



**GAS2GRID LIMITED**

ABN 46 112 138 780

**Annual report  
for the year ended 30 June 2009**

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**GAS2GRID Limited** ABN 46 112 138 780  
**Annual report – 30 June 2009**

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## Corporate Directory

<b>Directors</b>	David A. Munns, Chairman Dennis J. Morton, Managing Director Russell D. Langusch
<b>Secretary</b>	Steven J. Danielson
<b>Notice of annual general meeting</b>	The annual general meeting of Gas2Grid Limited  <b>will be held at</b> Mitchell & Partners Level 7, 10 Barrack Street Sydney  <b>time</b> 11am  <b>date</b> Friday 27 November 2009
<b>Principal registered office in Australia</b>	C/- Mitchell & Partners Level 7, 10 Barrack Street SYDNEY NSW 2000 AUSTRALIA Telephone: (02) 9392 8642 (02) 9392 8686
<b>Share registry</b>	Gould Ralph Pty Limited Level 42, AAP Centre 259 George Street SYDNEY NSW 2000 AUSTRALIA Telephone: (02) 9032 3000
<b>Auditor</b>	PricewaterhouseCoopers Darling Park Tower 2 201 Sussex Street SYDNEY NSW 1171 AUSTRALIA
<b>Stock exchange listing</b>	Gas2Grid Limited shares are listed on the Australian Stock Exchange under the code GGX.
<b>Website address</b>	<a href="http://www.gas2grid.com">www.gas2grid.com</a>

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

## CHAIRMAN'S ADDRESS

Dear Shareholder,

I am pleased to present you with the 2009 Gas2Grid Limited Annual Report. A major challenge for the Board is to increase the Company asset backing whilst minimising the amount of shares on issue. The desire to raise a minimum of capital at low share prices limits the number of exploration opportunities that can be pursued and in effect restricts the Company to onshore exploration and appraisal opportunities.

Over the last 12 months the Company has pursued its onshore exploration in its three main assets being Service Contract 44 ("SC 44") in the Philippines, St. Griede licence in France and EP 453 in Australia. The Company withdrew from PEP 4826 in New Zealand after drilling a dry exploration well and deciding that its limited capital would be better spent on the other assets.

Although no drilling has been conducted in the last 12 months the time has been used to position the Company with workover programs, defining exploration drilling targets and reprocessing and interpreting geophysical data.

A well workover program should commence late in 2009 on the Malolos-1 and possibly Nuevo Malolos-1 wells located within SC 44 (100%) where both oil and gas have either flowed to surface or been recovered. The sandstone formations have been damaged during the drilling and completion process and attempts will be made to overcome this damage and establish commercial flow rates. Organising field operations in the Philippines is a slow process as industry contractors and equipment are not readily available in-country. Whilst there is no certainty of success with this work it does however represent the lowest cost and lowest risk opportunity for the Company to establish commercial oil/gas production.

The St. Griede licence (50%) was awarded to the company in April, 2008 and it is located in the prolific oil and gas productive Aquitaine Basin in the south of France. The licence contains an existing grid of seismic data and previous exploration wells data from which have been integrated in order to define new exploration drilling targets. An aero-gravity survey will be acquired in October, 2009 with the aim of detailing the crest and outline of the prospective, salt cored leads and prospects. Three large oilfields are located on the western border of the licence.

Exploration Permit ("EP") 453 (100%) located in the onshore, Canning Basin, Western Australia contains a previously drilled exploration well which flowed gas to surface and also contains numerous exploration leads and prospects. Existing seismic data has been reprocessed and integrated with well data and new drilling prospects mapped. The Company aims to fund drilling of these prospects by farmout.

Eric Espiritu resigned from the board at the 2008 Annual General Meeting and the Company thanks Eric for his Board contribution whilst he was a Director. Russell Langusch was appointed to the Board as a Non-Executive Director and Consultant as reported on the Operations report

The Company raised approximately \$1.2 million through a rights issue in December, 2008 and this was followed by a placement in June, 2009 which raised an additional \$1.065 million. These funds will be used to complete workover operations in the Philippines, acquire the aero-gravity survey in France and fund additional exploration costs. We will continue to evaluate new opportunities for participation in our core areas.

The Company continues to minimise its overheads with Directors either receiving reduced or no payments. On behalf of the Board, I thank our shareholders for their patience and support throughout the year.

David Munns.  
Chairman.

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## REVIEW OF OPERATIONS

### CORPORATE

- Dr David King resigned from the Board in August 2008
- Russell Langusch appointed to the Board as a Non-Executive Director and Consultant
- In December 2008 a Rights Issue raised approximately \$1.2 million
- In early July 2009 a private placement raised a further \$1.1 million

**Board:** Dr David King retired from the Board effective 25<sup>th</sup> August 2008 and at the same time Russell Langusch accepted an invitation to join the Board as a Non-Executive Director and Consultant.

The Board commends Dr King for his contribution to the Company and in particular his role as Executive Director since the former Managing Director resigned in July 2006. Dr King has done an outstanding job managing the Company for over two years and his Board contribution will be sorely missed.

Russell Langusch joined the Board and he brings a wealth of public company management experience with over 33 years working in the oil and gas industry. Russell was the founding Managing Director of ASX and AIM listed Elixir Petroleum Ltd. (2004-2008) and remained in that position until Elixir merged with another ASX listed company. Since the merger Russell has been the Principal and a Director of the oil and gas research consultancy company Langusch and Associates. Prior to founding Elixir Russell worked as Director – Global Energy Group with CIBC World Markets and as a Senior Resources Analyst with Deutsche Morgan Grenfell, James Capel Australia and other stockbroking firms. Prior to joining the finance sector he was employed as a petroleum engineer with Esso Australia Limited and spent 10 years with Schlumberger Inc. worldwide in both managerial and technical roles. Russell provides consultancy services to Gas2Grid Limited and with executive management of the Company.

**Strategy:** The Company aims to leverage off the extensive oil and gas industry experience that the Board and Executives possess in order to acquire ground-floor entry to low risk, onshore, oil and gas exploration opportunities. SC 44 (Philippines), EP 453 (Australia) and St. Griede (France) are all assets that have been acquired by the Company in this manner. As a priority, the Company will continue to acquire assets in this way. Where possible it will aim to expand in areas where it is currently active, given these provide low cost entry, excellent fiscal terms and little sovereign risk.

**Fund Raising:** In early November, 2008 the Company announced a 1:1 Rights Issue to shareholders in order to raise a maximum \$3.45 million of new capital. Each new share was issued at 3 cents and had an attaching 2 year, 8 cent option. The rights issue closed on the 8<sup>th</sup> December with a total of 38,584,422 new shares being issued, representing a 33.4% take-up and raising almost \$1.2 million. The Board considers this a good result for the Company considering the Global Financial Crisis that was devastating world equity markets at the time.

In early July the Directors decided to make a share placement to sophisticated investors issuing 21,315,000 new shares at a price of 5 cents to raise a total \$1,065,750 with no costs incurred. The Board is very pleased with the strong support that it has received from investors.

### PHILIPPINES – Service Contract 44, Onshore Cebu (100%)

**Service Contract:** In December 2008 the Company met and formally requested the Philippine Department of Energy (“DOE”) to approve combining the outstanding Service Contract 44 (“SC 44”) commitments for Sub-Phase 2 (2007-2008: 100km seismic, aero-gravity survey, swab tests and one well) and Sub-Phase 3 (2009-2011: 2 wells).

In April 2009 the DOE agreed to vary the outstanding work commitments for SC 44. The new contract terms provide for the planned well workovers to be completed by the end of June 2009 plus 100 km of new seismic data acquired by the end of December 2009. This is to be followed by the drilling of one new well by the end of June 2010 and the drilling of two new wells by the end of December 2010.

**Workovers:** The Company has continued with technical studies and planning for remediation of hydrocarbon bearing sandstone reservoirs in the Nuevo Malolos-1 well that was drilled, cased and suspended in early 2007. A workover is also scheduled for the older Malolos-1 well that was drilled in 1960. Malolos-1 and Nuevo Malolos-1 intersected a number of thick sandstone intervals that possess good reservoir properties. These sandstone reservoirs are interpreted to contain both oil and gas and this is supported by well test results and core analysis. It is highly likely that the sandstone reservoirs were damaged during the drilling and completion process and as a result have produced only small amounts of oil and gas from both cased and open-hole testing.

The type of formation damage encountered in the two wells is not uncommon and similar formation damage has been successfully overcome in hydrocarbon bearing sandstones worldwide (eg. Indonesia, USA, North Sea, Brazil, West Africa and the Middle East).

The forward program involves the design and implementation of a reservoir remediation program to connect the well bore with the undamaged formation and allow free production. Work on the workover design has been finalised and contractors selected. Equipment is now being sourced to implement the work which will likely take place, subject to requisite approvals, in September-October, 2009. An application to conduct the workovers has been lodged with the Philippine Department of Energy and we are waiting on approval.

The proposed Malolos-1 and Nuevo Malolos-1 workovers offer the Company the lowest cost and nearest term, low risk, operation to produce commercial rates of gas and/or oil.

**Background:** Malolos-1 was drilled and cased to a total depth of 2,748 metres in 1960. Numerous open-hole drillstem tests of sandstone reservoirs in this well resulted in gas flows to surface and also significant volumes of 39° API oil being recovered. The suspended well was re-entered in 2006 and the casing integrity found to be sound. This means the well can be used for further formation testing and potentially oil and gas production. It is planned to re-enter Malolos-1 to remediate sandstone reservoirs and complete for test production, intervals that originally flowed gas or recovered oil.

Nuevo Malolos-1 was drilled, cased and suspended to a total depth of 1,945 metres in early 2007. The well intersected a number of thick sandstone intervals similar to the original Malolos-1 well that possess good reservoir properties and are interpreted to be oil and gas bearing. The sandstone reservoirs were damaged during the drilling and completion process and as a result they have only produced small amounts of oil and gas on both cased and open-hole testing.

