



Grand Gulf Energy Limited
(Formerly known as Alto Energy International Ltd)

ABN 22 073 653 175

Financial Report

for the financial year ended
30 June 2007

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CORPORATE DIRECTORY

DIRECTORS

Mr Charles Morgan - Chairman
Mr James Trimble – Managing Director and CEO
Mr Stephen Keenihan – Non-executive Director
Mr Allan Boss – Non-executive Director

COMPANY SECRETARY

Mr Mark Pitts

REGISTERED AND PRINCIPAL OFFICE

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ASX CODE

GGE

ABN

22 073 653 175

Grand Gulf Energy's Board and Corporate Governance

The Board of directors of Grand Gulf Energy Limited is responsible for the corporate governance of the consolidated entity and is committed to applying the ASX Corporate Governance Council *Principles of Good Corporate Governance and Best Practice Recommendations* ("ASX Principles") where practicable. The Board guides and monitors the business and affairs of Grand Gulf Energy Limited on behalf of the shareholders. It is a requirement of the Board that the Company maintains high standards of ethics and integrity at all times.

The ASX Principles are an important regulatory guide for listed companies reporting on their corporate governance practices. Under ASX Listing Rule 4.10.3, listed companies must disclose the extent to which they have followed the ASX Principles, and if any of the recommendations have not been followed then the Company must explain why not.

The requirements under Listing Rule 4.10.3 apply to Grand Gulf Energy for the financial year ended 30 June 2007 and this corporate governance statement sets out and explains any departures by Grand Gulf Energy from the ASX Principles.

The Grand Gulf Energy Corporate Governance Website

Important information relating to Grand Gulf Energy's corporate governance policies and practices are set out on the Company's website at www.grandgulfenergy.net. The following documents are summarised on the website and are available in full from the Company:

- Board Charter;
- Code of Conduct;
- Communications Strategy Policy;
- Continuous Disclosure Policy;
- Securities Trading Policy;
- Risk Policy;
- Remuneration Policy; and
- Remuneration Committee Charter.

Grand Gulf Energy undertakes a regular review of its corporate governance policies and practices and is continuing to update its policies and practices to reflect developing corporate governance requirements and practices.

The Role of the Board and the Board Charter

The Board's Duties

As the Board acts on behalf of and is accountable to the shareholders, the Board seeks to identify the expectations of the shareholders, as well as other regulatory and ethical expectations and obligations and strives to meet those expectations. In addition, the Board is responsible for identifying areas of significant business risk and ensuring arrangements are in place to adequately manage those risks.

The role of the Board is to oversee and guide the management of Grand Gulf Energy with the aim of protecting and enhancing the interests of its shareholders and taking into account the interests of other stakeholders including employees and the wider community.

The Board has adopted a formal Charter which clearly establishes the relationship between the Board and management and describes their functions and responsibilities. A summary of the Board Charter has been posted on the corporate governance section of the Company's website.

CORPORATE GOVERNANCE STATEMENT FOR THE YEAR ENDED 30 JUNE 2007

The Board is responsible for setting the strategic direction of the Company, establishing goals for management and monitoring the achievement of those goals. The Managing Director is responsible to the Board for the day to day management of the Company.

Code of Conduct

Directors of the Company are also subject to Grand Gulf Energy's Code of Conduct (see further discussion below). The Code of Conduct is considered by the Board to be an effective way to guide the behaviour of all directors and employees and demonstrates the Company's commitment to ethical and compliant practices.

The Composition of Grand Gulf Energy's Board

The composition of the Board is determined in accordance with the following principles and guidelines:

- the Board should comprise at least 3 directors;
- the Board should comprise directors with an appropriate range of qualifications and expertise; and
- the Board shall meet regularly and follow meeting guidelines set down to ensure all directors are made aware of, and have available all necessary information, to participate in an informed discussion of all agenda items.

As at the date of this report, the Board comprises a non-executive chairperson, one executive director and a further two non-executive directors. Details of the directors are set out in the Directors' Report.

Independence of Directors

The Board has reviewed the position and associations of each of the four directors in office at the date of this report and considers that two of the directors are independent. In considering whether a director is independent, the Board has regard to the independence criteria in ASX Best Practice Recommendations Principle 2 and other facts, information and circumstances that the Board considers relevant. The Board assesses the independence of new directors upon appointment and reviews their independence, and the independence of other directors, as appropriate.

The Board considers that Mr Boss meets the criteria in Principle 2. He has no material business or contractual relationship with the Company, other than as a director and no conflicts of interest which could interfere with the exercise of independent judgement. Accordingly, he is considered to be independent.

The Board considers that Mr Keenihan meets the criteria in Principle 2. He has no material business or contractual relationship with the Company, other than as a director and no conflicts of interest which could interfere with the exercise of independent judgement.

The Board considers that Mr Morgan does not meet the criteria in Principle 2 as he is deemed to be a substantial shareholder of the Company as outlined by the *Corporations Act 2001*.

Mr Trimble is employed in an executive capacity by the Company and so can not be considered to be independent.

The Grand Gulf Energy Board did not have a majority of independent directors throughout the entire financial year, and therefore was not in compliance with Best Practice Recommendation 2.1 for the entire period. The Board considered that given the Company's stage of development and resources available that it was not in the best interests of maximising the efficiency of the Board and developing the Company's business to have a majority independent Board.

CORPORATE GOVERNANCE STATEMENT FOR THE YEAR ENDED 30 JUNE 2007

The directors will continue to monitor the composition of the Board to ensure its structure remains appropriate and consistent with effective management and good governance.

Nomination and Appointment of New Directors

The Board does not have a separate Nomination Committee as the selection and appointment process for Directors is carried out by the full Board in accordance with the Company's Constitution. The Company is not of a sufficient size to warrant a separate committee.

The Constitution of the Company requires one third of the directors, other than the Managing Director, to retire from office at each Annual General Meeting. Directors who have been appointed by the Board are required to retire from office at the next Annual General Meeting and are not taken into account in determining the number of directors to retire at that Annual General Meeting.

Grand Gulf Energy's Board Meetings

The Board met 19 times between 1 July 2006 and 30 June 2007.

The Board meets formally at least 6 times each year, and meetings are often convened outside the scheduled dates to consider issues of importance.

Directors' attendance at Board and Committee meetings is detailed on page 19 of this annual report.

Performance Review

The Board's policy with respect to performance evaluation is to review its performance and that of its Committees and executive management at least annually. The Chairman discusses with each director, on a one on one basis, their contribution to the Board.

The method of the assessment is to be set by the Board.

Due to the changes in Board structure and strategic direction of the business the Board has not undertaken a performance evaluation of itself or each director before the date of this annual report.

The Board will continue to review the need for a performance evaluation to be conducted.

Board Members' Rights to Independent Advice

The Board has procedures to allow directors, in the furtherance of their duties as directors or members of a Committee, to seek independent professional advice at the Company's expense, subject to the prior written approval of the Chairman.

Remuneration for directors and executives

A brief discussion on the Company's remuneration policies in respect of directors and executives is set out on pages 12 and 14 of this annual report. Detailed disclosure of the remuneration paid to the Company's directors and executives is set out on pages 14 to 18.

Remuneration paid to the Company's directors and executives is determined with reference to the market level of remuneration for other listed oil and gas companies both in Australia and the USA. This assessment is undertaken with reference to advice and comment provided by various search executive firms operating in the sector.

CORPORATE GOVERNANCE STATEMENT FOR THE YEAR ENDED 30 JUNE 2007

Bonuses which may be paid to the Company's directors and executives will be determined and paid on the basis of the Company's performance reflected through increases in the market capitalisation of the Company and upon successful capital raisings.

Share options are awarded under the Employee Share Option Plan to the Company's directors and executives and are determined on the individuals' performance against milestones, the level of involvement in achieving the corporate milestones and goals and to an extent the relativity between executives.

Total remuneration for non-executive directors is determined by resolution of shareholders. The Board determines actual payments to directors and reviews their remuneration annually, based on independent external advice, relativities and the duties and accountabilities of the directors. The maximum available aggregate remuneration approved for non-executive directors is \$200,000.

Non-executive directors may provide specific consulting advice to the Company upon direction from the Board. Remuneration for this work is made at market rates.

Non-executive directors do not receive any other retirement benefits other than a superannuation guarantee contribution required by government regulation, which is currently 9% of their fees. Non-executive directors do participate in the Company's Employee Share Option Plan, given the Company's size and stage of development and the necessity to attract the highest calibre of professionals to the role, whilst maintaining the Company's cash reserves.

The equity based executive remuneration is made under the Company's Employee Share Option Plan ("Plan").

Remuneration Committee

The Board determines all compensation arrangements for Directors. It is also responsible for setting performance criteria, performance monitors, share option schemes, incentive performance schemes, superannuation entitlements, retirement and termination entitlements and professional indemnity and liability insurance cover.

The Board has created a separate Remuneration Committee comprised of the Non-Executive Directors to assist it with deliberations.

The Board ensures that all matters of remuneration are in accordance with Corporations Act requirements, by ensuring that none of the Directors participates in any deliberations regarding their own remuneration or related issues.

Integrity in Financial Reporting

Consistent with ASX Principle 4.1, the Company's financial report preparation and approval process for the financial year ended 30 June 2007 involved both the Managing Director and the Company Secretary providing detailed representations to the Board covering:

- compliance with Grand Gulf Energy's accounting policies and relevant accounting standards;
- the accuracy of the financial statements and that they provide a true and fair view;
- integrity and objectivity of the financial statements; and
- effectiveness of the system of internal control.

Audit and Compliance Committee

The Board reviews the performance of the external auditors on an annual basis and meets with them during the year to review findings and assist with Board recommendations.

CORPORATE GOVERNANCE STATEMENT FOR THE YEAR ENDED 30 JUNE 2007

The Board no longer has a separate Audit Committee with a composition as suggested in the best practice recommendations. The full Board carries out the function of an audit committee.

The Board believes that the Company is not of a sufficient size to warrant a separate committee and that the full board is able to meet objectives of the best practice recommendations and discharge its duties in this area.

The Board is directly responsible for the appointment, reappointment or replacement (subject, if applicable, to shareholder ratification), remuneration, monitoring of effectiveness, and independence of the external auditors, including resolution of disagreements between management and the auditor regarding financial reporting.

