any contingent liabilities as at 30 June 2012 or 30 June 2011.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2012 *continued*

### d) Contractual commitments for the acquisition of property, plant or equipment

The Parent Entity did not have any contractual commitments for the acquisition of property, plant or equipment as at 30 June 2012 or 30 June 2011 except as disclosed in Note 26.

### 21. Remuneration of auditors

During the year the following fees were paid or payable for the remuneration of auditors:

	2012 \$	2011 \$
<b>Audit services</b>		
<b><i>Services provided by the auditor of the Parent Entity and its related firms</i></b>		
PwC Australian firm		
Audit and review of financial reports and other audit work under the Corporations Act 2001	53,800	50,300
Related practices of PwC Australian firm	-	10,172
<b><i>Services by a firm not related to the auditor of the Parent Entity</i></b>		
EWL Pte Ltd	-	3,500
<b>Total remuneration for audit services</b>	<b>53,800</b>	<b>63,972</b>

No non-audit services were provided.

### 22. Reconciliation of loss after income tax to net cash inflow from operating activities

Loss for the year	(1,217,924)	(2,258,301)
Depreciation and amortisation	23,372	4,143
Director's fees paid by way of share issue	334,721	255,000
Impairment of deferred exploration expenditure	25,463	529,010
Interest paid	13,613	-
Licence application costs	-	37,194
Net exchange differences	20,769	56,486
Share based payment	400,010	831,668
Change in operating assets and liabilities:		
Decrease in trade and other receivables	50,981	37,319
Decrease in trade and other payables	(29,122)	(278,766)
Decrease (Increase) in prepayments	6,054	(10,285)
Net cash outflow from operating activities	<b>(372,063)</b>	<b>(796,532)</b>

### 23. Non-cash investing and financing activities

The Company issued fully paid ordinary shares in payment of the following.

Creditors	149,235	-
Loan	496,000	-
Director's and management fees	334,721	255,000
	<b>979,956</b>	<b>255,000</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2012 *continued*

### 24. Earnings per share

	2012 Cents	2011 Cents
<b>a) Basic and diluted earnings (loss) per share</b>		
From continuing operations attributable to the ordinary equity holders of the Company	(0.30)	(0.96)
<b>b) Reconciliations of earnings (loss) used in calculating earnings per share</b>		
	\$	\$
<i>Basic and diluted earnings per share</i>		
Loss from continuing operations	(1,217,924)	(2,258,301)
Loss from continuing operations attributable to the ordinary equity holders of the Company used in calculating basic earnings per share	(1,217,924)	(2,258,301)
<b>c) Weighted average number of shares used as the denominator</b>		
	Number	Number
<i>Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share</i>	408,337,222	296,368,098
Adjustments for calculation of diluted earnings per share:		
Options	-	-
<i>Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted earnings per share</i>	408,337,222	296,368,098
<i>Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share</i>	408,337,222	296,368,098

### d) Information concerning the classification of securities

#### Options

There were no options in issue at balance date.

### 25. Share based payments

The Company has established a Gas2Grid Limited Employee Incentive Plan ("EIP") under which the Directors may offer options and ordinary shares in the Company to eligible persons. The Directors may also offer interest free non-recourse loans for terms of up to 5 years under the plan for subscription of shares. Under such loans the Company holds a lien over the issued shares and the loans are repayable at the option of the eligible persons to be able to deal with the shares. Shares issued under the EIP in conjunction with non-recourse loans are accounted for as options. As a result, the amounts receivable from the eligible persons in relation to these loans are not recognized in the financial statements. Refer to the Remuneration Report contained in the Directors' Report for details of the Gas2Grid Limited Employee Incentive Plan. The amounts issued to eligible persons under the plan during the year were 10,000,000 shares (market price at date of issue - \$0.049 per share) with non-recourse loans totalling \$800,000 and 900,000 shares (market price at date of issue - \$0.05 per share) with non-recourse loans totalling \$54,000. There are no vesting conditions.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2012 *continued*

	2012 Shares	2011 Shares
Balance at beginning of year	12,750,000	-
Granted during the year	10,900,000	12,750,000
Balance at end of year	23,650,000	12,750,000

The model inputs for assessing the fair value of shares granted under the EIP, applying the Black-Scholes Option Pricing Model, during the year are as follows:

Shares issued under EIP	Issue and grant date	Share price at grant date \$	Life assumption \$	Risk free rate	Expected price volatility of Company's share price	Value of option \$	Value of share based payment \$
10,000,000	01/12/11	0.049	5 years	3.48%	110%	0.0365	365,000
900,000	21/03/12	0.05	5 years	5.37%	107%	0.0389	35,010
							<b>400,010</b>

Historical volatility has been the basis for determining expected share price volatility as it is assumed that this is indicative of future movements.