**Seismic:** The Company is planning a 100 km Vibroseis© seismic acquisition program in early 2010 in order to better define structural and stratigraphic prospects for future drilling. The program is being designed to take advantage of access along existing roads and tracks within SC 44. As detailed maps of the roads and tracks within SC 44 did not exist the first task was to survey them. A GPS survey commenced in June 2009 in order to locate all roads and tracks within SC 44 that are suitable for seismic acquisition. This project is now complete and plans are afoot to present the detailed mapped data to the DOE in Manila and the local governor in Cebu.

There is currently no land seismic acquisition crew located in the Philippines and the Company will either mobilise a crew into the country or share a crew with other operators. Accordingly the Company has met with seismic contractors and other onshore Philippine operators in an effort to import a seismic crew into the Philippines late in 2009.

Seismic reprocessing of existing SC 44 data that has been located in archive has been completed and these data mapped. The newly reprocessed data has provided a clearer understanding of the existing regional geology, leads and prospects. It has also revealed a new, very large, Tertiary age, limestone pinnacle reef prospect located very close to the Malolos discovery. New seismic data will be acquired over this attractive new prospect. Tertiary-age pinnacle reefs are prolific oil and gas producers elsewhere in the Philippines and Asia.

### **AUSTRALIA – EP 453, Onshore Canning Basin, Western Australia (100%)**

The Company has finished reprocessing all seismic data previously acquired over prospects and leads located within EP 453. These reprocessed data are being interpreted and target horizons mapped to generate drilling prospects. It is possible that prospects will be generated without the need for new seismic acquisition. If so, drilling might be able to commence sometime during the 2010 dry season (April-November) subject to requisite approvals and being funded by farmin partner/s.

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

### **FRANCE – St. Griede, Onshore Aquitaine Basin (100%)**

The St. Griede licence was awarded by the French Government to Gas2Grid Limited (50%) and its joint venture partner, Gippsland Offshore Petroleum Limited (50%), on the 21<sup>st</sup> April, 2008 after a two year application process. The licence covers 1,238 square kilometres within the onshore part of the Aquitaine Basin, north and east of the city of Pau in the southwest of France.

The licence has been awarded for a 5 year term with an aggregate total work commitment of €942,000. The licence is already covered by a regional grid of seismic data and there are a number of petroleum exploration wells that have been drilled both within and surrounding the licence. Three large oil fields are located a few kilometres west of the licence boundary. Selective seismic has been acquired from the French Government for reprocessing and these data will be integrated with existing petroleum well information in order to formulate the forward exploration program.

The Company, in conjunction with joint venture partner Gippsland Offshore Petroleum, has awarded a contract to Bell Geospace Limited to acquire an aero-gravity survey (AGG). The survey will commence in September-October, 2009 and take about 1 month to complete. Structural traps attractive for oil and gas exploration in the Aquitaine Basin are generally cored by Triassic salt. Salt has a much lower density than the surrounding sedimentary rocks and gravity is a useful technique to determine areas of thick salt development and therefore likely drilling prospects. These results will be used in planning the location of new seismic data or drilling locations.

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 discovered within the basin, mainly by the large French Government-owned corporations. There has been a hiatus in exploration activity since the 1980s, but a resurgence of licensing activity and operations has occurred recently, coincident with the increase in both oil and natural gas prices. Three wells have been drilled in the Aquitaine Basin in the last 24 months but prior to that there had been no drilling in the basin for over 10 years. Markets and gas pipeline infrastructure are well developed and the commercialisation of even small discoveries is achievable.

### **NEW ZEALAND – PEP 38260 (onshore), Canterbury Basin (55%)**

The Company decided to withdraw from this licence and concentrate its efforts elsewhere.



## 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 2009.

### Directors

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

D J Morton

D A Munns

R D Langusch was appointed a director on 25 August 2008 and continues in office at the date of this report.

E D Espiritu was a director from the beginning of this financial year until his resignation on 21 November 2008.

D W King was a director from the beginning of the financial year until his resignation on 25 August 2008.

### Principal activities

During the year the principal continuing activities of the company consisted of:

(a) Oil and gas exploration in the Philippines, New Zealand, France and Australia.

### Operating results

The consolidated loss of the Group after providing for income tax was \$2,824,717 (2008: \$432,434).

### Dividends – Gas2Grid Limited

The directors report that during the year ended 30 June 2009 no dividends were declared or paid (2008: nil).

### Review of operations

A detailed review of the operations for the financial year is set out on pages 5 to 7.

### Significant changes in the state of affairs

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

An increase in contributed equity of \$1,209,489 as a result of:

Issue of 38,584,422 fully paid ordinary shares at 0.03 cents each as part of the non renounceable entitlements offer (i)

1,157,533

Less transaction costs arising on the share issue

(28,085)

Issue of 1,800,000 fully paid ordinary shares at 0.05 cents each as payment to David King in lieu of outstanding directors' fees

90,000

Accrued costs incurred in relation to the FY10 share placement

(9,959)

\$ 1,209,489

(i) The purpose of the entitlements issue was to raise funds to be used for the Company's oil and gas exploration programmes, viz on going activities in the Philippines (SC 44), the Aquitaine Basin of France (St Griede application area, GGX 50%) and EP453 in WA.

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**

In the opinion of the directors there are matters and circumstances which have arisen since 30 June 2009 that have significantly affected, or may significantly affect:

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

On 7 July, 2009 the Group raised further capital by way of a share placement to qualified investors under section 708(8) and 708(10) of the Corporations Act. A gross amount of \$1,065,750 was raised before fees to fund ongoing exploration.

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

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

### **Environmental regulation**

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

### **Information on directors**

**D A Munns Bachelor in Mechanical Engineering (Peterborough Technical College, United Kingdom). Chairman – non-executive.**

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

David Munns has wide experience in drilling and engineering operations in South East Asia and particularly in the Philippines. He is the Chairman of Desco, Philippines – a drilling and engineering firm operating in the field of conventional and geothermal drilling.

#### ***Other public company directorships***

None.

#### ***Former directorships in the last 3 years***

None.

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

Chairman of the Board.

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

13,423,600 ordinary shares in Gas2Grid Limited.

6,711,800 listed options in Gas2Grid Limited.

**D W King PhD. Seismology, (Australian National University), MSc. Geophysics (Imperial College, London). Non-executive director.**

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

David King held senior executive positions with Offshore Oil NL and Hartogen Energy before an appointment in 1988 as Managing Director of North Flinders Mines Ltd. In 1991, he joined Beach Petroleum/Claremont Petroleum as Director and Chief Executive Officer, a position he held until 1995. He is currently a Director of Eastern Star Gas Limited, Sapex Limited, Baron Partners Limited and Medical Therapies Limited. Resigned 25 August 2008.

**Information on directors (continued)**

***Other public company directorships***

Eastern Star Gas Limited and Sapex Limited. From 18 January 2008 Director of Medical Therapies Limited.

***Former directorships in last 3 years***

None.

***Special responsibilities***

Managing director (from March 2006 to March 2008).

***Interest in shares and options***

8,460,440 ordinary shares in Gas2Grid Limited.  
3,330,220 listed options in Gas2Grid Limited.

**E D Espiritu Bachelor of Geology (University of Philippines). Non-executive director.**

***Experience and expertise***

Eric Espiritu worked as a field and wellsite geologist for the Philippines National Oil Company PNOC before joining Exlog as a formation evaluation specialist for clients in Asia-Pacific. He formed his own wellsite consultancy group and has worked on exploration and development wells onshore and offshore Australia, China, Japan and South East Asia. His most recent projects included an assignment with Esso Angola in a deepwater turbidite reservoir exploration and development drilling program. He currently practices as a consulting geologist with a client base of major and junior oil and gas companies and is a member of AAPG, PESA and SPE. Resigned 21 November 2008.

***Other public company directorships***

White Sands Petroleum Limited.

***Former directorships in last 3 years***

None.

***Special responsibilities***

None.

***Interest in shares and options***

147,769 ordinary shares in Gas2Grid Limited

**D J Morton BSc (Hons), (Macquarie University). Executive 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 public company directorships***

Orion Petroleum Limited since March 2008

***Former directorships in last 3 years***

Eastern Star Gas Limited from August 2000 to October 2007.

**Information on directors (continued)**

**Special responsibilities**

Managing director (since 31 March 2008).

**Interest in shares and options**

27,208,132 ordinary shares in Gas2Grid Limited.

17,604,066 listed options in Gas2Grid Limited.

**R D Langusch B.E. (Hons), M.Eng.Sc. (University of Queensland). Non-executive director.**

**Experience and expertise**

Russell Langusch is an independent energy consultant with over 30 years combined experience in the oil & gas and finance industries. He commenced his career with Schlumberger working in several international locations in a multitude of roles including petroleum engineering, petrophysics, sales-marketing and management. He was employed by Esso Australia as a senior reservoir engineer before joining the finance sector in 1987. He established his own consultancy business in 2001 and has since undertaken research projects, project assessments, financial modelling, corporate advisory services and independent expert valuations for many domestic and international clients. During the period 2004-early 2008 he was Managing Director of dual-listed Elixir Petroleum, a dual-listed E&P company based in London with assets in the UK North Sea, Gulf of Mexico and West Africa.

**Other public company directorships**

None

**Former directorships in last 3 years**

Managing Director of Elixir Petroleum Limited from May 2004 to November 2007

Director of Tower Resources plc from December 2004 to February 2007

**Interest in shares and options**

Nil

**Company secretary**

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

**Meetings of directors**

The following table sets out the number of meetings of the company's directors held during the year ended 30 June 2009, and the number of meetings attended by each director:-

Meetings attended/held:	A/B
D A Munns	5/5
D W King (resigned 25 August 2008)	1/1
E D Espiritu	2/2
D J Morton (appointed 31 March 2008)	5/5
R D Langusch (appointed 25 August 2008)	4/4

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

## Remuneration report

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

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

The information provided 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 and Parent's executive reward framework is to ensure that reward for performance is competitive and appropriate.

During the year ended 30 June 2009, the company did not have a separate remuneration committee. Instead, the duties and responsibilities typically delegated to such a committee were considered to be the responsibility of the entire Board.