Risk Identification and Management

The Grand Gulf Energy Board accepts that taking and managing risk is central to building shareholder value. The Board manages Grand Gulf Energy's level of risk by adhering to a formal Risk Policy statement. The Grand Gulf Energy Risk Policy statement is available from the corporate governance section of the Company's website.

The Board has primary responsibility for oversight of the financial risks of the Company with particular emphasis on Grand Gulf Energy's accounting, financial and internal controls. The Board will receive regular reports from the external auditor on critical policies and practices of the Company and in relation to alternative treatments of financial information.

The Company employs executives and retains consultants each with the requisite experience and qualifications to enable the Board to manage the risks to the Company. The Board reviews risks to the Company at regular Board meetings.

Securities Trading by Grand Gulf Energy Directors and Employees

The Grand Gulf Energy Securities Trading Policy summarises the law relating to insider trading and sets out the policy of the Company on directors, officers, employees and consultants dealing in securities of Grand Gulf Energy.

A summary of the Securities Trading Policy has been posted to the corporate governance section of the Company's website. This policy is provided to all directors and employees and compliance with it is reviewed on an ongoing basis in accordance with the Company's risk management systems.

Continuous Disclosure

Grand Gulf Energy has established policies and procedures in order to comply with its continuous and periodic disclosure requirements under the *Corporations Act 2001* (Cth) and the ASX Listing Rules. The Grand Gulf Energy Board has adopted a formal Continuous Disclosure Policy, a summary of which is available from the corporate governance section of the Company's website.

The Company Secretary and Chairman have primary responsibility for the disclosure of material information to ASIC and ASX and maintain a procedural methodology for disclosure, as well as for record keeping.

Grand Gulf Energy's Continuous Disclosure Policy requires all management to notify the Managing Director, or the Company Secretary in his absence, of any potentially material information as soon as practicable. The Policy also sets out what renders information material.

Shareholder Communications

The Board's formal policy on communicating with shareholders, its Communications Strategy Policy, is available from the corporate governance section of the Company's website and supplements Grand Gulf Energy's Continuous Disclosure Policy.

The aim of the Communications Strategy Policy is to make known Grand Gulf Energy's methods for disclosure to shareholders and the general public. The Policy details the steps between disclosure to ASIC and ASX and communication to shareholders, with the Company's website playing an important role in Grand Gulf Energy's communications strategy.

The Board reviews this policy and compliance with it on an ongoing basis.

To add further value to Grand Gulf Energy's communications with shareholders, the external auditor will be requested to attend the Company's AGM and be available to answer shareholders' questions about the conduct of the audit and the preparation of the auditor's report.

Conduct and Ethics

Grand Gulf Energy has adopted a Code of Conduct which covers a broad range of issues and refers to those practices necessary to maintain confidence in Grand Gulf Energy's integrity, including procedures in relation to:

- compliance with the law;
- financial records;
- contributions to political parties, candidates or campaigns;
- occupational health and safety;
- confidential information;
- conflict of interest;
- efficiency;
- equal opportunity;
- corporate bribery; and
- membership to industry and professional associations.

The Code directs individuals to report any contraventions of the Code to their superior or the Managing Director.

DIRECTOR'S REPORT FOR THE YEAR ENDED 30 JUNE 2007

The Directors of Grand Gulf Energy Limited submit herewith the annual financial report of the Company for the financial year ended 30 June 2007.

DIRECTORS

The names and details of the directors of the Company in office during the financial year and until the date of this report, unless otherwise stated, are:

Mr Charles Morgan

Non-Executive Director and Chairman

Appointed 19 January 2006

Mr Morgan is an experienced oil and gas investor and a listed company director. He founded Golden Triangle Energy Inc, now Grand Gulf Energy Inc, a wholly owned subsidiary of the group. Mr Morgan was also a founder of SOCDT (now Nido Petroleum Limited), West Oil NL (ASX listed entity) and Fusion Oil & Gas plc.

During the past three years Mr Morgan held a directorship in Nido Petroleum Limited and Commoditel Limited. He is currently Chairman of Jutt Holdings Limited and is a director of Gateway Capital Limited.

Mr James Trimble

Managing Director & CEO

Appointed 22 February 2006

Mr Trimble is a Registered Professional Engineer, graduating from Mississippi State University where he majored in Petroleum Engineering. Mr Trimble is based in Houston, Texas, USA.

Mr Trimble has over 35 years of experience in the oil and gas industry serving initially in operational and engineering roles, and has served in many management roles.

Mr Trimble served as a senior executive of Cabot Oil & Gas Company, directing the company in its exploration efforts and implementing a 3D seismic program that resulted in finding 500 BCF of potential reserves.

During the past three years, Mr Trimble has also served as President and Member of the Board of Elysium Energy LLC, directing the drilling and daily production operations activities. He was also the President and CEO and Chairman of the Board of Tri-Union Development Corporation.

Mr Allan Boss

Non-Executive Director

Appointed 13 November 2006

Mr Boss is a Houston-based banker and lawyer with 30 years experience providing legal services and representations to the oil and gas industry and was lead counsel to NiScience Inc, a Fortune 500 energy utility.

Former directorships in last 3 years - none

Mr Stephen Keenihan

Non-Executive Director

Appointed 13 November 2006

Mr Keenihan is a geologist with more than 30 years experience in the upstream oil and gas industry and extensive international experience. He was previously exploration manager for Apache Australia and LASMO, regional managers Australia for Novus Petroleum and WMC Resources Petroleum Division. He has managed exploration, development, operations, commercial and marketing activities in the energy industry.

Former directorships in last 3 years - none

FORMER DIRECTORS

Mr Anthony Grist

Non-Executive Director

Appointed 19 January 2006, resigned 8 August 2007

After managing the corporate underwriting division of a Corporate Member of the Australian Stock Exchange, Mr Grist formed a private investment group based in Perth, Western Australia, in 1991.

Mr Grist has extensive international experience in the management of public companies. He is Non-Executive Chairman of ASX-listed Amcom Telecommunications Limited (appointed 1997) and a non-executive director of iiNet Limited (appointed July 2006).

In the past three years Mr Grist also held a previous directorship with Hillgrove Resources Limited.

Mr Gregory Channon

Former Managing Director and Chief Executive Officer

Appointed 19 January 2006, Resigned 29 September 2006

Mr Channon has been the Managing Director and CEO of Alto Energy Limited since January 2005 and became the Managing Director and CEO of Grand Gulf Energy Limited on its merger with Alto Energy Limited in January 2006. He has extensive expertise in the oil industry, including technical, financial, and management experience.

Graduating from Adelaide University in 1984 with Honours in Petroleum Geology, Mr Channon has worked with Delhi Petroleum, Santos, Fletcher Challenge, Shell, Swift Energy and Alto Energy. This has provided him with experience across Australia, South-East Asia, the US and New Zealand oil and gas provinces. He has been involved in corporate acquisitions, takeovers and mergers as well as Initial Public Offerings and capital raisings and has a proven track record of hydrocarbon discoveries.

Former directorships in last 3 years - none

Mr Andrew Dimsey

Former Director, Business Development

Appointed 15 September 2005, Resigned 13 November 2006

Mr Dimsey has 25 years of financial, commercial and corporate experience gained within the oil and gas and exploration and production industry and until recently was the energy marketing and commercial manager of Origin Energy.

Former directorships in last 3 years - none

COMPANY SECRETARY

Mr Mark Pitts

Company Secretary

Appointed 31 January 2007

Mr Pitts is a Chartered Accountant with over twenty years experience in statutory reporting and business administration. He has been directly involved with, and consulted to a number of public companies holding senior financial management positions. He is a partner in the corporate advisory firm Endeavour Corporate. Endeavour offers professional services focused on Company Secretarial support, corporate advice, supervision of ASIC and ASX reporting and compliance requirements, and commercial and financial support.

CORPORATE INFORMATION

Corporate Structure

Grand Gulf Energy Limited (formerly Alto Energy International Limited) is a company limited by shares that is incorporated and domiciled in Australia. Grand Gulf Energy Limited has prepared a consolidated financial report incorporating the entities that it controlled during the financial period.

Nature of Operations and Principal Activities

The principal activity of the consolidated entity during the financial year was the exploration and evaluation of oil and gas leases.

There has been no significant change in the nature of these activities during the period.

REVIEW AND RESULTS OF OPERATIONS

For the financial year ending 30 June 2007, the loss attributable to members of the consolidated entity is \$2,859,092 (2006: loss \$9,753,881).

Review of operations of Grand Gulf Energy Limited consolidated group

The financial year has seen further change for consolidated entity both at Board and strategic level, with a re-focusing on proven acreage in the United States following the appointment of Mr Jim Trimble as Managing Director.

Exploration expenditure was \$6.63m (\$0.68m 2006). A re-focused exploration effort together with a relocation of operational capability to the United States was financed through a number of capital raisings effected during the year.

183.6m shares were issued during the year (refer note 13) of which 71 million shares were in consideration for the acquisition of interests in the Arkoma Basin and 3D Seismic Survey.

In addition in June 2007 the Company successfully completed a non-renounceable rights issue and placement raising \$5.6m.

In January 2007 Grand Gulf Energy Inc (USA), a wholly owned subsidiary of Grand Gulf Energy Limited entered into a \$4m working capital facility with Macquarie Bank Limited. The new working capital facility will be used, subject to certain terms and conditions, to acquire new acreage and drill in the Oklahoma 3D joint venture and Napoleonville 3D program in Southern Louisiana.

As at 30 June 2007 the consolidated cash position was \$5,706,863 (2006: \$2,422,258).

SUBSEQUENT EVENTS

In July 2007, GGE signed an agreement to acquire, at a cost of US\$2.23m, permanent mineral rights (fee minerals) to approximately 4,000 net fee mineral acres in Arkoma Basin, Oklahoma, one of the most prolific gas producing basins in the United States.

On 18 July 2007, the Company drew down the first tranche of \$670,000 available under the Macquarie Bank facility.

On 4 September 2007, the Company announced that it is acquiring a 3.825% working interest in four producing wells (Ashby Project), one well that is due to be completed, one well currently drilling and at least three additional wells to be drilled in 2007, and up to five wells in Custer County Oklahoma effective 1 September.

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

In the opinion of the directors, there were no other matters that significantly affected the state of affairs of the consolidated entity during the financial period, other than those referred to in the review of operations.

DIVIDENDS

The directors recommend that no amount be paid by way of dividend. No dividend has been paid or declared since the start of the financial period.