### Comparatives 2011

2,500,000	10/12/10	0.036	5 years	5.31%	131.2%	0.0307	76,625
250,000	19/01/11	0.094	5 years	5.35%	136.8%	0.0866	21,643
5,000,000	21/01/11	0.08	5 years	5.37%	137.5%	0.0733	366,700
5,000,000	21/01/11	0.08	5 years	5.37%	137.5%	0.0733	366,700
							<b>831,668</b>

## 26. Commitments

### a) Capital commitments

Capital expenditure contracted for construction of drilling sites and access roads to the site at the balance date but not recognised as liabilities is as follows:

	2012 \$	2011 \$
Exploration expenditure and rights	151,600	-

### b) Lease commitments

Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:

Not later than one year	203,383	-
Later than one year but not later than 5 years	377,050	-
	<b>580,433</b>	-

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2012 *continued*

	2012	2011
	\$	\$

### c) Exploration commitments

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

Not later than one year <sup>1</sup>	1,956,770	2,934,132
Later than one year but not later than 5 years	-	827,335
	<b>1,956,770</b>	<b>3,761,467</b>

<sup>1</sup>The Company has received time extension until 28 January 2014 to complete work commitments under Service Contract 44 originally due by 28 July 2012.

For the report year 2011 on the St Griede licence, the Company had reported expenditure of Euros 400,000 compared to the minimum spend commitment of Euros 409,675. However, total expenditure from date of grant of the licence to the last filed report exceeds the aggregate of annual minimum expenditure for that period. The work for the 2012 and 2013 report years will exceed the minimum expenditure requirements for those years and will make up for the shortfall in 2011.

Original work commitments under EP 453 are excluded.

### 27. Events occurring after the reporting period

There has not arisen in the interval since 30 June 2012 and up to the date of this report, any matter that, in the opinion of the Directors, has significantly affected or may significantly affect the operations of the group, the results of those operations or the state of affairs of the group in future financial years other than the following:

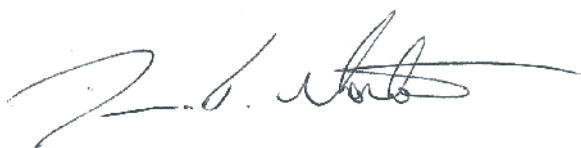
- On 19 July 2012, the Company registered wholly owned subsidiary Wellfin Pty Ltd ("Wellfin") in Australia and ownership of the group workover Rig-1 and drilling Rig-2 and other equipment associated with well drilling operations is transferred to Wellfin. Well drilling services on group projects will be provided on an arm length charge basis by Wellfin.
- on 24 July 2012, the Company issued 2,375,000 fully paid ordinary shares at \$0.049 per share to eligible persons under the Gas2Grid Limited Employee Incentive Plan and granted non-recourse loans at \$0.08 per share totalling \$190,000 for subscription of the shares under the plan. The closing market price at the date of grant was \$0.049 per share.
- on 7 September 2012, the Company issued 31,261,923 fully paid ordinary shares at \$0.065 by private placement raising \$2,032,025. The closing market price at the date of issue was \$0.08 per share.

## DIRECTORS' DECLARATION

In the Directors' opinion:

- a) the financial statements and notes set out on pages 29 to 58 are in accordance with the *Corporations Act 2001*, including:
  - (i) complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and
  - (ii) giving a true and fair view of the consolidated entity's financial position as at 30 June 2012 and of its performance 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

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



**Dennis Morton**

Director

Sydney

18th September 2012



## **Independent auditor's report to the members of Gas2Grid Limited**

### ***Report on the financial report***

We have audited the accompanying financial report of Gas2Grid Limited (the company), which comprises the balance sheet as at 30 June 2012, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration for Gas2Grid Limited (the consolidated entity). The consolidated entity comprises the company and the entity it controlled at the year's end or from time to time during the financial year.

### ***Directors' responsibility for the financial report***

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with *International Financial Reporting Standards*.

### ***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.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial 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 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.

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

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*.

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Liability Limited by a scheme approved under Professional Standards Legislation.



*Auditor's opinion*

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 consolidated entity's financial position as at 30 June 2012 and of its 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 financial report and notes also comply with International Financial Reporting Standards as disclosed in Note 1.