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

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

#### *Directors' fees*

The current base remuneration was last reviewed with effect from 1 July 2008. Directors' fees are determined within an aggregate fee pool limit, which currently stands at \$150,000 per annum.

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

<b>Base fees</b>	<b>From 1 July 2008</b>	<b>From 1 July 2007 to 30 June 2008</b>
Chairman	35,000	35,000
Other directors (each)	25,000	25,000

**Remuneration report (continued)**

**Additional Fees**

In addition to base directors' fees Dennis Morton and Russell Langusch receive monthly management fees of \$10,000 and \$8,000 respectively for additional financial, corporate and administrative duties performed on a regular basis.

**B Details of remuneration**

*Amounts of remuneration*

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

The key management personnel of Gas2Grid Limited and the Group are the directors.

2009	Short-term benefits		Post-employment benefits		Share-based payment		Total
	Directors' Base Fee	Percentage of total remuneration	Superannuation	Percentage of total remuneration	Options	Remuneration consisting of options	
Name	\$	%	\$	%	\$	%	\$
<b>Executive directors of Gas2Grid Limited and the Group</b> D W King (executive director to 25 August 2008) D J Morton							
<b>Non-executive directors of Gas2Grid Limited and the Group</b> D A Munns, non-executive Chairman E D Espiritu (resigned 21 November 2008) R D Langusch	2,500 162,936	100 98.75	- 2,064	- 1.25	- -	- -	2,500 165,000
(appointed 25 August 2008)	32,110 10,418 61,489	91.74 100 100	2,890 - -	8.26 - -	- - -	- - -	35,000 10,418 61,489
<b>Total</b>	<b>269,453</b>	<b>98.20</b>	<b>4,954</b>	<b>1.80</b>	<b>-</b>	<b>-</b>	<b>274,407</b>
Directors' fees continue to be accrued for D J Morton and D A Munns. R D Langusch is paid directors' fees as they are earned and retiring directors have all been paid outstanding directors' fees either in cash or by issue of shares. Management fees of \$148,000 have been accrued for the year with the remaining \$32,000 paid in cash.							

Remuneration report (continued)							
2008	Short-term benefits		Post-employment benefits		Share-based payment		
Name	Directors' Base Fee	Percentage of total remuneration	Superannuation	Percentage of total remuneration	Options	Remuneration consisting of options	Total
	\$	%	\$	%	\$	%	\$
<b>Executive directors of Gas2Grid Limited and the Group</b>							
D W King (executive director to 25 August 2008)	109,236	98.15	2,064	1.85	-	-	111,300
D J Morton	5,734	91.74	516	8.26	-	-	6,250
<b>Non-executive directors of Gas2Grid Limited and the Group</b>							
D A Munns, non-executive Chairman	32,110	91.74	2,890	8.26	-	-	35,000
E D Espiritu	22,936	91.74	2,064	8.26	-	-	25,000
<b>Total</b>	<b>170,016</b>	<b>95.76</b>	<b>7,534</b>	<b>4.24</b>	<b>-</b>	<b>-</b>	<b>177,550</b>

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

Base director's fees are not currently paid out as cash, and continue to accrue by agreement with the directors. Management fees of \$86,300 paid by cash in FY08 were in addition to the accrued base salary.

**C Service agreements**

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

**D Share-based compensation**

**Options**

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

The terms and conditions of each grant of options affecting remuneration in the previous, this or future

**Remuneration report (continued)**

reporting periods are as follows:-

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

Options granted under the plan carry no dividend or voting rights. When exercisable, each option is convertible into one ordinary share. Options were granted under the plan for no consideration. As at 30 June 2009 these options expired.

**D Share-based compensation**

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

Directors	Number of options granted during the year		Number of options vested during the year	
	2009	2008	2009	2008
D A Munns, non-executive Chairman	None	None	None	None
D W King	None	None	None	None
E D Espiritu	None	None	None	None
D J Morton	None	None	None	None
R D Langusch	None	None	None	None

**E Additional information**

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

- earnings
- dividends
- share price movements

**Other transactions of directors and director-related entities**

Refer to note 21 of the financial statements for details of other transactions with key management personnel.

**Loans to directors**

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



## Remuneration report (continued)

### Shares under option

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

Date options granted	Expiry date	Exercise price of shares	Number under option
February 2005	15 March 2009	\$0.30	2,600,000
16 December 2008	30 November 2010	\$0.08	38,584,422

The February 2005 options vested upon grant. No options have been issued since 30 June 2005 under the employee incentive plan. These options expired during the year. The 16 December 2008 options were issued under the non-renounceable entitlements issue.

### Insurance of officers

During the financial year, a premium of \$26,903 was paid to insure the directors of the company and the consolidated entity.

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

### Proceedings on behalf of the company

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

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

### Non-audit services

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

Details of the amounts paid or payable to the auditor (PricewaterhouseCoopers) for audit services provided during the year are set out in note 20 in the financial statements.

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

### Auditor's independence declaration

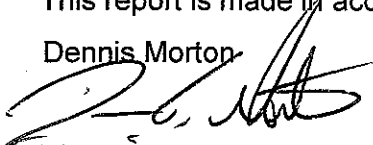
A copy of the auditors' independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 17.

### Auditor

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

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

Dennis Morton



Director  
Sydney  
30 September 2009

PricewaterhouseCoopers  
ABN 52 780 433 757

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### Auditor's Independence Declaration

As lead auditor for the audit of Gas2Grid Limited for the year ended 30 June 2009, I declare that to the best of my knowledge and belief, there have been:

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

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



Marc Upcroft  
Partner  
PricewaterhouseCoopers

Sydney  
30 September 2009

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## **Corporate Governance Statement**

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

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

### **The Board of Directors**

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

- The Board should comprise at least three directors, increasing where additional expertise is considered necessary in certain areas to a maximum of nine directors;
- The Board should comprise a balance of executive and non-executive directors;
- The Board should comprise directors with a range of skills and experience that are appropriate and assist the directors in performing their duties within the scope of the company's operations.

### **Terms of office**

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

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

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

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

### **Conflict of Interest**

If any business dealings between the consolidated entity and any entity connected with a director occur, the director concerned is required to declare his interests in those dealings to the company and take no part in decisions relating to them. The details of any such business dealings are set out in note 21 to the financial statements.

### **Independent Professional Advice**

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

### **Performance Assessment**

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

The Chairman undertakes an annual assessment of the performance of individual directors. Any deficiency(ies) identified in a Directors' performance are addressed directly with the relevant Director(s).

### **Corporate reporting**

The CFO has made the following certifications to the board:

- that the company's financial reports are complete and present a true and fair view, in all material respects, of the company's financial condition and operational results of the company and the Group and are in accordance with relevant accounting standards.
- that the above statement is founded on a sound system of risk management and internal compliance and control which implements the policies adopted by the board and that the company's risk management and internal compliance and control system is operating efficiently and effectively in all material respects.

### **Board committees**

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

### **Nomination and Remuneration of Directors**

Corporate governance best practice recommendations 2.4, 4.2 and 9.2 require listed entities to establish a nomination committee, an audit committee and a remuneration committee respectively. During the year ended 30 June 2009, the company did not have a separate nomination, audit or remuneration committee. However, the duties and responsibilities typically delegated to such committees are considered to be the responsibility of the full Board.

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

#### **Nomination of Directors**

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

#### **Remuneration of Directors**

The amount of remuneration payable to directors is determined and reviewed by the full Board annually. directors' fees are determined within an aggregate fee pool limit, which currently stands at \$150,000 per annum. The Chairman receives an annual directors' fee of \$35,000 and all other Directors receive annual Directors' fees of \$25,000 each.

Contrary to corporate governance best practice recommendation 9.3, there is no distinction between the structure of non-executive directors' remuneration and that of executives. Non-executive directors' remuneration is calculated on the same basis as executive directors' remuneration. The Directors consider this method appropriate at this early stage of the company's development.

Further information on directors' remuneration is set out in the Directors' Report at pages 12 – 16.

### **Review of External Audit Arrangements**

The assessment of the scope and quality of the company's audit is carried out by the full Board.

Assessment procedures include:-

- Reviewing external audit reports to ensure that any significant deficiencies or breakdowns in controls or procedures have been identified and remedied;
- Liaising with the auditors and ensuring that the annual statutory audit and half-year review are conducted in an effective manner;
- Reviewing internal controls; and
- Monitoring compliance with statutory responsibilities.

The auditor is requested to attend the annual general meeting and be available to answer shareholder questions about the conduct of the audit and the preparation and content of the auditor's report.

### **Ethical Standards**

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

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

### **Communication with Shareholders and Continuous Disclosure**

The company aims to provide relevant and timely information to its shareholders and the broader investment community in accordance with its continuous disclosure obligations under the ASX Listing Rules.

The Board has established policies and procedures to ensure compliance with ASX Listing Rule disclosure requirements and accountability at a senior management level for that compliance. However, the Board believes that the formalisation of these policies and procedures in a written form as recommended in best practice recommendation 5.1 is not necessary as the Board is satisfied that all Board members are expressly aware of the importance of making timely and balanced disclosure.

Dennis Morton, director and Mr S J Danielson, company secretary, have been nominated as the persons responsible for communications with the Australian Stock Exchange (ASX). This role includes responsibility for ensuring compliance with the continuous disclosure requirements in the ASX listing rules and overseeing and co-ordinating information disclosure to the ASX, analysts, brokers, shareholders, the media and the public.

### **Risk Assessment and Management**

The Board is responsible for reviewing the company's policies on risk oversight and management and is satisfied that management has developed and implemented a sound system of risk management and internal control.

The executive directors are responsible for designing and implementing risk management and internal control systems to manage the company's material business risks and reporting to the Board whether

those risks are being managed effectively. As required by the Board, the executive directors have reported to it as to the effectiveness of the company's management of its material business risks.

The Board has received assurance from the CEO and the CFO that the declaration provided in accordance with section 259A of the *Corporations Act 2001* 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.