STRATEGY AND FUTURE PERFORMANCE

Information about the business strategies of the consolidated entity and its prospects for the future has not been included in this report because disclosure of the information would be likely to result in unreasonable prejudice to the consolidated entity.

SHARE OPTIONS

As at the date of this report, there were a total of 49,580,643 unissued ordinary shares under option (46,580,643 at balance date). Refer to note 13 of the financial statements for further details of the options outstanding.

Option holders do not have any right, by virtue of an option, to participate in any share issue of the Company or any related body corporate or in the interest issue of any other registered scheme.

During the financial year, the Company issued 3,000,000 options (on a post-reconstruction basis) under the shareholder approved Employee Share Option Plan. Details regarding the issue of share options under this plan are provided in note 26 of the financial statements.

INTERESTS IN THE SHARES AND OPTIONS OF THE COMPANY AND RELATED BODIES CORPORATE

As at the date of this report the interests of the Directors in the shares and options of Grand Gulf Energy Limited were as follows:

	Grand Gulf Energy Limited			
	Ordinary Shares		Options	
	Held Directly	Held Indirectly	Held Directly	Held Indirectly
Mr J Trimble	30,179,815	-	6,500,000	-
Mr C Morgan	9,562,500	9,699,125	9,731,250	-
Mr A Boss	325,000	-	1,000,000	-
Mr A Grist	-	5,775,624	-	916,096
Mr S Keenihan	1,250,000	-	1,000,000	-

REMUNERATION REPORT

This report outlines the remuneration arrangements in place for directors and executives of Grand Gulf Energy Limited. The report has been set out under the following main headings:

- A. Principles Used to Determine the Nature and Amount of Remuneration (audited)
- B. Service Agreements (audited)
- C. Details of Remuneration (audited)
- D. Share-based Compensation (audited)
- E. Additional Information

A. Principles Used to Determine the Nature and Amount of Remuneration (audited)

The Remuneration Committee of the Board of Directors is responsible for determining and reviewing compensation arrangements for the Directors and Executive Officers. The Remuneration Committee will assess the appropriateness of the nature and amount of emoluments of such officers on a periodic basis by reference to relevant employment market conditions with the overall objective of ensuring maximum stakeholder benefit from the retention of a high quality Board and executive team. Such officers are paid their base emolument in cash only.

To assist in achieving these objectives, the Remuneration Committee will link the nature and amount of executive Directors' and officers' emoluments to the Company's financial and operational performance.

Executive Officers are those directly accountable for the operational management and strategic direction of the Company and the consolidated entity.

Non-executive directors

Fees and payments to non-executive directors reflect the demands which are made on, and the responsibilities of, the directors. Non-executive directors' fees and payments are reviewed annually by the Board. The Board has also considered the advice of independent remuneration consultants to ensure non-executive directors' fees and payments are appropriate and in line with the market. The Chairman's fees are determined independently to the fees of non-executive directors based on comparative roles in the external market. The Chairman is not present at any discussions relating to determination of his own remuneration.

Fixed remuneration

Fixed remuneration consists of a base remuneration package, which includes directors' fees (in the case of Directors), salaries, consulting fees and employer contributions to superannuation funds.

Fixed remuneration levels for Directors and executive officers are reviewed annually by the Remuneration Committee through a process that considers the employee's personal development, achievement of key performance objectives for the year, industry benchmarks wherever possible and CPI data. Recommendations for remuneration levels are given by the Remuneration Committee to the Board for approval.

Key performance indicators (KPIs) are individually tailored by the Remuneration Committee for each director and executive officer each year, and reflect an assessment of how that employee can fulfil their particular responsibilities in a way that best contributes to Company performance and shareholder wealth in that year.

Performance-linked remuneration

All employees may receive bonuses and/or share options based on achievement of specific goals related to performance against individual KPIs and to the performance of the Company as a whole as determined by the directors, based on a range of factors. These factors

include traditional financial considerations such as operating performance, cash consumption and deals concluded and also industry-specific factors relating to the advancement of the Company's exploration and development activities and relationships with third parties and internal employees.

The Remuneration Committee determines the total amount of performance-linked remuneration payable as a percentage of the total annualised salaries for all employees employed as at the end of the financial year (with pro rata reductions to the annualised salary made for any employee not employed for the entire financial year). Once the Remuneration Committee has determined the total performance-linked remuneration payable across the Company, Committee members assess the performance of each individual staff member within their department, relative to that staff member's KPIs and decide how much performance-linked remuneration should be paid to that person.

B. Service Agreements (audited)

Remuneration and other terms of employment for the Managing Director is formalised in a service agreements. The agreement provides for the provision of performance-related cash bonuses, other benefits including health insurance, car allowances, and participation when eligible, in the Grand Gulf Energy Limited Employee Option Plan. Other major provisions of the agreements relating to remuneration are set out below.

The contracts may be terminated early by the company with reason or by the executive, with three months notice, or by the company without reason, giving 12 months notice, subject to termination payments as detailed below:

Mr J Trimble, Managing Director

- Agreement commenced 22 Feb 2006.
- Base salary, inclusive of superannuation, for the year ended 30 June 2007 of USD 275,000, to be reviewed annually by the remuneration committee
- Payment of a termination benefit on early termination by the Company, other than for gross misconduct, equal to 3 or 12 months' base salary depending upon the reason for termination.

Mr G Channon, (Former Managing Director)

- Agreement terminated on resignation 29 September 2006.
- Base salary, inclusive of superannuation, for the period ended 29 September 2006 of \$59,950, to be reviewed annually by the remuneration committee

Mr A Dimsey, (Former Director)

- Agreement terminated on resignation 13 November 2006.
- Base salary, inclusive of superannuation, for the period ended 11 November 2006 of \$73,575, to be reviewed annually by the remuneration committee
- Mr Dimsey was contracted for a further six months following his resignation to 30 April 2007. Consulting fees paid were \$60,000

C. Details of Remuneration (audited)

Details of the remuneration of the directors and the key management personnel (as defined in AASB 124 "Related Party Disclosures") of Grand Gulf Energy Limited and the Grand Gulf Energy Limited consolidated group are set out in the following tables:

The key management personnel of Grand Gulf Energy Limited and the Grand Gulf Energy Limited consolidated group during the year ended 30 June 2007 includes the following directors and executives:

DIRECTOR'S REPORT FOR THE YEAR ENDED 30 JUNE 2007

Directors:

- Mr C Morgan (Non-Executive Chairman)
- Mr J Trimble (Managing Director)
- Mr A Boss (Non-Executive Director) (Appointed 13 November 2006)
- Mr S Keenihan (Non-Executive Director) (Appointed 13 November 2006)
- Mr A Grist (Non-Executive Director) (Resigned 8 August 2007)
- Mr A Dimsey (Director, Business Development) (Resigned 13 November 2006)
- Mr G Channon (Managing Director) (Resigned 29 September 2006)

For the year ended 30 June 2006, the Grand Gulf Energy Limited Group key management personnel disclosures include the remuneration of directors of Alto Energy Limited prior to the reverse acquisition that took place during the year (see note 1(b) for more details on the reverse acquisition) and the post acquisition remuneration of the Grand Gulf Energy Limited directors and executives.

Remuneration packages contain the following key elements:

- a) Primary benefits – salary / fees and bonuses;
- b) Post-employment benefits – including superannuation;
- c) Equity – share options granted under the Employee Share Option Plan as disclosed in Note 26 to the financial statements; and
- d) Other benefits.

(i) Key Management Personnel of Grand Gulf Energy Limited Group

2007

	Primary		Post- employment Super- annuation	Other benefits	Equity Options	Total
	Salary and fees	Bonus				
	\$	\$				
<i>Directors</i>						
Mr C Morgan	74,465	-	-	-	-	74,465
Mr J Trimble	246,675	-	-	-	39,316	285,990
Mr S Keenihan	68,188	-	-	-	4,073	72,260
Mr A Boss	29,281	-	-	-	4,073	33,354
Mr A Grist	61,250	-	-	-	-	61,250
Mr G Channon	79,528	-	7,158	-	-	86,685
Mr A Dimsey	71,461	-	6,431	1,231	22,539	101,663
Total	630,848	-	13,589	1,231	70,000	715,668

DIRECTOR'S REPORT FOR THE YEAR ENDED 30 JUNE 2007

2006

The following table discloses the remuneration of the directors of the Company during the financial year from Alto Energy Limited and controlled entities within the consolidated entity:

	Primary Salary and fees \$	Bonus \$	Post- employment Super- annuation \$	Other benefits \$	Equity Options \$	Total \$
<i>Directors</i>						
Mr A Grist	35,000	-	-	-	-	35,000
Mr G Channon	-	-	-	-	-	-
Mr A Dimsey	143,000	-	12,139	1,224	66,908	223,271
Mr C Morgan	26,667	-	-	-	-	26,667
Mr J Trimble	13,559	-	-	-	9,309	22,868
Mr R Monti	16,872	-	1,349	-	-	18,221
Mr A Sierakowski	-	-	-	-	-	-
Mrs N Donovan	13,248	-	1,192	-	-	14,440
Total	248,346	-	14,680	1,224	76,217	340,467
	Primary Salary and fees \$	Bonus \$	Post- employment Super- annuation \$	Other benefits \$	Equity Options \$	Total \$
<i>Company Executive</i>						
Mrs N Donovan	27,439	-	-	-	-	27,439
<i>Group Executive</i>						
Mr R Prudnick	180,544	-	6,419	48,145	-	235,108
Total	207,983	-	6,419	48,145	-	262,547
Grand Total	749,875	-	40,076	54,542	94,527	939,020

(ii) Key Management Personnel of Grand Gulf Energy Limited

2007

	Primary Salary and fees \$	Bonus \$	Post- employment Super- annuation \$	Other benefits \$	Equity Options \$	Total \$
<i>Directors</i>						
Mr C Morgan	74,465	-	-	-	-	74,465
Mr J Trimble	246,675	-	-	-	39,316	285,990
Mr S Keenihan	68,188	-	-	-	4,073	72,260
Mr A Boss	29,281	-	-	-	4,073	33,354
Mr A Grist	61,250	-	-	-	-	61,250
Mr G Channon	79,528	-	7,158	-	-	86,685
Mr A Dimsey	71,461	-	6,431	1,231	22,539	101,663
Total	630,848	-	13,589	1,231	70,000	715,668

(ii) Key Management Personnel of Grand Gulf Energy Limited

2006

	Primary Salary and fees	Bonus	Post- employment Super- annuation	Other benefits	Equity Options	Total
	\$	\$	\$	\$	\$	\$
<i>Directors</i>						
Mr A Grist	35,000	-	-	-	-	35,000
Mr G Channon	-	-	-	-	-	-
Mr A Dimsey	143,000	-	12,139	1,224	66,908	223,271
Mr C Morgan	26,667	-	-	-	-	26,667
Mr J Trimble	13,559	-	-	-	9,309	22,868
Mr R Monti	16,872	-	1,349	-	-	18,221
Mr A Sierakowski	-	-	-	-	-	-
Mrs N Donovan	13,248	-	1,192	-	-	14,440
Total	248,346	-	14,680	1,224	76,217	340,467
<i>Company Executive</i>						
Mrs N Donovan	27,439	-	-	-	-	27,439
Total	27,439	-	-	-	-	27,439
Grand Total	275,785	-	14,680	1,224	76,217	367,906

D. Share based compensation (audited)

Options

The Grand Gulf Energy Limited Employee Share Option Plan was created during the financial year. Options are granted under the plan to senior level executives of the Company for no consideration.