*Material Uncertainty Regarding Continuation as Going Concern*

Without qualification to our opinion expressed above, we draw attention to Note 1(a), which comments on the ongoing funding requirements of the company. These conditions indicate the existence of material uncertainty that may cast doubt about the company's ability to continue as going concern and therefore, the entity may be unable to realise its assets and discharge its liabilities in the normal course of business and at the amounts stated in the financial report.

***Report on the Remuneration Report***

We have audited the remuneration report included in pages 24 to 26 of the directors' report for the year ended 30 June 2012. The directors of the company are responsible for the preparation and presentation of the remuneration report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with Australian Auditing Standards.

*Auditor's opinion*

In our opinion, the remuneration report of Gas2Grid limited for the year ended 30 June 2012, complies with section 300A of the *Corporations Act 2001*.

PricewaterhouseCoopers

Peter Buchholz  
Partner

18 September 2012

## ADDITIONAL INFORMATION

The shareholder information set out below was applicable as at 14 September 2012.

### 1. Substantial Shareholders

Substantial Shareholders in the Company are set out below:-

Ordinary shares	Number held	Percentage of issued shares
Dennis Morton	112,860,597	18.78
Darren Reeder	57,325,911	9.54
David Munns	42,474,766	7.07

### 2. Voting rights

The voting rights attached 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	109
1,001 – 5,000	21
5,001 – 10,000	108
10,001 – 100,000	562
100,001 and over	384
	<b>1,184</b>

ii) There were 136 holders with less than a marketable parcel of shares.



## 5. Twenty largest Shareholders

	Name of Shareholders	Number held	Percentage of issued shares
1.	Budside Pty Ltd <Employees Superannuation Fund>	66,777,222	11.11
2.	Darren W Reeder	57,325,911	9.54
3.	David Munns	35,333,777	5.88
4.	Budside Pty Limited	29,903,375	4.98
5.	Dennis Morton	15,000,000	2.50
6.	J Venpin	13,190,000	2.19
7.	JP Morgan Nominees Australia Limited <Cash Income A/C>	12,938,901	2.15
8.	Pobelo Super Pty Ltd <Pobelo P/L Super Fund A/C>	12,342,250	2.05
9.	J C K To	11,000,000	1.83
10.	M S Ng	10,900,000	1.81
11.	Suburban Holdings Pty Ltd <The Suburban Super Fund A/C>	9,178,028	1.53
12.	M K Walcott	9,049,434	1.51
13.	Seistend Pty Ltd <DW King Super Fund A/C>	8,900,000	1.48
14.	Uraldinarion N V	8,750,000	1.46
15.	Mining Tenement Management Pty Limited <MTM Pty Ltd Provident Fund A/C>	8,500,000	1.41
16.	W V Sam Yue	8,500,000	1.41
17.	WVM Sam Yue & M L Sam Yue <Samyue Super Fund A/C>	7,000,000	1.16
18.	J A Morton	6,600,000	1.10
19.	TD International SA	5,557,656	0.92
20.	W R Mobbs Superannuation Pty Ltd	5,333,332	0.89
		<b>342,079,886</b>	<b>56.91</b>

## SCHEDULE OF MINERAL TENEMENTS

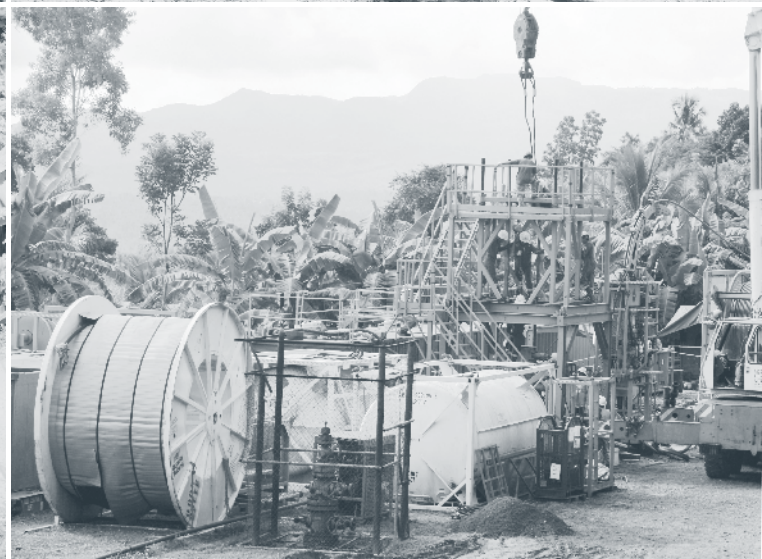
Location	Tenement	Holder	Interest	Area	Current to
Cebu Island, The Philippines	SC 44	Gas2Grid Pte Ltd	100%	750km <sup>2</sup>	28/01/2014
Canning Basin, Western Australia	EP 453	Gas2Grid Limited	100%	9,677.7km <sup>2</sup>	17/01/2013
Onshore Aquitaine Basin, France	St Griede Licence	Gas2Grid Limited	100%	1,238km <sup>2</sup>	21/05/2013