The Company relies on the skill, experience and judgement of its Board of Directors to arrive at risk managed decisions within the policy framework and to frankly discuss all risk related matters with each other.

The Company's established policies on risk oversight and management of material business risks are summarised below:

- Review the reliability and integrity of financial and operating information and the processes used to identify, measure, classify and report such information
- Examine and evaluate the adequacy of internal control systems
- Ensure compliance with relevant laws, regulations and standards
- Formulate and regularly review programmes for exploration and development
- Regularly report against established targets
- Manage financial risk
- Maintain an annual insurance programme
- Oversee of the conduct of contractors
- Assess the probability and potential impact of identified risks
- Develop actions to eliminate, diminish or deal with the potential consequences of identified risks

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

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

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

A description of the nature of the consolidated entity's operations and its principal activities is included in the directors' report on page 8, which is not part of this financial report.

The financial report was authorised for issue by the directors on 30 September 2009. The company has the power to amend and reissue the financial report.

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

**Gas2Grid Limited**  
**Income statements**  
For the year ended 30 June 2009

	Notes	Consolidated		Parent entity	
		2009	2008	2009	2008
		\$	\$	\$	\$
<b>Revenue from continuing operations</b>	5	<b>16,763</b>	129,564	<b>16,763</b>	129,564
Impairment of investment in subsidiary		-	-	<b>(90,286)</b>	(79,722)
Impairment of Deferred Exploration Expenditure		<b>(2,185,983)</b>		<b>(2,185,983)</b>	-
Administration expense		<b>(297,451)</b>	(244,898)	<b>(297,451)</b>	(244,898)
Auditor's remuneration	20	<b>(64,038)</b>	(75,602)	<b>(43,350)</b>	(59,338)
Consultancy Fees		-	(32,488)	-	(32,488)
Employee benefits expense		<b>(94,407)</b>	(91,250)	<b>(94,407)</b>	(91,250)
Depreciation and amortisation expense	6	<b>(1,191)</b>	(687)	<b>(1,191)</b>	(687)
Insurance costs		<b>(26,859)</b>	(26,346)	<b>(26,859)</b>	(26,346)
Rental expenses		<b>(21,149)</b>	(6,612)	<b>(21,149)</b>	(6,612)
Travelling expenses		<b>(86,910)</b>	(39,807)	<b>(76,953)</b>	(37,271)
Other expenses		<b>(49,341)</b>	(40,180)	<b>(43,577)</b>	(32,237)
<b>Loss before income tax</b>		<b>(2,810,566)</b>	(428,306)	<b>(2,866,284)</b>	(481,285)
Income tax expense	7	<b>(14,151)</b>	(4,128)	-	-
<b>Loss from continuing operations</b>		<b>(2,824,717)</b>	(432,434)	<b>(2,866,284)</b>	(481,285)
<b>Loss for the year</b>		<b>(2,824,717)</b>	(432,434)	<b>(2,866,284)</b>	(481,285)
<b>Loss attributable to members of Gas2Grid Limited</b>		<b>(2,824,717)</b>	(432,434)	<b>(2,866,284)</b>	(481,285)
		Cents	Cents		
<b>Earnings per share for loss attributable to the ordinary equity holders of the company:</b>					
Basic earnings per share	26	<b>(2.06)</b>	(0.04)		
Diluted earnings per share	26	<b>(2.06)</b>	(0.04)		

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



**Gas2Grid Limited**  
**Balance sheets**  
As at 30 June 2009

	Notes	Consolidated		Parent entity	
		2009	2008	2009	2008
		\$	\$	\$	\$
<b>ASSETS</b>					
<b>Current assets</b>					
Cash and cash equivalents	8	<b>784,256</b>	758,450	<b>768,280</b>	749,731
Trade and other receivables	9	<b>131,891</b>	205,406	<b>131,891</b>	205,406
Other financial assets at fair value	10	<b>2,600</b>	2,366	<b>2,600</b>	2,366
<b>Total current assets</b>		<b>918,747</b>	966,222	<b>902,771</b>	957,503
<b>Non-current assets</b>					
Other financial assets	11	-	-	<b>3,789,714</b>	3,789,714
Plant and equipment	12	<b>2,561</b>	1,227	<b>2,561</b>	1,227
Exploration expenditure and rights	13	<b>6,018,178</b>	7,098,049	<b>660,445</b>	2,592,009
<b>Total non-current assets</b>		<b>6,020,739</b>	7,099,276	<b>4,452,720</b>	6,382,950
<b>Total assets</b>		<b>6,939,486</b>	8,065,498	<b>5,355,491</b>	7,340,453
<b>LIABILITIES</b>					
<b>Current liabilities</b>					
Trade and other payables	14	<b>337,557</b>	580,690	<b>313,884</b>	564,551
<b>Total current liabilities</b>		<b>337,557</b>	580,690	<b>313,884</b>	564,551
<b>Non-current liabilities</b>					
Deferred tax liabilities	15	<b>1,607,320</b>	1,351,812	-	-
Trade and other payables	16	<b>188,750</b>	266,250	<b>188,750</b>	266,250
<b>Total non-current liabilities</b>		<b>1,796,070</b>	1,618,062	<b>188,750</b>	266,250
<b>Total liabilities</b>		<b>2,133,627</b>	2,198,752	<b>502,634</b>	830,801
<b>Net assets</b>		<b>4,805,859</b>	5,866,746	<b>4,852,857</b>	6,509,652
<b>EQUITY</b>					
Contributed equity	17	<b>10,716,532</b>	9,507,042	<b>14,504,434</b>	13,294,945
Reserves	18(a)	<b>(244,144)</b>	(798,485)	<b>84,000</b>	84,000
Retained profits	18(b)	<b>(5,666,529)</b>	(2,841,811)	<b>(9,735,577)</b>	(6,869,293)
<b>Total equity</b>		<b>4,805,859</b>	5,866,746	<b>4,852,857</b>	6,509,652

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

**Gas2Grid Limited**  
**Statements of changes in equity**  
For the year ended 30 June 2009

	Notes	Consolidated		Parent entity	
		2009	2008	2009	2008
		\$	\$	\$	\$
<b>Total equity at the beginning of the financial year</b>		<b>5,866,745</b>	3,724,958	<b>6,509,652</b>	4,241,512
Exchange differences on translation of foreign operations	18(a)	<b>554,342</b>	(175,204)	-	-
<b>Net income recognised directly in equity</b>	18(a)	<b>554,342</b>	(175,204)	-	-
<b>Loss for the year</b>		<b>(2,824,717)</b>	(432,434)	<b>(2,866,284)</b>	(481,285)
<b>Total recognised income and expense for the year</b>		<b>(2,270,375)</b>	(607,638)	<b>(2,866,284)</b>	(481,285)
Transactions with equity holders in their capacity as equity holders:					
Contributions of equity, net of transaction costs	17	<b>1,209,489</b>	2,749,425	<b>1,209,489</b>	2,749,425
		<b>1,209,489</b>	2,749,425	<b>1,209,489</b>	2,749,425
<b>Total equity at the end of the financial year</b>		<b>4,805,859</b>	5,866,745	<b>4,852,857</b>	6,509,652
Total recognised income and expense for the year is attributable to:					
Members of Gas2Grid Limited		<b>(2,270,375)</b>	(607,638)	<b>(2,866,284)</b>	(481,285)
		<b>(2,270,375)</b>	(607,638)	<b>(2,866,284)</b>	(481,285)

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

**Gas2Grid Limited**  
**Statements of cash flows**  
For the year ended 30 June 2009

	Notes	Consolidated		Parent entity	
		2009	2008	2009	2008
		\$	\$	\$	\$
<b>Cash flows from operating activities</b>					
Interest received		16,763	129,564	16,763	129,564
Receipts from customers (inclusive of goods and services tax)		-	-	-	-
Payments to suppliers and employees (inclusive of goods and services tax)		(440,633)	(539,522)	(409,231)	(514,997)
<b>Net cash (outflow) from operating activities</b>	25	<b>(423,870)</b>	<b>(409,958)</b>	<b>(392,468)</b>	<b>(385,432)</b>
<b>Cash flows from investing activities</b>					
Exploration expenditure		(666,718)	(1,953,778)	(619,547)	(1,869,550)
Payments for plant and equipment		(2,525)	-	(2,526)	-
Additional investment in subsidiary		-	-	(90,286)	(79,722)
<b>Net cash (outflow) from investing activities</b>		<b>(669,243)</b>	<b>(1,953,778)</b>	<b>(712,359)</b>	<b>(1,949,272)</b>
<b>Cash flows from financing activities</b>					
Proceeds from issues of shares	17(b)	1,157,532	2,464,319	1,157,532	2,464,319
Share issue transaction costs	17(b)	(28,085)	(110,894)	(28,085)	(110,894)
Share application money received/(refunded)		-	(1,353,833)	-	(1,353,833)
Repayment of borrowings		-	-	-	-
<b>Net cash inflow from financing activities</b>		<b>1,129,447</b>	<b>999,592</b>	<b>1,129,447</b>	<b>999,592</b>
<b>Net increase (decrease) in cash and cash equivalents</b>					
		<b>36,334</b>	<b>(1,364,144)</b>	<b>24,620</b>	<b>(1,335,112)</b>
Cash and cash equivalents at the beginning of the financial year		758,450	2,094,158	749,731	2,085,290
Effects of exchange rate changes on cash and cash equivalents		(10,528)	28,436	(6,071)	(447)
<b>Cash and cash equivalents at end of year</b>	8	<b>784,256</b>	<b>758,450</b>	<b>768,280</b>	<b>749,731</b>

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

## 1. Summary of significant accounting policies

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

### (a) Basis of preparation

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

#### *Compliance with IFRSs*

Australian Accounting Standards include Australian equivalents to International Financial Reporting Standards (AIFRS). Compliance with AIFRSs ensures that the financial report of Gas2Grid Limited complies with International Financial Reporting Standards (IFRSs).

#### *Historical cost convention*

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

#### *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.

#### *Ongoing Funding*

As an exploration company, Gas2Grid Limited requires ongoing funding to support its exploration activities from time to time. Subsequent to balance date, the Group undertook a share placement as disclosed in note 24.