Options granted under the plan carry no dividend or voting rights and have varied contractual lives.

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

Grant Date	Expiry Date	Exercise Price	Value per option at grant date	Date exercisable
<i>Options issued by Alto Energy Limited</i>				
22 March 2005	30 June 2007	\$0.25	\$0.0211	22 March 2005
22 March 2005	31 October 2008	\$0.25	\$0.0298	22 March 2005
22 March 2005	30 November 2008	\$0.30	\$0.0264	22 March 2006
22 March 2005	31 December 2008	\$0.35	\$0.0237	22 March 2007

D. Share based compensation (audited) (Cont'd)

Options (cont'd)

Options issued by Grand Gulf Energy Limited (formerly Alto Energy International Limited), on a post-reconstruction basis

29 November 2005	31 December 2008	\$0.32	\$0.0589	29 November 2005
29 November 2005	31 December 2008	\$0.40	\$0.0513	1 July 2006
29 November 2005	31 December 2008	\$0.40	\$0.0638	1 July 2007
11 May 2006	31 December 2008	\$0.25	\$0.0103	1 July 2006
11 May 2006	31 December 2008	\$0.30	\$0.0095	1 January 2007
27 December 2006	27 December 2009	\$0.08	\$0.0288	27 December 2006
27 December 2006	31 December 2010	\$0.08	\$0.0335	27 December 2006
27 December 2006	31 December 2010	\$0.10	\$0.0310	27 December 2006
24 January 2007	30 September 2009	\$0.06	\$0.0421	24 January 2007

Options granted under the plan carry no dividend or voting rights.

When exercisable, each option is convertible into one ordinary share.

The exercise price of the options is based on the weighted average price at which the company's shares are traded on the Australian Stock Exchange during the week up to and including the date of grant.

Name	Number of options granted during the year		Number of options vested during the year	
	2007	2006	2007	2006
Directors of Grand Gulf Energy Limited				
Mr J Trimble	6,500,000	-	6,500,000	-
Mr C Morgan	-	7,481,250	-	7,481,250
Mr S Keenihan	1,000,000	-	1,000,000	-
Mr A Boss	1,000,000	-	1,000,000	-
Mr A Grist	-	9,846	-	9,846
Mr G Channon	-	3,281,250	-	3,281,250
Mr A Dimsey	500,000	-	500,000	-

The assessed fair value at grant date of options granted to individuals is allocated equally over the period from grant date to vesting date, (and the amount included in the remuneration tables above). Fair values at grant date are independently determined using a Black-scholes option pricing model that takes into account the exercise price, the term of the option, the impact of dilution, the share price at grant date and expected volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the option.

The model inputs for options granted during the year ended 30 June 2007 included:

- options are granted for no consideration and vest based on grant date
- exercise price: 6.0 cents to 10.0 cents
- grant date: 27 Dec 2006 to 27 June 2007
- expiry date: 30 Sep 2009 to 31 Dec 2010
- share price at grant date: 0.58c to 0.72c
- expected price volatility of the company's shares: 87.69%
- expected dividend yield:nil; and
- risk free interest rate: 5.98% to 6.08%.

E. Additional Information (Unaudited)

Value of options issued to directors and executives

The following table discloses the value of options granted, exercised or lapsed during the year:

	Options granted	Options exercised	Options lapsed	Total value of options granted, exercised and lapsed	Value of options included in remuneration for the year	Remuneration consisting of options during the year
	Value at grant date	Value at exercise date	Value at time of lapse			
	\$	\$	\$	\$	\$	%
Mr C Morgan	-	-	-	-	-	-
Mr J Trimble	210,500	-	-	210,500	39,316	13.7
Mr S Keenihan	32,250	-	-	32,250	4,072	5.6
Mr A Boss	32,250	-	-	32,250	4,073	12.2
Mr A Grist	-	-	-	-	-	-
Mr G Channon	-	-	-	-	-	-
Mr A Dimsey	14,400	-	-	14,400	22,539	22.1
Total	289,400	-	-	289,400	70,000	

The assessed fair value at grant date of options granted to the individuals is allocated equally over the period from grant date to vesting date, and the amount is included in the remuneration tables above. Fair values at grant date are 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, the expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the option.

The model inputs for options granted during the year ended 30 June 2007 have been included in note 28 of the financial statements.

No shares in the Company have been provided as a result of the exercise of remuneration options by key management personnel.

Principles used to determine the nature and amount of remuneration: relationship between remuneration and company performance

In considering the Company's performance and its effect on shareholder wealth, the Board have regard to a broad range of factors, some of which are financial and others of which relate to the progress on the Company's projects, results and progress of exploration and development activities, joint venture agreements etc. The Board also gives consideration to the Company's result and cash consumption for the year. It does not utilise earnings per share as a performance measure or contemplate payment of any dividends in the short to medium term given that all efforts are currently being expended to build the business and establish self-sustaining revenue streams.

INDEMNIFICATION AND INSURANCE OF DIRECTORS AND OFFICERS

During the financial period, the Company maintained an insurance policy which indemnifies the Directors and Officers of Grand Gulf Energy Limited in respect of any liability incurred in connection with the performance of their duties as Directors or Officers of the Company. The Directors made a personal contribution toward the premium to satisfy Section 199B of the Corporations Act 2001. The Company's insurers have prohibited disclosure of the amount of the premium payable and the level of indemnification under the insurance contract.

DIRECTORS' MEETINGS

The following table sets out the number of directors' meetings (including meetings of committees of directors) held during the financial year and the number of meetings attended by each director (while they were a director or committee member). During the financial year, 19 board meetings, 2 audit committee meetings and no remuneration committee meetings were held.

Grand Gulf Energy Limited

	Board of directors		Audit committee		Remuneration committee	
	Held	Attended	Held	Attended	Held	Attended
Mr J Trimble	19	19	1	1	-	-
Mr C Morgan	19	19	2	2	-	-
Mr A Boss	10	11	-	-	-	-
Mr G Channon	3	3	1	1	-	-
Mr A Dimsey	7	7	-	-	-	-
Mr A Grist	16	19	2	2	-	-
Mr S Keenihan	11	11	-	-	-	-

NON-AUDIT SERVICES

There were no non-audit services provided by the entity's auditor, BDO Kendalls Audit & Assurance (WA) Pty Ltd or associated entities.

ENVIRONMENTAL REGULATION AND PERFORMANCE

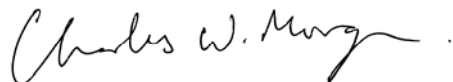
The Company holds various licences to regulate its exploration and mining activities in the United States. These licences include conditions and regulations with respect to the rehabilitation of areas disturbed during the course of its activities.

So far as the Directors are aware, all exploration and mining activities have been undertaken in compliance with all relevant environmental regulations.

AUDITOR'S INDEPENDENCE DECLARATION

The auditor's independence declaration is included on the following page.

Dated at Perth, 24 September 2007, and signed in accordance with a resolution of the Directors.



Mr Charles Morgan
Chairman



24th September 2007

The Directors
Grand Gulf Energy Limited
Suite 8, 7 The Esplanade
MT PLEASANT WA 6000

Dear Sirs

**DECLARATION OF INDEPENDENCE BY BDO KENDALLS TO THE DIRECTORS
OF GRAND GULF ENERGY LIMITED**

As lead auditor of Grand Gulf Energy Limited for the year ended 30 June 2007, I declare that, to the best of my knowledge and belief, there have been no contraventions of:

- the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and
- any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Grand Gulf Energy Limited and the entities it controlled during the period.

Yours faithfully

BDO Kendalls Audit & Assurance (WA) Pty Ltd

BDO Kendalls
Peter Toll

Peter Toll
Director

INCOME STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007

	Notes	Consolidated		Company	
		2007	2006	2007	2006
		\$	\$	\$	\$
Revenue from continuing operations	2	242,698	175,139	75,038	113,826
Other income	3	1,317,001	-	-	30,144
Corporate office expenses		(210,090)	(411,988)	(138,423)	(613,803)
Employee benefits expense		(891,527)	(708,212)	(524,929)	(93,806)
Amortisation of oil and gas capitalised expenditure	10	(1,038,683)	-	-	-
Impairment of capitalised oil and gas expenditure		(1,375,433)	(11,935,507)	-	-
Professional and statutory fees		(546,686)	(595,273)	(234,915)	(237,381)
Provision for diminution of investments	8	-	-	(218,413)	(11,429,162)
Provision for loss on inter-company loans		-	-	(359,723)	(242,474)
Other expenses		(356,372)	(17,892)	(107,802)	(49,330)
Loss before income tax		(2,859,092)	(13,493,733)	(1,509,167)	(12,521,986)
Income tax benefit	4	-	3,742,990	-	-
Loss from continuing operations		(2,859,092)	(9,750,743)	(1,509,167)	(12,521,986)
Loss from discontinued operations		-	(3,138)	-	-
Loss attributable to members of the Company	15	(2,859,092)	(9,753,881)	(1,509,167)	(12,521,986)
Loss per share					
Basic (cents)	20	(2.0)	(11.8)		
Diluted (cents)	20	(2.0)	(11.8)		
Loss per share from continuing operations					
Basic (cents)	20	(2.0)	(11.8)		
Diluted (cents)	20	(2.0)	(11.8)		