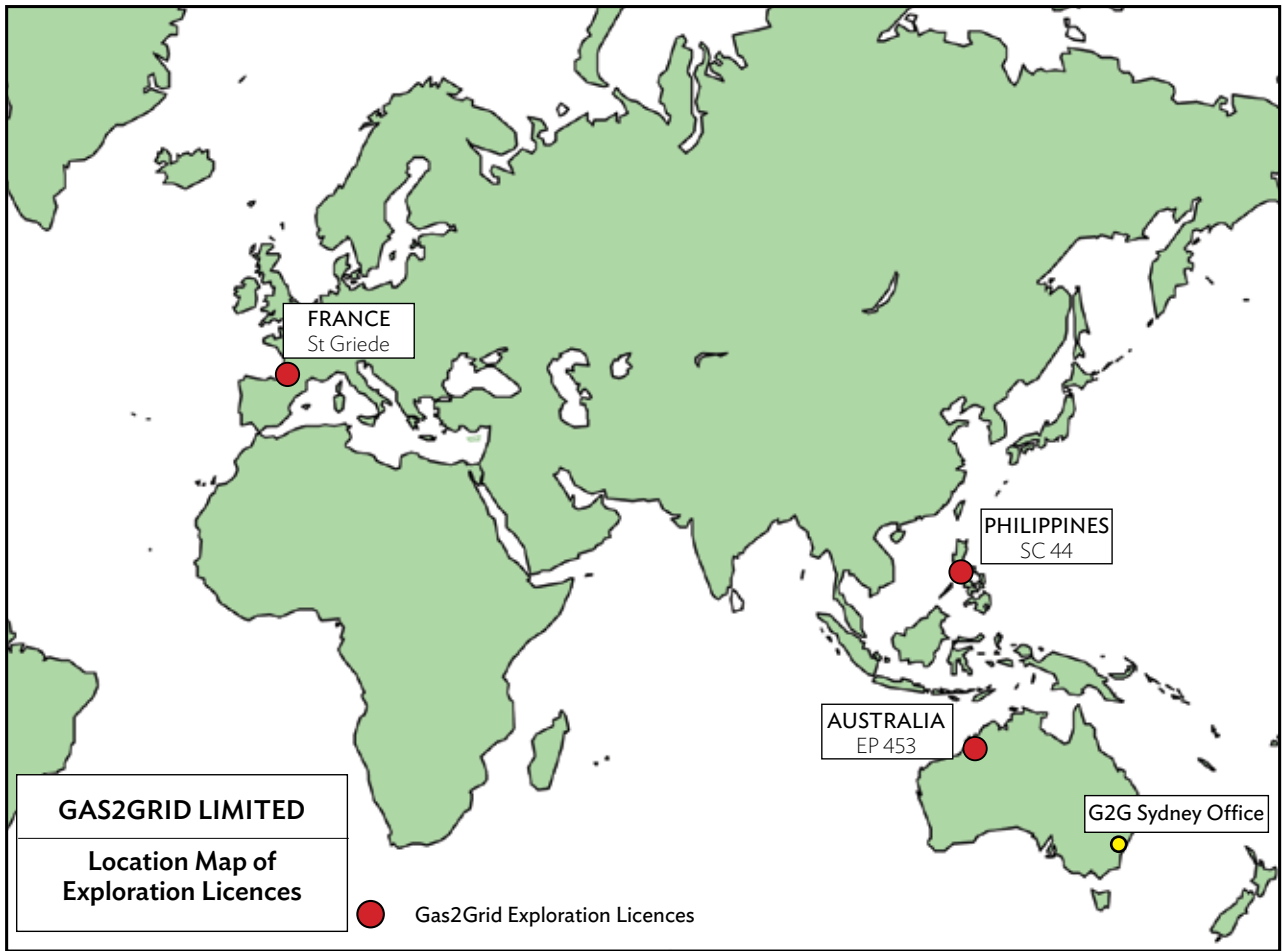
### Key to Tenement Types

SC Service Contract

EP Exploration Permit

# Malolos-1 workover 2011





*Gas2Grid Limited exploration licences location worldwide*



*View from hill in Cebu*