### (b) Principles of consolidation

#### (i) Subsidiaries

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Gas2Grid Limited ("company" or "parent entity") as at 30 June 2009 and the results of its subsidiary for the year then ended. Gas2Grid Limited and its subsidiary together are referred to in this financial report as the Group or the consolidated entity.

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

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

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

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the

## 1. Summary of significant accounting policies (continued)

impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

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

### (c) Segment reporting

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

### (d) Foreign currency translation

#### (i) Functional and presentation currency

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

#### (ii) Transactions and balances

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

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

#### (iii) Group companies

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

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

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

**1. Summary of significant accounting policies (continued)**

a proportionate share of such exchange differences are recognised in the income statement as part of the gain or loss on sale where applicable.

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

**(e) Revenue recognition**

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

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

*Interest revenue*

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

**(f) Income tax**

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

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

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

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

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

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

## 1. Summary of significant accounting policies (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

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.

Collectibility 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.

**1. Summary of significant accounting policies (continued)**

**(j) Investments and other financial assets**

**Classification**

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

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

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term.

Derivatives are classified as held for trading unless they are designated as hedges. Assets in this category are classified as current assets.

*(ii) Loans and receivables*

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

**Recognition and 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.



## 1. Summary of significant accounting policies (continued)

### (j) Investments and other financial assets – continued

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 equity. Changes in the fair value of other monetary and non-monetary securities classified as available-for-sale are recognised in equity.

#### 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) Property, plant and equipment

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

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

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

- Furniture, fittings and equipment	3-8 years
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The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

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

## 1. Summary of significant accounting policies (continued)

### (m) Intangible assets

#### (i) Goodwill

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

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

### (n) Trade and other payables

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

### (o) Employee benefits

#### (i) Wages and salaries

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

#### (ii) Share-based payments

Share-based compensation benefits may be provided to the Founders via the Gas2Grid Limited Option Plan. Information relating to this plan is set out in note 27.

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

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

The fair value of the options granted is adjusted to reflect market vesting conditions, but excludes the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. At each balance sheet date, the entity revises its estimate of the number of options that are expected to become exercisable. The employee benefit expense recognised each period takes into account the most recent estimate. Upon the exercise of options, the balance of the share-based payments reserve relating to those options is transferred to share capital and the proceeds received - net of any directly attributable transaction costs - are credited to share capital.

## 1. Summary of significant accounting policies (continued)

### (p) Contributed equity

Ordinary shares are classified as equity.

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

### (q) Earnings per share

#### (i) *Basic earnings per share*

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the company, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year.

#### (ii) *Diluted earnings per share*

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

### (r) Investment in subsidiaries

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

### (s) Goods and Services Tax (GST)

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

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

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

**1. Summary of significant accounting policies (continued)**

**(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 expenditure**

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

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

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

**(v) Business combinations**

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

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

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

**1. Summary of significant accounting policies (continued)**

**(w) New accounting standards and interpretations**

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2009 reporting periods. The group's assessment of the impact of these new standards and interpretations is set out below.

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

AASB 8 and AASB 2007-3 are effective for annual reporting periods commencing on or after 1 January 2009. AASB 8 will result in a significant change in the approach to segment reporting, as it requires adoption of a 'management approach' to reporting on financial performance. The information being reported will be based on what the key decision maker's use internally for evaluating segment performance and deciding how to allocate resources to operating segments. The Group has decided to adopt AASB 8 from the period beginning 01 July 2009. Application of AASB 8 may result in different segments, segment results and different types of information being reported in the segment note of the financial report. However, at this stage, it is not expected to affect any of the amounts recognised in the financial statements.

*(ii) Revised AASB 101 Presentation of Financial Statements and AASB 2007-8 Amendments to Australian Accounting Standards arising from AASB 101*

A revised AASB 101 was issued in September 2007 and is applicable for annual reporting periods beginning on or after 1 January 2009. It requires the presentation of a statement of comprehensive income and makes changes to the statement of changes in equity, but will not affect any of the amounts recognised in the financial statements. If an entity has made a prior period adjustment or has reclassified items in the financial statements, it will need to disclose a third balance sheet (statement of financial position), this one being as at the beginning of the comparative period. The Group intends to apply the revised standard from 1 July 2009.

## 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 financial risks faced by the Group are considered minimal at this stage.

The Group and the parent entity hold the following financial instruments:

	<b>Consolidated</b>		<b>Parent entity</b>	
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
	\$	\$	\$	\$
<b>Financial Assets</b>				
Cash and cash equivalents	<b>784,256</b>	758,450	<b>768,280</b>	749,731
Trade and other receivables	<b>131,891</b>	205,406	<b>131,891</b>	205,406
Other financial assets at fair value	<b>2,600</b>	2,366	<b>2,600</b>	2,366
	<b>918,747</b>	966,222	<b>902,771</b>	957,503
<b>Financial Liabilities</b>				
Trade and other payables	<b>526,307</b>	846,940	<b>502,634</b>	830,801
	<b>526,307</b>	846,940	<b>502,634</b>	830,801

### (a) Market Risk

#### i) Foreign exchange risk

The Group and the parent entity operate internationally and are exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the US dollar.

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

The group and parent entities exposure to foreign currency risk at the reporting date was not material.

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

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

#### Group sensitivity

At 30 June 2009, if interest rates had changed by +/- 100 basis points from the year-end rates with all other variables held constant, post-tax profit for the year would have been \$7,843 lower/higher (2008 - change of 100 bps: \$7,585 lower/higher), as a result of lower/higher interest income from cash and cash equivalents and deposits with banks.

**2. Financial risk management (continued)**

*Parent sensitivity*

At 30 June 2009, if interest rates had changed by +/- 100 basis points from the year-end rates with all other variables held constant, post-tax profit for the year would have been \$7,683 lower/higher (2008 – change of 100 bps: \$7,497 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.

**(c) Liquidity Risk**

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

The Group does not have any borrowing facilities in place at the reporting date.

*Maturities of financial liabilities*

The tables below analyse the Group's and parent'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.

Group – At 30 June 2009	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>Non-derivatives</b>							
Non-interest bearing	337,557	-	188,750	-	-	526,307	526,307
Variable rate	-	-	-	-	-	-	-
<b>Total non-derivatives</b>	337,557	-	188,750	-	-	526,307	526,307
<b>Group – At 30 June 2008</b>							
<b>Non-derivatives</b>							
Non-interest bearing	580,690	266,250	-	-	-	846,940	846,940
Variable rate	-	-	-	-	-	-	-
<b>Total non-derivatives</b>	580,690	266,250	-	-	-	846,940	846,940

**2. Financial risk management (continued)**

Parent Entity – At 30 June 2009	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>Non-derivatives</b>							
Non-interest bearing	313,884	-	188,750	-	-	502,634	502,634
Variable rate	-	-	-	-	-	-	-
<b>Total non-derivatives</b>	313,884	-	188,750	-	-	502,634	502,634
<hr/>							
<b>Parent Entity – At 30 June 2008</b>							
<b>Non-derivatives</b>							
Non-interest bearing	564,551	266,250	-	-	-	830,801	830,801
Variable rate	-	-	-	-	-	-	-
<b>Total non-derivatives</b>	564,551	266,250	-	-	-	830,801	830,801

**(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 (for example, investments in unlisted subsidiaries) 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.

**(a) Critical accounting estimates and assumptions**

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

*(i) Estimated impairment of exploration expenditure*

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

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#### 4. Segment reporting

The Group operates as an exploration company performing exploratory drilling wells in the Philippines, France, New Zealand and Western Australia. The group manages these activities from its head office in Sydney, Australia and an office in Singapore.

	Revenue		Segment Results		Segment Assets		Segment Liabilities	
	2009	2008	2009	2008	2009	2008	2009	2008
	\$	\$	\$	\$	\$	\$	\$	\$
Australia	16,763	129,564	(590,015)	(401,563)	1,341,674	1,186,620	502,634	350,153
Singapore	-	-	(48,719)	(30,871)	15,976	8,719	23,673	16,139
France	-	-	-	-	40,035	26,846	-	-
New Zealand	-	-	(2,185,983)	-	44,982	2,230,966	-	454,231
Philippines	-	-	-	-	5,496,819	4,612,346	1,607,320	1,378,229
Consolidated	16,763	129,564	(2,824,717)	(432,434)	6,939,486	8,065,497	2,133,627	2,198,752

#### 5. Revenue

	Consolidated		Parent entity	
	2009	2008	2009	2008
	\$	\$	\$	\$
<b>From continuing operations</b>				
Other revenue				
Interest	<b>16,763</b>	129,564	<b>16,763</b>	129,564
	<b>16,763</b>	129,564	<b>16,763</b>	126,564

**6, Expenses**

	<b>Consolidated</b>		<b>Parent entity</b>	
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
	\$	\$	\$	\$
<b>Loss before income tax includes the following specific expenses:</b>				
<i>Depreciation</i>				
Plant and equipment	1,191	687	1,191	687
Total depreciation	<u>1,191</u>	<u>687</u>	<u>1,191</u>	<u>687</u>
Net foreign exchange loss	3,996	2,140	3,996	672
Superannuation	4,954	7,534	4,954	7,534

**7. Income tax expense**

**(a) Income tax expense**

Current tax	-	-	-	-
Deferred tax	14,151	4,128	-	-
Under (over) provided in prior years	-	-	-	-
	<u>14,151</u>	<u>4,128</u>	<u>-</u>	<u>-</u>

Income tax expense is attributable to:

Loss from continuing operations	14,151	4,128	-	-
Aggregate income tax expense	<u>14,151</u>	<u>4,128</u>	<u>-</u>	<u>-</u>

Deferred income tax (revenue) expense included in income tax expense comprises:

Decrease (increase) in deferred tax assets	-	-	-	-
(Decrease) increase in deferred tax liabilities	14,151	4,128	-	-
	<u>14,151</u>	<u>4,128</u>	<u>-</u>	<u>-</u>