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

BALANCE SHEETS AS AT 30 JUNE 2007

	Notes	Consolidated		Company	
		2007	2006	2007	2006
		\$	\$	\$	\$
ASSETS					
Current Assets					
Cash and cash equivalents	16(a)	5,706,863	2,422,258	2,241,592	2,257,632
Trade and other receivables	6	92,222	41,194	74,258	16,354
Other assets	7	278,293	8,973	225,957	8,973
Total Current Assets		6,077,378	2,472,425	2,541,807	2,282,959
Non-Current Assets					
Trade and other receivables	6	-	-	9,166,800	1,345,905
Other financial assets	8	-	-	4,097,271	4,320,106
Property, plant and equipment	9	16,548	42,859	11,442	24,810
Exploration expenditure	10	6,439,211	4,400,000	-	-
Total Non-Current Assets		6,455,759	4,442,859	13,275,513	5,690,821
Total Assets		12,533,137	6,915,284	15,817,320	7,973,780
LIABILITIES					
Current Liabilities					
Trade and other payables	11	339,270	236,678	1,352,754	1,239,045
Provisions	12	-	28,536	-	8,230
Total Current Liabilities		339,270	265,214	1,352,754	1,247,275
Non-Current Liabilities					
Deferred tax liabilities	4	-	563,054	-	-
Provisions	12	52,647	72,593	-	-
Total Non-Current Liabilities		52,647	635,647	-	-
Total Liabilities		391,917	900,861	1,352,754	1,247,275
Net Assets		12,141,220	6,014,423	14,464,566	6,726,505
EQUITY					
Contributed equity	13	24,966,947	15,993,205	27,072,298	18,098,556
Reserves	14	330,321	318,174	2,324,995	2,051,545
Accumulated losses	15	(13,156,048)	(10,296,956)	(14,932,727)	(13,423,596)
Total Equity		12,141,220	6,014,423	14,464,566	6,726,505

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

STATEMENTS OF CHANGES IN EQUITY AS AT 30 JUNE 2007

	Consolidated				
	Issued capital	Foreign currency translation reserve	Option premium reserve	Accumulated losses	Total
	\$	\$	\$	\$	\$
Balance at 1 July 2005	5,178,584	5,294	169,436	(543,075)	4,810,239
Loss attributable to members of the parent entity	-	-	-	(9,753,881)	(9,753,881)
Foreign currency translation adjustment	-	53,117	-	-	53,117
Total recognised income and expense	-	53,117	-	(9,753,881)	(9,700,764)
Shares issued, net of issue costs	10,814,621	-	-	-	10,814,621
Share options issued	-	-	90,327	-	90,327
Balance at 30 June 2006	<u>15,993,205</u>	<u>58,411</u>	<u>259,763</u>	<u>(10,296,956)</u>	<u>6,014,423</u>
Balance at 1 July 2006	15,993,205	58,411	259,763	(10,296,956)	6,014,423
Loss attributable to members of the parent entity	-	-	-	(2,859,092)	(2,859,092)
Foreign currency translation adjustment	-	(261,303)	-	-	(261,303)
Total recognised income and expense	-	(261,303)	-	(2,859,092)	(3,120,395)
Shares issued, net of issue costs	8,973,742	-	-	-	8,973,742
Share options issued	-	-	273,450	-	273,450
Balance at 30 June 2007	<u>24,966,947</u>	<u>(202,892)</u>	<u>533,213</u>	<u>(11,780,614)</u>	<u>12,141,220</u>

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

STATEMENTS OF CHANGES IN EQUITY AS AT 30 JUNE 2007

	Company				
	Issued capital	Foreign currency translation reserve	Option premium reserve	Accumulated losses	Total
	\$	\$	\$	\$	\$
Balance at 1 July 2005	1,883,480	-	-	(901,576)	981,904
Loss attributable to members of the parent entity	-	-	-	(12,521,986)	(12,521,986)
Total recognised income and expense	-	-	-	(12,521,986)	(12,521,986)
Shares issued, net of issue costs	16,215,077	-	-	-	16,215,077
Share options and warrants issued	-	-	2,051,545	-	2,051,545
Balance at 30 June 2006	<u>18,098,557</u>	<u>-</u>	<u>2,051,545</u>	<u>(13,423,562)</u>	<u>6,726,539</u>
Balance at 1 July 2006	18,098,557	-	2,051,545	(13,423,562)	6,726,539
Loss attributable to members of the parent entity	-	-	-	(1,509,165)	(1,509,165)
Total recognised income and expense	-	-	-	(1,509,165)	(1,509,165)
Shares issued, net of issue costs	8,973,741	-	-	-	8,973,741
Share options issued	-	-	273,450	-	273,450
Balance at 30 June 2007	<u>27,072,298</u>	<u>-</u>	<u>2,324,995</u>	<u>(14,932,727)</u>	<u>14,464,566</u>

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

CASH FLOW STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007

	Notes	Consolidated		Company	
		2007	2006	2007	2006
		\$	\$	\$	\$
Cash flows from operating activities					
Receipts from customers		126,572	36,998	-	-
Payments to suppliers and employees		(1,811,838)	(1,574,307)	(800,341)	(868,463)
Payments for exploration and evaluation		(5,056,682)	(624,683)	-	-
Interest received		116,101	138,141	75,038	113,826
Net cash outflow from operating activities	16(b)	(6,625,847)	(2,023,851)	(725,303)	(754,637)
Cash flows from investing activities					
Payments for property, plant and equipment		-	(20,381)	-	(26,292)
Loans to controlled entity		-	-	(7,007,979)	(472,147)
Payment for purchase of controlled entity, net of cash acquired	25	-	1,783,389	-	(977,628)
Proceeds on sale of non-current assets		2,309,446	-	3,500	-
Net cash (outflow) / inflow from investing activities		2,309,446	1,763,008	(7,004,479)	(1,476,067)
Cash flows from financing activities					
Proceeds from issue of ordinary shares and other equity securities		7,919,286	-	7,919,286	3,650,000
Capital raising costs		(205,544)	(15,693)	(205,544)	(183,630)
Net cash (outflow) / inflow from financing activities		7,713,742	(15,693)	7,713,742	3,466,370
Net increase / (decrease) in cash and cash equivalents		3,397,341	(276,536)	(16,040)	1,235,666
Cash and cash equivalents at the beginning of the financial year		2,422,258	2,703,561	2,257,632	991,823
Effects of exchange rate changes on the balance of cash and cash equivalents in foreign currencies		(112,736)	(4,767)	-	30,143
Cash and cash equivalents at the end of the financial year	16(a)	5,706,863	2,422,258	2,241,592	2,257,632

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

1. Summary of Significant Accounting Policies

(a) Basis of preparation

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

Compliance with IFRS

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

Early adoption of standards

The Group has elected to apply the following pronouncement to the annual reporting period beginning 1 July 2006:

- *revised AASB 101 Presentation of Financial Statements (issued October 2006)*

This includes applying the pronouncement to the comparatives in accordance with *AASB 108 Accounting policies, Changes in Accounting Estimates and Errors*. No adjustments to any of the financial statements were required for the above pronouncement, but certain disclosures are no longer required and have therefore been omitted.

Historical Cost Convention

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

Critical accounting estimates

The preparation of financial statements in conformity with A-IFRS 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 1(v).

(b) Principles of consolidation

The consolidated financial statements comprise the financial statements of Grand Gulf Energy Limited and its subsidiaries at 30 June 2007. The financial statements of subsidiaries are prepared for the same reporting period as the parent entity, using consistent accounting policies. Subsidiaries are consolidated from the date on which control is transferred to the group and cease to be consolidated from the date on which control is transferred out of the group.

In preparing the consolidated financial statements, all inter-company transactions and balances have been eliminated in full.

1. Summary of Significant Accounting Policies (contd)

(b) Principles of consolidation (contd)

Reverse Acquisition

In accordance with AASB 3 "Business Combinations", when Grand Gulf Energy Limited (the legal parent) acquired the Alto Energy Limited group (being Alto Energy Limited and its controlled entity, Alto Energy Inc) (the legal subsidiary) in January 2006, the acquisition was deemed to be a reverse acquisition since the substance of the transaction is that the existing shareholders of Alto Energy Limited have effectively acquired Grand Gulf Energy Limited. Under reverse acquisition accounting, the consolidated financial statements are prepared as if Alto Energy Limited had acquired Grand Gulf Energy Limited and its controlled entities, not vice versa as represented by the legal position.

- In reverse acquisition accounting, the cost of the business is deemed to have been incurred by the legal subsidiary (the acquirer for accounting purposes) in the form of equity instruments issued to the owners of the legal parent (the acquiree for accounting purposes). However, due to the fact that the fair value of the equity instruments of the legal subsidiary (Alto Energy Limited) was not clearly evident at the date at which the control was passed, the alternative method was elected (per AASB 3, para B6), where the cost of the business combination was determined as the total fair value of all the issued equity instruments of the legal parent (Grand Gulf Energy Limited) immediately prior to the business combination.
- In the separate financial statements of the legal parent (Grand Gulf Energy Limited), the investment in legal subsidiary (Alto Energy Limited) was accounted for at cost.

As a consequence:

- an exercise is performed to fair value the assets and liabilities of the legal acquirer, Grand Gulf Energy Limited;
- the cost of investment held by the legal parent (Grand Gulf Energy Limited) in the legal subsidiary (Alto Energy Limited) is reversed on consolidation and the cost of reverse acquisition is eliminated on consolidation against the consolidated equity and reserves of Grand Gulf Energy Limited and its consolidated entities at the date when control is passed. The effect of this is to restate the consolidated equity and reserves balances to reflect those of Alto Energy Limited at the date of acquisition;
- the amount recognised as issued equity instruments are determined by adding to the issued equity of the legal subsidiary immediately before the business combination, the cost of the combination; and
- the consolidated financial statements are issued under the name of the legal parent (Grand Gulf Energy Limited) but are a continuation of the financial statements of the deemed acquirer (Alto Energy Limited) under the reverse acquisition rules. Hence the comparative figures on the consolidated financial statements are that of Alto Energy Limited and its controlled subsidiary for the year ended 30 June 2006.

1. Summary of Significant Accounting Policies (contd)

(c) Foreign currency translation

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 Grand Gulf Energy Limited's functional and presentation currency.

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 of year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except when deferred in equity as qualifying cash flow hedges and qualifying net investment hedges.