**(b) Numerical reconciliation of income tax expense to prima facie tax payable**

Loss from continuing operations before income tax expense	<u>(2,810,566)</u>	<u>(428,306)</u>	<u>(2,866,284)</u>	<u>(481,285)</u>
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Tax at the Australian tax rate of 30% (2008-30%)

	(843,170)	(128,492)	(859,885)	(144,386)
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Tax effect of amounts which are not deductible (taxable) in calculating taxable income:

Exploration expenditure	14,151	4,128	-	-
	<u>(829,019)</u>	<u>(124,364)</u>	<u>(859,885)</u>	<u>(144,386)</u>

Deferred tax asset not recognised/(brought to account)

	843,170	128,492	859,885	144,386
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Income tax expense	<u>14,151</u>	<u>4,128</u>	<u>-</u>	<u>-</u>
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	2009	Consolidated 2008	2009	Parent entity 2008
<b>7. Income tax expense - continued</b>	\$	\$	\$	\$
<b>(c) Tax losses</b>				
Unused tax losses for which no deferred tax asset has been recognised	<b>(4,605,348)</b>	(3,561,660)	<b>(4,605,348)</b>	(3,561,660)
Potential tax benefit @ 30%	<b>1,381,604</b>	1,068,498	<b>1,381,604</b>	1,068,498

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

**8. Current assets - Cash and cash equivalents**

Cash at bank and in hand	<b>784,256</b>	758,450	<b>768,280</b>	749,731
	<b>784,256</b>	758,450	<b>768,280</b>	749,731

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

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

Balances as above	<b>784,256</b>	758,450	<b>768,280</b>	749,731
Balances per statement of cash flows	<b>784,256</b>	758,450	<b>768,280</b>	749,731

**(b) Cash at bank and on hand**

These are interest bearing.

The weighted average interest rate for the year ended 30 June 2009 was 2.17% (2008: 7.5%).

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**9. Current assets - Trade and other receivables**

	Consolidated		Parent entity	
	2009	2008	2009	2008
	\$	\$	\$	\$
Other receivables	110,222	183,780	110,222	183,780
Prepayments	21,669	21,626	21,669	21,626
	<b>131,891</b>	<b>205,406</b>	<b>131,891</b>	<b>205,406</b>

**Other receivables**

These amounts relate to the Goods and Services Tax (GST) paid on various Australian expenses for the quarter ended 30 June 2009 together with the GST portion on accruals for the year.

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

At beginning of year	2,366	2,592	2,366	2,592
Additions	-	-	-	-
Foreign exchange difference on translation	234	(226)	234	(226)
At end of year	<b>2,600</b>	<b>2,366</b>	<b>2,600</b>	<b>2,366</b>
Philippines Treasury Bills	<b>2,600</b>	<b>2,366</b>	<b>2,600</b>	<b>2,366</b>
	<b>2,600</b>	<b>2,366</b>	<b>2,600</b>	<b>2,366</b>

**(a) Credit risk**

There is no significant credit risk with respect to receivables.

**11. Non-current assets - Other financial assets**

	Consolidated		Parent entity	
	2009	2008	2009	2008
	\$	\$	\$	\$
Shares in subsidiaries (note 23)	-	-	3,789,714	3,789,714
	-	-	<b>3,789,714</b>	<b>3,789,714</b>

These financial assets are carried at cost.

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**12. Non-current assets – Property, plant and equipment**

<b>Consolidated</b>	<b>2009</b>	<b>2008</b>
	<b>\$</b>	<b>\$</b>
<b>Furniture, fittings and equipment</b>		
Opening net book amount	1,227	1,914
Additions	2,525	-
Disposal	-	-
Depreciation charge	(1,191)	(687)
Closing net book amount	<u>2,561</u>	<u>1,227</u>
Cost or fair value	5,216	2,691
Accumulated depreciation	(2,655)	(1,464)
Net book amount	<u>2,561</u>	<u>1,227</u>
<b>Parent entity</b>		
<b>Furniture, fittings and equipment</b>		
Opening net book amount	1,227	1,914
Additions	2,525	-
Disposal	-	-
Depreciation charge	(1,191)	(687)
Closing net book amount	<u>2,561</u>	<u>1,227</u>
Cost or fair value	5,216	2,691
Accumulated depreciation	(2,655)	(1,464)
Net book amount	<u>2,561</u>	<u>1,227</u>

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**13. Non-current assets – Exploration expenditure and rights**

	Consolidated		Parent entity	
	2009	2008	2009	2008
	\$	\$	\$	\$
Exploration expenditure and rights				
<i>At cost</i>	<b>6,018,178</b>	7,098,049	<b>660,445</b>	2,592,009
	<b>6,018,178</b>	7,098,049	<b>660,445</b>	2,592,009

**Reconciliation of the carrying amount of exploration expenditure and rights**

Exploration expenditure and rights:				
Carrying amount at beginning of year	<b>7,098,049</b>	5,152,076	<b>2,592,009</b>	40,336
Exploration expenditure and rights	<b>301,588</b>	2,564,507	<b>254,419</b>	2,551,673
Exploration expenditure and rights written off	<b>(2,185,983)</b>	-	<b>(2,185,983)</b>	-
Foreign exchange difference	<b>804,524</b>	(618,534)	-	-
Carrying amount at end of year	<b>6,018,178</b>	7,098,049	<b>660,445</b>	2,592,009

The \$2,185,983 write-down of deferred exploration expenditure relates to expenditure incurred by the Greengate/Gas2Grid Joint Venture in relation to PEP38260. Drilling activities have not been successful in this area and management plan to relinquish this licence.

**14. Current liabilities – Trade and other payables**

Trade payables	<b>337,557</b>	580,690	<b>313,884</b>	564,551
	<b>337,557</b>	580,690	<b>313,884</b>	564,551

**15. Non-current liabilities – Deferred tax liabilities**

	Consolidated		Parent entity	
	2009	2008	2009	2008
	\$	\$	\$	\$
<b>The balance comprises temporary differences attributable to:</b>				
Exploration expenditure	<b>1,607,320</b>	1,351,812	-	-
<b>Movements:</b>				
Opening balance at 1 July	<b>1,351,812</b>	1,761,940	-	-
Charged/(credited) to the income statement (note 7)	<b>14,151</b>	4,128	-	-
Foreign exchange difference	<b>241,357</b>	(414,256)	-	-
Closing balance at 30 June	<b>1,607,320</b>	1,351,812	-	-

The above balance comprises temporary differences attributable to deferred exploration expenditure.

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

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**16. Non-current liabilities – Trade and other payables**

	Consolidated		Parent entity	
	2009	2008	2009	2008
	\$	\$	\$	\$
Other payables	188,750	266,250	188,750	266,250
	<u>188,750</u>	<u>266,250</u>	<u>188,750</u>	<u>266,250</u>

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

**17. Contributed equity**

	Notes	Consolidated		Consolidated	
		2009 Shares	2008 Shares	2009 \$	2008 \$
<b>(a) Share capital</b>					
Ordinary shares- fully paid	(b),(c)	155,904,488	115,520,066	10,716,532	9,507,042
Total contributed equity – consolidated entity				<u>10,716,532</u>	<u>9,507,042</u>
		Parent		Parent	
	Notes	2009 Shares	2008 Shares	2009 \$	2008 \$
(a) Share capital					
Ordinary shares- fully paid	(b),(c)	155,904,488	115,520,066	14,504,434	13,294,945
Total contributed equity – parent entity				<u>14,504,434</u>	<u>13,294,945</u>

Gas2Grid Limited's acquisition of Gas2Grid Pte Ltd has been treated as a reverse acquisition. Effectively Gas2Grid Pte Ltd (the legal subsidiary) is deemed the acquirer of Gas2Grid Limited for financial reporting purposes.

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

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**17. Contributed equity (continued)**

**(b) Movements in ordinary share capital:**

Date	Details	Notes	Number of shares	Issue price	\$
1 July 2008	Opening balance		115,520,066		13,294,945
16 December 2008	Entitlements Issue Less: Transaction costs	(d)	38,584,422	0.03	1,157,533 (28,085)
11 May 2009	Share issue Placement Fee	(e)	1,800,000	0.05	90,000 (9,959)
30 June 2009	Balance		<u>155,904,488</u>		<u>14,504,434</u>

**(c) Ordinary shares**

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

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

**(d) Share issue**

On 16 December 2008 a non-renounceable entitlements offer was made to existing shareholders. Holders of ordinary shares could subscribe for 1 share and 1 free attached option at \$0.03 per share for every one existing share held. The offer was well supported with 38,584,422 ordinary shares and options being issued for a gross amount of \$1,129,448 raised. Each new option issued entitles the holder to acquire one share at \$0.08 on or before 30 November 2010.

**(e) Share issue**

On 11 May 2009, the company issued 1,800,000 ordinary shares at \$0.05 per share. These shares were issued to ex Director, David King, in lieu of \$90,000 outstanding Directors' Fees.

**(f) Options**

Unlisted Options:

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

Listed Options:

As outlined in (d) above there are now 38,584,422 listed options on issue with an exercise price of \$0.08, expiring 30 November 2010.

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**18. Reserves and retained profits**

	<b>Consolidated</b>		<b>Parent entity</b>	
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
	\$	\$	\$	\$
<b>(a) Reserves</b>				
Share-based payments reserve	<b>84,000</b>	84,000	<b>84,000</b>	84,000
Foreign currency translation reserve	<b>(328,144)</b>	(882,485)	-	-
	<b>(244,144)</b>	(798,485)	<b>84,000</b>	84,000
<b>Movements:</b>				
<i>Share-based payment reserve</i>				
Balance 1 July	<b>84,000</b>	84,000	<b>84,000</b>	84,000
Option expense	-	-	-	-
Balance 30 June	<b>84,000</b>	84,000	<b>84,000</b>	84,000
<i>Foreign currency translation reserve</i>				
Balance 1 July	<b>(882,486)</b>	(707,282)	-	-
Currency translation differences arising during the year	<b>554,342</b>	(175,204)	-	-
Balance 30 June	<b>(328,144)</b>	(882,486)	-	-
<b>(b) Retained profits</b>				
Movements in retained profits were as follows:				
Balance 1 July	<b>(2,841,811)</b>	(2,409,377)	<b>(6,869,293)</b>	(6,388,008)
Loss for the year	<b>(2,824,717)</b>	(432,434)	<b>(2,866,284)</b>	(481,285)
Balance 30 June	<b>(5,666,529)</b>	(2,841,811)	<b>(9,735,577)</b>	(6,869,293)

**(c) Nature and purpose of reserves**

*(i) Share-based payments reserve*

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

*(ii) Foreign currency translation reserve*

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

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**19. Commitments**

**(a) 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:-

	<b>Consolidated</b>		<b>Parent entity</b>	
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
	\$	\$	\$	\$
Not later than one year	<b>2,461,000</b>	2,360,000	<b>2,461,000</b>	2,360,000
Later than one year but not later than 5 years	<b>5,950,000</b>	4,800,000	<b>5,950,000</b>	4,800,000
	<b>8,411,000</b>	7,160,000	<b>8,411,000</b>	7,160,000

**20. Remuneration of auditors**

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

	<b>Consolidated</b>		<b>Parent entity</b>	
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
	\$	\$	\$	\$
<b>(a) Assurance services</b>				
<i>Audit services</i>				
PricewaterhouseCoopers Australian firm				
Audit and review of financial reports and other audit work under the <i>Corporations Act 2001</i>	<b>43,350</b>	59,338	<b>43,350</b>	59,338
Related practices of PricewaterhouseCoopers Australian firm	<b>20,688</b>	16,264	-	-
<b>Total remuneration for audit services</b>	<b>64,038</b>	75,602	<b>43,350</b>	59,338

No non audit services provided.

**21. Key management personnel disclosures**

**(a) Key management personnel compensation**

	Consolidated		Parent entity	
	2009	2008	2009	2008
	\$	\$	\$	\$
Directors' Fees	269,453	170,016	269,453	170,016
Superannuation	4,954	7,534	4,954	7,534
	<b>274,407</b>	<b>177,550</b>	<b>274,407</b>	<b>177,550</b>

The company has taken advantage of the relief provided by the Corporations Regulations and has transferred the detailed remuneration disclosures to the directors' report. The relevant information can be found in sections A-C of the remuneration report on pages 12 to 14.

**(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 section D of the remuneration report on pages 14 to 15.

*(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 personally related parties, are set out below.

2009	Balance at the start of the year	Granted during the year as compensation	Exercised during the year	Other changes	Balance at the end of the year	Vested and exercisable during the year
Name						
<b>Directors of Gas2Grid Limited</b>						
D A Munns	500,000	-	-	6,211,800	6,711,800	6,711,800
D W King (i)	300,000	-	-	3,030,220	3,330,220	3,330,220
E D Espiritu (ii)	-	-	-	-	-	-
D J Morton (iii)	300,000	-	-	17,304,066	17,604,066	17,604,066
R D Langusch	-	-	-	-	-	-
<b>2008</b>						
Name	Balance at the start of the year	Granted during the year as compensation	Exercised during the year	Other changes	Balance at the end of the year	Vested and exercisable during the year
<b>Directors of Gas2Grid Limited</b>						
D A Munns	500,000	-	-	-	500,000	500,000
D W King (i)	300,000	-	-	-	300,000	300,000
E D Espiritu (ii)	-	-	-	-	-	-
D J Morton (iii)	300,000	-	-	-	300,000	300,000

**21. Key management personnel disclosures (continued)**

*(iii) Share holdings*

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

2009				
Name	Balance at the start of the year	Received during the year on exercise of options	Other changes during the year	Balance at the end of the year
<b>Directors of Gas2Grid Limited</b>				
D A Munns	6,711,800	-	6,711,800	13,423,600
D W King (i)	3,313,259	-	5,147,181	8,460,440
E D Espiritu (ii)	147,769	-	-	147,769
D J Morton (iii)	8,494,066	-	18,714,066	27,208,132
R D Langusch	-	-	-	-

2008				
Name	Balance at the start of the year	Received during the year on exercise of options	Other changes during the year	Balance at the end of the year
<b>Directors of Gas2Grid Limited</b>				
D A Munns	6,711,800	-	-	6,711,800
D W King (i)	3,313,259	-	-	3,313,259
E D Espiritu (ii)	147,769	-	-	147,769
D J Morton (iii)	4,834,066	-	3,660,000	8,494,066

- (i) 2,096,652 shares and 148,326 options are held by Seistend Pty Limited. 6,363,788 shares and 3,181,894 options are held by DWK Superannuation Fund. Both entities are associated with and controlled by D W King.
- (ii) 147,769 shares are held by Ejeje Holdings Pty Limited, an entity of which E D Espiritu is a director and could be a beneficiary.
- (iii) 27,208,132 shares and 13,370,000 options are held by Budside Pty Limited Employees Superannuation Fund, an entity associated with and controlled by D J Morton.

**(c) Loans to key management personnel**

There are no loans outstanding to directors of Gas2Grid Limited.

**(d) Other transactions with key management personnel**

David King was issued 1,800,000 shares in lieu of \$90,000 accrued Directors' Fees.

**21. Key management personnel disclosures (continued)**

	2009	2008
	\$	\$
<b>Amounts recognised as expense</b>		
Management Fees Paid to Seistend Pty Limited	-	86,300
Consultancy Fees Paid to Dennis Morton	-	1,718
Consultancy Fees Paid to Budside Pty Ltd	-	10,000
Consultancy Fees Paid to Eiric Pty Limited	-	18,260
Management Fees Paid to Langusch & Associates Pty Ltd	<b>40,000</b>	-
Management Fees Paid to Budside Pty Ltd	<b>140,000</b>	-
	<b>180,000</b>	116,278
<b>Amounts recognised as non current assets</b>		
Exploration expenditure and rights sold by Budside Pty Limited	-	198,000
	-	198,000

**22. 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) Subsidiaries**

Interests in subsidiaries are set out in note 23.

**(c) Key management personnel**

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

**(d) Loans to related parties and investments in subsidiaries**

	Consolidated		Parent entity	
	2009	2008	2009	2008
	\$	\$	\$	\$
<i>Investments in subsidiaries</i>				
Beginning of the year	-	-	<b>3,789,714</b>	3,789,714
Additional investment in subsidiary	-	-	-	-
Impairment of investment in subsidiary	-	-	-	-
End of year	-	-	<b>3,789,714</b>	3,789,714
<i>Loans to subsidiaries</i>				
Beginning of the year	-	-	-	-
Loans made	-	-	90,286	79,722
Loans repaid	-	-	-	-
Impairment to value of loan	-	-	(90,286)	(79,722)
End of year	-	-	-	-

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**23. Subsidiaries**

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

Name of entity	County of incorporation	Class of shares	Equity holding*	
			2009 %	2008 %
Gas2Grid Pte Limited	Singapore	Ordinary	100	100

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

**24. Events occurring after the balance sheet date**

There are matters and circumstances which have arisen since 30 June 2009 which significantly affected, or may significantly affect:

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

On 7 July, 2009 the Group raised further capital by way of a share placement to qualified investors under section 708(8) and 708(10) of the Corporations Act. A gross amount of \$1,065,750 was raised before fees to fund ongoing exploration. The funds that have been raised will be applied as follows:

**Philippines – SC 44 (100% interest):** Planned workover programs on the Malolos-1 and Nuevo Malolos-1 wells onshore Cebu to be conducted in September-October, 2009 and part funding of the 2009 seismic acquisition program.

**France, St. Griede (50%):** The acquisition of an Aero-Gravity (AGG) Survey covering the St Griede licence located in the Aquitaine Basin which is likely to be completed by the end of October 2009.

**Australia - EP 453, Canning Basin (100%):** Interpretation of reprocessed seismic data and the farmout of well commitments.

**New Ventures:** Assessment of new venture opportunities in regions close to the existing licence holdings with some reviews at an advanced stage.

**Corporate Opportunities:** Various corporate opportunities are also under assessment.

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**25. Reconciliation of profit/(loss) after income tax to net cash inflow from operating activities**

	Consolidated		Parent entity	
	2009	2008	2009	2008
	\$	\$	\$	\$
Loss for the year	(2,824,717)	(432,434)	(2,866,284)	(481,285)
Depreciation and amortisation	1,191	687	1,191	687
Impairment of Deferred Exploration Expenditure	2,185,983	-	2,185,983	-
Impairment of Loan	-	-	90,286	79,722
Net Exchange Differences	5,042	2,140	5,837	673
Change in operating assets and liabilities				
(Increase) decrease in trade and other receivables	(41,961)	(3,950)	(41,961)	(3,950)
(Increase) decrease in trade and other payables	237,532	41,097	232,523	40,347
(Decrease) increase in deferred tax liabilities	(43)	4,128	-	-
(Decrease) increase in prepayments	13,103	(21,626)	(43)	(21,626)
Net cash (outflow) inflow from operating activities	<u>(423,870)</u>	<u>(409,958)</u>	<u>(392,468)</u>	<u>(385,432)</u>

**26. Earnings per share**

	Consolidated	
	2009	2008
	Cents	Cents
<b>(a) Basic earnings per share</b>		
Loss from continuing operations attributable to the ordinary equity holders of the company	<u>(2.06)</u>	<u>(0.04)</u>
Loss attributable to the ordinary equity holders of the company	<u>(2.06)</u>	<u>(0.04)</u>
<b>(b) Diluted earnings per share</b>		
Loss from continuing operations attributable to the ordinary equity holders of the company	<u>(2.06)</u>	<u>(0.04)</u>
Loss attributable to the ordinary equity holders of the company	<u>(2.06)</u>	<u>(0.04)</u>

**26. Earnings per share (continued)**

	<b>Consolidated</b>	
	<b>2009</b>	<b>2008</b>
	<b>\$</b>	<b>\$</b>
<b>(c) Reconciliations of earnings used in calculating earnings per share</b>		
<i>Basic earnings per share</i>		
Loss from continuing operations	<u>(2,824,717)</u>	(432,434)
Loss from continuing operations attributable to the ordinary equity holders of the company used in calculating basic earnings per share	<u>(2,824,717)</u>	(432,434)
<i>Diluted earnings per share</i>		
Loss from continuing operations attributable to the ordinary equity holders of the company used in calculating basic earnings per share	<u>(2,824,717)</u>	(432,434)
Loss from continuing operations attributable to the ordinary equity holders of the company used in calculating diluted earnings per share	<u>(2,824,717)</u>	(432,434)
	<b>Consolidated</b>	
	<b>2009</b>	<b>2008</b>
	<b>Number</b>	<b>Number</b>
<b>(d) Weighted average number of shares used as the denominator</b>		
<i>Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share</i>	<b>137,014,501</b>	108,592,207
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>	<u><b>137,014,501</b></u>	<u>108,592,207</u>

**(e) Information concerning the classification of securities**

*(i) Options*

The 38,584,422 listed options granted under the entitlements issue on 16 December 2008 are not included in the calculation of diluted earnings per share because they are antidilutive for the year ended 30 June 2009. These options could potentially dilute basic earnings per share in the future. Details relating to the options are set out in note 17 (f).