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

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; 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 financial instruments designated as hedges of such investments, are taken to shareholder's equity. When a foreign operation is sold or any borrowings forming part of the net investment are repaid, a proportionate share of such exchange differences are recognised in the income statement, as part of the gain or loss on sale where applicable.

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.

(d) Cash and cash equivalents

For cash flow statement preparation purposes, cash and cash equivalents includes cash on hand, deposits held on 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.

1. Summary of Significant Accounting Policies (contd)

(e) Trade receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost, less provision for doubtful debts.

Collectibility of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off. A provision for doubtful receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is recognised in the income statement.

(f) Investments and other financial assets

Non-current investments in subsidiaries are carried at their cost of acquisition in the Company's balance sheet. A provision against investment is made where the Company has assessed the investment as impaired.

(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 reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows 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 an impairment are reviewed for possible reversal of the impairment at each reporting date.

(h) Property, plant and equipment

Each class of property, plant and equipment is carried at cost or fair value less, where applicable, any accumulated depreciation and impairment losses.

Plant and equipment

Plant and equipment is measured on the cost basis less depreciation and impairment losses. The carrying amount of plant and equipment is reviewed annually by directors to ensure it is not in excess of the recoverable amount from these assets. The recoverable amount is assessed on the basis of the expected net cash flows that will be received from the assets' employment and subsequent disposal. The expected net cash flows have been discounted to their present values in determining recoverable amounts.

Increases in the carrying amount arising on revaluation of land and buildings are credited to a revaluation reserve in shareholders' equity. Decreases that offset previous increases of the same asset are charged against fair value reserves directly in equity, all other decreases are charged to the income statement.

Each year the difference between depreciation based on the revalued carrying amount of the asset charged to the income statement and depreciation based on the asset's original cost is transferred from the revaluation reserve to retained earnings.

1. Summary of Significant Accounting Policies (contd)

(h) Property, plant and equipment (contd)

Depreciation

The depreciable amount of all fixed assets including building and capitalised lease assets, but excluding freehold land, is depreciated on a straight-line basis over their useful lives to the consolidated entity commencing from the time the asset is held ready for use. Leasehold improvements are depreciated over the shorter of either the unexpired period of the lease or the estimated useful lives of the improvements.

The following estimated useful lives are used in the calculation of depreciation:

Plant and equipment 3-10 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These gains and losses are included in the income statement. When revalued assets are sold, amounts included in the revaluation reserve relating to that asset are transferred to retained earnings.

(i) Leases

Leases of property, plant and equipment where the Group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's inception at the lower of the fair value of the leased property and the present value of the minimum lease payments.

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the income statement on a straight-line basis over the period of the lease.

(j) Trade and other payables

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

(k) Provisions

Provisions are recognised when the consolidated entity has a present obligation, the future sacrifice of economic benefits is probable, and the amount of the provision can be measured reliably.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the balance sheet date. The discount rate used to determine the present value reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision due to the passage of time is recognised as interest expense.

1. Summary of Significant Accounting Policies (contd)

(l) Contributed equity

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options 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.

If the entity reacquires its own equity instruments, eg as the result of a share buy-back, those instruments are deducted from equity and the associated shares are cancelled. No gain or loss is recognised in the profit or loss and the consideration paid including any directly attributable incremental costs (net of income taxes) is recognised directly in equity.

(m) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Amounts disclosed as revenue are net of returns, trade allowances and amounts collected on behalf of third parties. Revenue is recognised for the major business activities as follows:

Oil and gas revenue

Income is recorded when risks and rewards have passed to the buyer and the amount receivable can be measured reliably.

Interest income

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

All revenue is stated net of the amount of goods and services tax (GST).

(n) Taxes

Income tax

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

Deferred 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 (contd)

(n) Taxes (contd)

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 the acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST recoverable 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.

(o) Employee benefits

Wages and salaries, annual leave and sick leave

Liabilities for wages and salaries, including non-monetary benefits, annual leave and accumulating sick leave expected to be settled within 12 months of the reporting date are recognised in other payables and provisions 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.

Superannuation

The Company and other controlled entities contribute to several defined contribution superannuation plans. Contributions are charged against income as they are made.

Share-based payments

The fair value of options granted by the entity to employees 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 employees become unconditionally entitled to the options.

The fair value at grant date is 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, the 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. 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.

(p) Earnings per share (EPS)

Basic EPS 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.

Diluted EPS 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.

1. Summary of Significant Accounting Policies (contd)

(q) 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 of segments operating in other economic environments.

(r) Business combinations

The purchase method of accounting is used to account for all business combinations, including business combinations involving entities or businesses under common control, 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 fair value of the instruments is their published market price as at the date of exchange, unless in rare circumstances, 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. If the cost of acquisition is less than the Group's share of the fair value of the identifiable 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 of exchange. The discount rate used is the entity's incremental borrowing rate, being at the rate which a similar borrowing could be obtained from an independent financier under comparable terms and conditions.

(s) Interest in joint ventures

The economic entity's share of the assets, liabilities, revenue and expenses of joint venture operations and assets are included in the appropriate items of the consolidated balance sheet and profit or loss.

The economic entity's interests in joint venture entities are brought to account using the equity method of accounting in the consolidated financial statements. The parent entity's interests in joint venture entities are brought to account using the cost method.

1. Summary of Significant Accounting Policies (contd)

(t) Exploration and development expenditure

Exploration, evaluation and development expenditure incurred is accumulated in respect of each identifiable area of interest.

Exploration and evaluation costs are carried forward where right of tenure of the area of interest is current and they are expected to be recouped through sale or successful development and exploitation of the area of interest, or, where exploration and evaluation activities in the area of interest have not yet reached a stage that permits reasonable assessment of the existence of economically recoverable reserves.

When an area of interest is abandoned or the directors decide that it is not commercial, any accumulated costs in respect of that area are written off in full against income in the financial period in which the decision is made.

When production commences, the accumulated costs for the relevant area of interest are amortised over the life of the area according to the rate of depletion of economically recoverable reserves.

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

(u) Provision for restoration

The Group records the present value of the estimated cost of legal and constructive obligations to restore operating locations in the period in which the obligations arises. The nature of the restoration activities includes the removal of infrastructure, abandonment of wells and restoration of affected areas.

(v) Critical accounting estimates, assumptions and judgements

Estimates and assumptions are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Equally, the Group employs judgment in the application of its accounting policies.

(i) 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:

1. Summary of Significant Accounting Policies (contd)

(i) Critical accounting estimates and assumptions (contd)

Impairment of assets

In determining the recoverable amounts of assets, in the absence of quoted market prices, estimations are made using estimated sale value. For oil and gas properties, the Company is not at a stage to determine reserves or the present value of future cash flows. The carrying value of oil and gas properties is reviewed annually for impairment by the board of directors.

At the end of the 2006 financial year, an impairment trigger existed, as the market capitalisation of Alto Energy International Limited Group was lower than its net asset position. As a result, the board has determined that based upon the estimated acreage values in each area of interest, the fair value of oil and gas properties is \$4,400,000. The effect on the financial statements was to increase the impairment provision on capitalised oil and gas properties to \$11,953,455.

These properties were no longer on hand at balance date, the value of the properties has been removed from the balance sheet and the impairment adjustment reversed.

Amortisation of oil and gas properties

When production commences, the accumulated costs for the relevant area of interest are amortised over the life of the area according to the rate of depletion of the economically recoverable resources.

Restoration obligations

The Group estimates the present value of the costs of legal and constructive obligations to restore operating locations in the period in which the obligations arises. For more detail on the Company's policy in respect of provision for restoration, refer to Note 1(u).

Shared-based payment transactions

The Group measures the cost of equity settled share based payments at fair value at the grant date using the Black-Scholes model taking into account the exercise price, the term of the option, the impact of dilution, the share price at grant date, the expected volatility of the underlying share, the expected dividend yield and risk free interest rate for the term of the option.

The total expenses in share based transactions for the consolidated entity for the year ended 30 June 2007 was \$70,000 (2006: \$90,327).

(ii) Critical Judgments in Applying the Group's Accounting Policies

Exploration and evaluation

The Group's accounting policy for exploration and evaluation is set out in Note 1(t). If, after having capitalised expenditure under this policy, the directors conclude that the consolidated entity is unlikely to recover the expenditure by future exploration or sale, then the relevant capitalised amount will be written off to the Income Statement.

(w) Comparative information

Where necessary, comparatives have been reclassified and repositioned for consistency with current year disclosures.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007

1. Summary of Significant Accounting Policies (contd)

(x) New Accounting Standards and interpretations.

Early adoption of standards

The following standards, amendments to standards and interpretations have been identified as those which may impact the consolidated entity in the period of initial application. They are available for early adoption at 30 June 2007, but have not been applied in preparing this financial report.

Reference	Title	Summary	Application date of standard*	Impact on Group financial report	Application date for Group*
AASB 2005-10	Amendments to Australian Accounting Standards [AASB 132, AASB 101, AASB 114, AASB 117, AASB 133, AASB 139, AASB 1, AASB 4, AASB 1023 & AASB 1038]	Amendments arise from the release in August 2005 of AASB 7 <i>Financial Instruments: Disclosures</i> .	1 January 2007	AASB 7 is a disclosure standard so will have no direct impact on the amounts included in the Group's financial statements. However the amendments will result in changes to the financial instrument disclosures included in the Group's financial report.	1 July 2007
AASB 2007-1	Amendments to Australian Accounting Standards arising from AASB Interpretation 11 [AASB 2]	Amending standard issued as a consequence of AASB Interpretation 11 <i>Group and Treasury Transactions</i>	1 March 2007	This is consistent with the Group's existing accounting policies for share-based payments so will have no impact.	1 July 2007
AASB 2007-2	Amendments to Australian Accounting Standards arising from AASB Interpretation 12 [AASB 1, AASB 117, AASB 118, AASB 120, AASB 121, AASB 127, AASB 131 & AASB 139]	Amending standard issued as a consequence of AASB Interpretation 12 <i>Service Concession Arrangements</i> .	1 January 2007	As the Group currently has no service concession arrangements or public-private-partnerships (PPP), it is expected that this Interpretation will have no impact on its financial report.	1 July 2007
AASB 2007-3	Amendments to Australian Accounting Standards arising from AASB 8 [AASB 5, AASB, AASB 6, AASB 102, AASB 107, AASB 119, AASB 127, AASB 134, AASB 136, AASB 1023 & AASB 1038]	Amending standard issued as a consequence of AASB 8 <i>Operating Segments</i> .	1 January 2009	AASB 8 is a disclosure standard so will have no direct impact on the amounts included in the Groups financial statements. However the new standard may have an impact on the segment disclosures included in the Group's financial report.	1 July 2009