**(f) Post year-end share placement**

Subsequent to year-end a share placement was made issuing 21,315,000 ordinary shares on 07 July 2009. Had this placement been made prior to year-end the weighted average number of shares outstanding would have been significantly higher.

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**27. Share-based payments**

**(a) Option Plan**

Options were granted in February 2005 in recognition of the considerable time and effort expended and to be expended by the Founders, and as a reward for the risks to be undertaken by the Founders which included David Munns, Maria Hildegunde, Michael Stirzaker and David King. Options were granted for a four year period.

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

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

Grant date	Expiry date	Exercise price	Balance at start of the year Number	Granted during the year Number	Exercised during the year Number	Expired during the year Number	Balance at end of the year Number	Exercisable at end of the year Number
<b>Consolidated and parent entity - 2009</b>								
Feb 2005	15 Mar 2009	\$0.30	2,600,000	-	-	2,600,000	-	-
<b>Total</b>			<b>2,600,000</b>	<b>-</b>	<b>-</b>	<b>2,600,000</b>	<b>-</b>	<b>-</b>
Weighted average exercise price			-	-	-	-	-	-
<b>Consolidated and parent entity – 2008</b>								
Feb 2005	15 Mar 2009	\$0.30	2,600,000	-	-	-	2,600,000	2,600,000
<b>Total</b>			<b>2,600,000</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>2,600,000</b>	<b>2,600,000</b>
Weighted average exercise price			-	-	-	-	-	-

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

**(b) Expenses arising from share-based payment transactions**

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

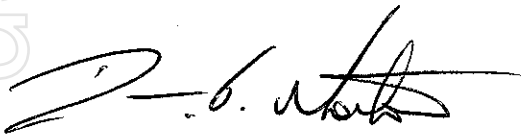
	<b>Consolidated</b>		<b>Parent entity</b>	
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Options issued under option plan	-	-	-	-
	-	-	-	-

In the directors' opinion:

- (a) the financial statements and notes set out on pages 23 to 56 are in accordance with the *Corporations Act 2001*, including:
- (i) complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and
  - (ii) giving a true and fair view of the company's financial position as at 30 June 2009 and of its performance, as represented by the results of their operations, changes in equity and their cash flows, for the financial year ended on that date; and
- (b) there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable; and

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

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



Dennis Morton  
Director

Sydney  
30 September 2009

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

**Report on the financial report**

We have audited the accompanying financial statements of Gas2Grid Limited (the company), which comprise the balance sheet as at 30 June 2009, and the income statement, statement of changes in equity and statement of cash flow for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration for both Gas2Grid Limited and the Gas2Grid Limited group (the consolidated entity). The consolidated entity comprises the company and the entities 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 and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that compliance with the Australian equivalents to International Financial Reporting Standards ensures that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards.

*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.

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

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

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

*Independence*

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

*Auditor's opinion*

In our opinion:


- (a) the financial report of Gas2Grid Limited is in accordance with the *Corporations Act 2001*, including:
  - (i) giving a true and fair view of the company's and consolidated entity's financial position as at 30 June 2009 and of their performance for the year ended on that date; and
  - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*; and
- (b) the consolidated financial statements and parent entity financial statements and notes also comply with International Financial Reporting Standards as disclosed in Note 1.

**Report on the Remuneration Report**

We have audited the Remuneration Report included in pages 12 to 16 of the directors' report for the year ended 30 June 2009. 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 2009, complies with section 300A of the *Corporations Act 2001*.

  
PricewaterhouseCoopers

  
Marc Upcroft  
Partner

Sydney  
30 September 2009

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The shareholder information set out below was applicable as at 29 September 2009.

**1. Substantial Holders**

Substantial holders in the company are set out below:-

Ordinary Shares

	<b>Number held</b>
Dennis Morton	27,208,132
Ernest Albers	14,140,000
David Munns	13,423,600
Darren Reeder	10,000,000
David King	8,460,440
Westpac Custodian Nominees Limited	7,000,000
Keith Schulstad	3,203,400

**2. Voting Rights**

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

**3. On-Market Buy-Back**

There is no current on-market buy-back.

**4. Distribution of Shareholders**

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

<b>No. of Shares</b>	<b>No. of Shareholders</b>
1 – 1,000	88
1,001 – 5,000	17
5,001 – 10,000	96
10,001 – 100,000	357
100,001 and over	176
	734

(ii) There were 130 holders of less than a marketable parcel of shares.

**5. Distribution of Optionholders**

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

<b>No. of Shares</b>	<b>No. of Shareholders</b>
1 – 1,000	-
1,001 – 5,000	2
5,001 – 10,000	3
10,001 – 100,000	23
100,001 and over	24
	52

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**Gas2Grid Limited**  
**Shareholder information**  
(continued)

**6. Twenty Largest Shareholders**

Name of Shareholders:	Number Held:	Percentage of Issued Shares:
1. Budside Pty Ltd <Employees Superannuation Fund>	22,468,132	12.68
2. Mr. David Munns	13,423,600	7.57
3. Darren Wesley Reeder	10,000,000	5.64
4. Seistend Pty Limited <DWK Super Fund A/C>	8,363,788	4.72
5. Octanex NL	6,140,000	3.46
6. Gascorp Australia Pty Ltd	6,000,000	3.39
7. Parkes Holdings Pty Ltd	5,000,000	2.82
8. Custodial Services Limited <Beneficiaries A/C>	4,307,933	2.43
9. Budside Pty Ltd <Employees Super Fund A/C>	3,540,000	2.00
10. Pobelos Super Pty Ltd <Pobelos P/L Super Fund A/C>	3,270,000	1.85
11. Discovery Investments Pty Ltd	3,249,866	1.83
12. Ryan Superannuation Nominees Pty Ltd	3,044,933	1.72
13. Berenes Nominees Pty Ltd <Berenes Super Fund>	2,800,000	1.58
14. Walleroo Pty Ltd	2,135,000	1.20
15. Mr. Keith Schulstad	2,126,345	1.20
16. Seistend Pty Ltd <Direct Investment A/C>	2,096,652	1.18
17. Airtrust (Singapore) Pte Ltd	2,000,000	1.13
18. DG, AR & E Battersby <Veruse Employees Super Fund>	2,000,000	1.13
19. W R Mobbs Superannuation Pty Ltd	2,000,000	1.13
20. Mr. Michael Kenneth Walcott	1,743,266	0.98
	<hr/>	
	105,709,515	59.65

**7. Twenty Largest Optionholders**

Name of Optionholders:	Number Held:	Percentage of Issued Shares:
1. Budside Pty Ltd <Employees Superannuation Fund>	11,000,000	28.51
2. Mr. David Munns	6,711,800	17.40
3. Mr Dennis Morton	4,234,066	10.97
4. Seistend Pty Limited <DWK Super Fund A/C>	3,164,933	8.20
5. Parkes Holdings Pty Ltd	2,500,000	6.48
6. Budside Pty Ltd <Employees Super Fund A/C>	1,770,000	4.59
7. Discovery Investments Pty Ltd	1,624,933	4.21
8. Parkes Holdings Prov Fund A/C	1,000,000	2.59
9. W R Mobbs Superannuation Pty Ltd	1,000,000	2.59
10. Custodial Services Limited <Beneficiaries A/C>	777,000	2.01
11. Mr. Dennis Morton <Budside P/L Employees S/F>	600,000	1.56
12. Mr. Michael Kenneth Walcott	384,133	1.00
13. Nyholm Pty Ltd <Nyholm Super Fund A/C>	369,933	0.96
14. UBS Nominees Pty Ltd <TP0001415 A/C>	333,333	0.86
15. Mr. Clarke Barnett Dudley	255,067	0.66
16. Avanteos Investments Limited <DNR IMA A/C>	244,933	0.63
17. Bond Street Custodians Limited <PFG-V20432 A/C>	234,362	0.61
18. Mr. Trevor Bayley	203,170	0.53
19. Mr. Timothy Alan Baldwin	200,000	0.52
20. Ms. Jennifer Ashley Morton	200,000	0.52
	<hr/>	
	36,807,663	95.40

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**SCHEDULE OF MINERAL TENEMENTS**

<b>LOCATION</b>	<b>TENEMENT</b>	<b>HOLDER</b>	<b>INTEREST</b>	<b>AREA</b>	<b>CURRENT TO</b>
Cebu Island, The Philippines	SC44	Gas2Grid Limited	100%	750km <sup>2</sup>	28/11/2011
Canning Basin, Western Australia	EP453	Gas2Grid Limited	100%	9,677.7km <sup>2</sup>	17/01/2013
Onshore Aquitaine Basin, France	St Griede Licence	Gas2Grid Limited	50%	1,238km <sup>2</sup>	21/04/2013

**Key to Tenement Types**

SC	Service Contract
EP	Exploration Permit

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