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007

Reference	Title	Summary	Application date of standard*	Impact on Group financial report	Application date for Group*
AASB 2007-4	Amendments to Australian Accounting Standards arising from ED 151 and Other Amendments	The standard is a result of the AASB decision that, in principle, all accounting policy options currently existing in IFRS should be included in the Australian equivalents to IFRS and the additional Australian disclosures should be eliminated, other than those considered particularly relevant in the Australian reporting environment.	1 July 2007	As the Group does not anticipate changing any of its accounting policy choices as a result of the issue of AASB 2007-4 this standard will have no impact on the amounts included in the Group's financial statements. Changes to disclosure requirements will have no direct impact on the amounts included in the Group's financial statements. However the new standard may have an impact on the disclosures included in the Group's financial report.	1 July 2007
AASB 2007-6	Amendments to Australian Accounting Standards arising from AASB 123 [AASB 1, AASB 101, AASB 107, AASB 111, AASB 116 & AASB 138 and Interpretations 1 and 12]	Amending standard issued as a consequence of AASB 123 (revised) <i>Borrowing Costs</i> .	1 January 2009	As the Group does not currently construct or produce any qualifying assets which are financed by borrowings the revised standard will have no impact.	1 July 2009
AASB 2007-7	Amendments to Australian Accounting Standards [AASB 1, AASB 2, AASB 4, AASB 5, AASB 107 & AASB 128]	Amending standard issued as a consequence of AASB 2007-4.	1 July 2007	Refer to AASB 2007-4 above.	1 July 2007
AASB 7	<i>Financial Instruments: Disclosures</i> .	New standard replacing disclosure requirements of AASB 132.	1 January 2007	Refer to AASB 2005-10 above.	1 July 2007
AASB 8	<i>Operating Segments</i>	This new standard will replace AASB 114 <i>Segment Reporting</i> and adopts a management approach to segment reporting.	1 January 2009	Refer to AASB 2007-3 above.	1 July 2009
AASB 101 (revised October 2006)	Presentation of Financial Statements	Many of the disclosures from previous GAAP and all of the guidance from previous GAAP are not carried forward in the October 2006 version of AASB 101. The revised standard includes some text from IAS 1 that is not in the existing AASB 101 and has fewer additional Australian disclosure requirements than the existing AASB 101.	1 January 2007	AASB 101 is a disclosure standard so will have no direct impact on the amounts included in the Group's financial statements. However, the revised standard may result in changes to the disclosures included in the Group's financial report.	1 July 2007
AASB 123 (revised June 2007)	Borrowing Costs	AASB 123 previously permitted entities to choose between expensing all borrowing costs and capitalising those that were attributable to the acquisition, construction or production of a qualifying asset. The revised version of AASB 23 requires borrowing costs to be capitalised if they are directly attributable to the acquisition, construction or production of a qualifying asset.	1 January 2009	Refer to AASB 2007-6 above.	1 July 2009

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007

Reference	Title	Summary	Application date of standard*	Impact on Group financial report	Application date for Group*
AASB Interpretation 10	<i>Interim Financial Reporting and Impairment</i>	Addresses an inconsistency between AASB 134 <i>Interim Financial Reporting</i> and the impairment requirements relating to goodwill in AASB 136 <i>Impairment of Assets</i> and equity instruments classified as available for sale in AASB 139 <i>Financial Instruments: Recognition and Measurement</i>	1 November 2006	The prohibitions on reversing impairment losses in AASB 136 and AASB 139 to take precedence over the more general statement in AASB 134 is not expected to have any impact on the Group's financial report.	1 July 2007
AASB Interpretation 11	<i>Group and Treasury Share Transactions</i>	Specifies that a share-based payment transaction in which an entity receives services as consideration for its own equity instruments shall be accounted for as equity-settled.	1 March 2007	Refer to AASB 2007-1 above.	1 July 2007
AASB Interpretation 12	<i>Service Concession Arrangements</i>	Clarifies how operators recognise the infrastructure as a financial asset and/or an intangible asset – not as property, plant and equipment.	1 January 2008	Refer to AASB 2007-2 above.	1 July 2008
AASB Interpretation 129 (revised June 2007)	Service Concession Arrangements: Disclosures	The revised interpretation was issued as a result of the issue of Interpretation 12 and requires specific disclosures about service concession arrangements entered into by an entity, whether as a concession provider or a concession operator.	1 January 2008	Refer to AASB 2007-2 above.	1 July 2008
IFRIC Interpretation 13	Customer Loyalty Programmes	Deals with the accounting for customer loyalty programmes, which are used by companies to provide incentives to their customers to buy their products or use their services.	1 July 2008	The Group does not have any customer loyalty programmes and as such this is not expected to have any impact on the Group's financial report.	1 July 2008
IFRIC Interpretation 14	IAS 19 – The Asset Ceiling: Availability of Economic Benefits and Minimum Funding Requirements	Aims to clarify how to determine in normal circumstances the limit on the asset that an employer's balance sheet may contain in respect of its defined benefit pension plan.	1 January 2008	The Group does not have a defined benefit pension plan and as such this is not expected to have any impact on the Group's financial report.	1 July 2008

* designates the beginning of the applicable annual reporting period

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007

2. Revenue from ordinary activities

	Consolidated		Company	
	2007	2006	2007	2006
	\$	\$	\$	\$
Revenues from ordinary activities				
Interest	116,101	138,141	75,038	113,826
Sale of oil and gas	126,597	36,998	-	-
Total revenues from ordinary activities	242,698	175,139	75,038	113,826

3. Loss from operations

(a) Other income

Net gain on sale of non-current assets	1,317,001	-	-	-
Foreign exchange gains (net)	-	-	-	30,144
	1,317,001	-	-	30,144

(b) Expenses

Loss before income tax includes the following specific expenses:

<i>Depreciation</i>				
Plant and equipment	9,648	7,329	5,070	1,481
Total depreciation	9,648	7,329	5,070	1,481
Net loss on disposal of property, plant and equipment	10,008	261	4,798	-
<i>Rental expense relating to operating leases</i>				
Minimum lease payments	83,721	77,992	60,274	83,018
Total rental expense relating to operating leases	83,721	77,992	60,274	83,018
Defined contribution superannuation expense	14,221	34,818	14,221	16,796
<i>Foreign exchange gains and losses</i>				
Net foreign exchange losses	-	326	-	-

4. Income tax

(a) Income tax benefit

Current tax	-	-	-	-
Deferred tax	-	(3,742,990)	-	-
Under (over) provided in prior years	-	-	-	-
	-	(3,742,990)	-	-

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007

4. Income tax (continued)

(b) Reconciliation of income tax benefit to prima facie tax payable

	Consolidated		Company	
	2007	2006	2007	2006
	\$	\$	\$	\$
Loss from ordinary activities before income tax expense	(2,859,092)	(13,493,733)	(1,509,167)	(12,521,986)
Prima facie tax benefit on loss from ordinary activities at 30% (2006: 30%)	(857,728)	(4,048,120)	(452,750)	(3,756,596)
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:				
Share based payments	21,000	27,098	21,000	22,865
Impairment expense	311,604	3,302,638	-	-
Intercompany loss provisions	-	-	173,440	3,501,491
Other		-	-	-
	(525,124)	(718,384)	(258,310)	(232,240)
Movements in deferred taxes in relation to temporary differences	(1,860,172)	(256,789)	143,298	4,262
Reversal of deferred tax liability in relation to capitalised oil and gas asset (note 4(d))	-	(3,742,990)	-	-
Difference in overseas tax rates	(231,039)	(83,326)	-	-
Tax effect of current year tax losses for which no deferred tax asset has been recognised	2,616,335	1,058,499	115,012	236,502
Income tax expense / (benefit)	-	(3,742,990)	-	-

(c) Unrecognised temporary differences

Deferred tax assets

Tax losses at 30%	305,024	455,709	1,182,547	521,588
Temporary differences at 30%	156,634	105,015	143,298	3,539,560

Tax losses – foreign subsidiaries (34%)	1,963,837	1,129,935	-	-
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Deferred tax liabilities

Temporary differences at 30%	(2,016,806)	(688,398)	(90,065)	-
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Net deferred tax asset not recognised	408,689	1,002,261	1,235,780	4,061,148
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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007

4. Income tax (continued)

(d) Deferred tax liabilities

The balance comprises temporary differences attributable to:

	Consolidated		Company	
	2007	2006	2007	2006
	\$	\$	\$	\$
Amounts recognised in loss:				
Capitalised oil and gas asset on acquisition of subsidiary written off	-	(3,742,990)	-	-
	-	(3,742,990)	-	-
	-	(3,742,990)	-	-
<i>Movements:</i>				
Opening balance at 1 July	563,054	285,005	-	-
Credited / (charged) to loss	(563,054)	(3,742,990)	-	-
Acquisition of subsidiary	-	4,021,039	-	-
Closing balance at 30 June	-	563,054	-	-

Net deferred tax assets have not been brought to account as it is not probable within the immediate future that tax profits will be available against which deductible temporary differences and tax losses can be utilised.

5. Dividends paid or provided for on ordinary shares

No dividend has been declared or paid during the current financial year or the prior financial year. The consolidated entity does not have any franking credits available for current or future years as the consolidated entity is not in a tax paying position.

6. Trade and other receivables

Current

Other debtors (i)	87,040	41,194	74,258	16,354
Accrued income	5,182	-	-	-
	<u>92,222</u>	<u>41,194</u>	<u>74,258</u>	<u>16,354</u>

Non Current

Amounts receivable from controlled entities(ii)	-	-	9,768,996	1,588,379
Provision for doubtful debts (iii)	-	-	(602,196)	(242,474)
	<u>-</u>	<u>-</u>	<u>9,166,800</u>	<u>1,345,905</u>

(i) Other debtors include amounts outstanding for goods & services tax (GST) These amounts are non-interest bearing and have repayment terms applicable under the relevant government authorities.

(ii) Amounts receivable from controlled entities are unsecured, non-interest bearing and are repayable on demand.

(iii) A provision for doubtful debts was recognised on the amount receivable from a related entity, Grand Gulf Energy Inc, based on its net asset position at 30 June 2007.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007

7. Other assets

	Consolidated		Company	
	2007	2006	2007	2006
	\$	\$	\$	\$
Current				
Prepayments/deposits	61,443	8,973	9,107	8,973
Borrowing costs	216,850	-	216,850	-
	278,293	8,973	225,957	8,973

8. Other financial assets

Non-current

Shares in controlled entities (i)	-	-	15,744,846	15,749,268
Less Provision for diminution	-	-	(11,647,575)	(11,429,162)
	-	-	4,097,271	4,320,106

(i) These financial assets are carried at cost.

(a) Investments in controlled entities

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

Investments in controlled entities held by Grand Gulf Energy Limited

	Country of incorporation	2007	2006	2007	2006
		%	%	\$	\$
Golden Fleece Petroleum Inc	USA	100	100	-	5,479
Alto Energy Limited	Australia	100	100	4,097,271	4,314,627
				4,097,271	4,320,106

Investments in controlled entities held by Alto Energy Limited

	Country of incorporation	2007	2006	2007	2006
		%	%	\$	\$
Grand Gulf Energy Inc	USA	100	100	764,907	764,907
				764,907	764,907

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007

9. Property, plant and equipment

	Consolidated		Company	
	2007	2006	2007	2006
	\$	\$	\$	\$
Plant and equipment				
At cost	24,784	50,705	14,837	26,292
Accumulated amortisation	(8,236)	(7,846)	(3,395)	(1,482)
	16,548	42,859	11,442	24,810

(a) Reconciliations

Reconciliations of the carrying amounts for each class of property, plant and equipment are set out below:

Plant and equipment				
Carrying amount at beginning of year	42,859	24,781	24,810	-
Additions	-	26,577	-	26,292
Disposals	(16,663)	(1,170)	(8,298)	-
Depreciation	(9,648)	(7,329)	(5,070)	(1,482)
Carrying amount at end of year	16,548	42,859	11,442	24,810

10. Exploration expenditure

	Consolidated		Company	
	2007	2006	2007	2006
	\$	\$	\$	\$
Capitalised oil and gas expenditure	6,596,512	16,353,455	-	-
Provision for impairment	(157,301)	(11,953,455)	-	-
	6,439,211	4,400,000	-	-
Capitalised oil and gas expenditure				
Carrying amount at beginning of year	4,400,000	2,425,030	-	-
Amounts acquired under business combinations	-	13,193,362	-	-
Expenditure during the year	6,663,841	680,649	-	-
Disposals	(1,783,195)	-	-	-
Impairment provision	-	(11,008,794)	-	-
Amortisation	(1,038,683)	-	-	-
Write off of capitalised expenditure	(1,802,753)	(926,713)	-	-
Net foreign currency movements	-	36,446	-	-
Carrying amount at end of year	6,439,211	4,400,000	-	-

The ultimate recoupment of costs carried forward for capitalised expenditure is dependent on the successful development and commercial exploitation of lease acreage. In accordance with Note 1(t), amortisation will be calculated over the life of the area according to the rate of depletion of economically recoverable reserves, at the time when production commences.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007

11. Trade and other payables

	Consolidated		Company	
	2007	2006	2007	2006
	\$	\$	\$	\$
Current				
Trade creditors (i)	189,169	95,830	187,432	8,877
Other creditors (i)	150,101	140,848	90,850	68,334
Amounts payable to controlled entities	-	-	1,074,472	1,161,834
	<u>339,270</u>	<u>236,678</u>	<u>1,352,754</u>	<u>1,239,045</u>

- (i) Trade and other creditor amounts represent liabilities for goods and services provided to the consolidated entity prior to the end of the financial year and which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition.

12. Provisions

Current				
Provision for employee entitlements	-	28,536	-	8,230

Non-Current				
Provision for future restoration	52,647	72,593	-	-

(a) Reconciliations

Provision for future restoration				
Carrying amount at beginning of year	72,593	23,517	-	-
Additional provisions recognised	18,037	49,076	-	-
Write-back of provision on disposal	(37,983)	-	-	-
Carrying amount at end of year	<u>52,647</u>	<u>72,593</u>	<u>-</u>	<u>-</u>

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007

13. Contributed equity

(a) Issued capital

	Consolidated		Company	
	2007	2006	2007	2006
	\$	\$	\$	\$
Ordinary shares, fully paid	24,966,947	15,993,205	27,072,298	18,098,556

(b) Movements in share capital

Consolidated

	2007	2006	2007	2006
	Number	Number	\$	\$
Balance at beginning of period	114,270,279	36,996,504	15,993,205	5,178,584
Changes during the year				
Balances at date of merger	114,270,279	36,996,504	15,993,205	5,178,584
Reversal of Alto Energy Limited shares	-	(36,996,504)	-	-
Balance immediately prior to business combination *	-	433,191,569	-	-
Consolidation of shares on 1:8 basis	-	(379,042,623)	-	-
Issue of shares on acquisition of Alto Energy Limited (i)	-	60,119,333	-	10,830,313
Share placement at 23 cents per share	-	2,000	-	460
Share placement at 5 cents per share	10,000,000	-	500,000	-
Share placement at 5 cents per share	40,000,000	-	2,000,000	-
Share placement at 5 cents per share	21,000,000	-	1,050,000	-
Tranche 1 placement at 5 cents per share	25,000,000	-	1,250,000	-
Entitlement Issue at 5 cents per share	46,317,726	-	2,315,886	-
Tranche 2 placement at 5 cents per share	41,000,000	-	2,050,000	-
Share placement at 5 cents per share to financiers in lieu of fees	268,000	-	13,400	-
Share issue costs	-	-	(205,544)	(16,152)
Balance at end of year	297,856,005	114,270,279	24,966,947	15,993,205

* Based on the reverse acquisition that was undertaken during the financial year (refer to accounting policy in note 1(b)), the capital structure of the consolidated entity is that of the legal parent (Grand Gulf Energy Limited) whilst the value of the shares are that of the legal subsidiary (Alto Energy Limited) immediately prior to the reverse acquisition. The total amount recognised in issued equity is determined by adding the issued capital of the legal subsidiary immediately before the business combination to the cost of acquisition of Alto Energy Limited.

(i) In February 2006, the parent entity (Grand Gulf Energy Limited) issued shares for the consideration of the merger with Alto Energy Limited. For more information on the business combination, refer to note 25 of the financial statements.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007

13. Contributed equity (continued)

(b) Movements in share capital (continued)

Company

	2007	2006	2007	2006
	Number	Number	\$	\$
Balance at beginning of year	114,270,901	300,191,569	18,098,556	1,883,480
Changes during the year				
Share placement at 3.5 cents per share	-	100,000,000	-	3,500,000
Issue of shares on acquisition of Golden Fleece Petroleum Inc	-	18,000,000	-	756,000
Share placement at 1cent per share	-	15,000,000	-	150,000
Consolidation of shares on 1:8 basis	-	(379,042,001)	-	-
Share placement at 20 cents per share	-	2,000	-	460
Issue of shares on acquisition of Alto Energy Limited	-	60,119,333	-	12,023,866
Share placement at 5 cents per share	10,000,000	-	500,000	-
Share placement at 5 cents per share	40,000,000	-	2,000,000	-
Share placement at 5 cents per share	21,000,000	-	1,050,000	-
Tranche 1 placement at 5 cents per share	25,000,000	-	1,250,000	-
Entitlement Issue at 5 cents per share	46,317,726	-	2,315,886	-
Tranche 2 placement at 5 cents per share	41,000,000	-	2,050,000	-
Share placement at 5 cents per share to financiers in lieu of fees	268,000	-	13,400	-
Share issue costs	-	-	(205,544)	(215,250)
Balance at end of year	<u>297,856,627</u>	<u>114,270,901</u>	<u>27,072,298</u>	<u>18,098,556</u>

(c) Share options

	Exer- cise price	Expiry date	Balance at beginning of year Number #	Issued during the year Number #	Exercised during the year Number #	Cancelled during the year Number #	Balance at end of year Number #
Listed options	\$3.36	31/12/06	1,230,575	-	-	(1,230,575)	-
Unlisted options	\$0.08	31/12/08	6,500,000	-	-	-	6,500,000
Unlisted options	\$0.20	31/12/08	1,875,000	-	-	-	1,875,000
Unlisted options *	\$0.32	31/12/08	500,000	-	-	(500,000)	-
Unlisted options *	\$0.40	31/12/08	1,000,000	-	-	(1,000,000)	-
Unlisted options	\$0.20	31/1/08	17,455,643	-	-	-	17,455,643
Unlisted options	\$0.20	31/10/08	1,706,250	-	-	-	1,706,250
Unlisted options	\$0.24	30/11/08	1,771,875	-	-	-	1,771,875
Unlisted options	\$0.28	31/12/08	1,771,875	-	-	-	1,771,875
Unlisted options *	\$0.25	31/12/08	750,000	-	-	-	750,000
Unlisted options *	\$0.30	31/12/08	750,000	-	-	-	750,000
Unlisted options *	\$0.60	30/09/09	-	5,000,000	-	-	5,000,000
Unlisted options *	\$0.08	31/12/10	-	1,000,000	-	-	1,000,000
Unlisted options *	\$0.10	31/12/10	-	1,000,000	-	-	1,000,000
Unlisted options *	\$0.08	27/12/09	-	500,000	-	-	500,000
Unlisted options #	\$0.075	03/01/10	-	1,625,000	-	-	1,625,000
Unlisted options #	\$0.075	27/06/10	-	4,875,000	-	-	4,875,000
			<u>35,311,218</u>	<u>14,000,000</u>	<u>-</u>	<u>(2,730,575)</u>	<u>46,580,643</u>

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007

13. Contributed equity (continued)

(c) Share options (continued)

* Options issued pursuant to the Company's Employee Share Option Plan (ESOP). Refer Note 26 for details.

Issued to Macquarie Bank for working capital facility

(d) Terms and conditions of contributed equity

Ordinary shares

Ordinary shares have the right to receive dividends as declared and, in the event of winding up the Company, to participate in the proceeds from the sale of all surplus assets in proportion to the number of and amounts paid up on shares held.

Ordinary shares entitle their holder to one vote, either in person or by proxy, at a meeting of the Company.

14. Reserves

	Consolidated		Company	
	2007	2006	2007	2006
	\$	\$	\$	\$
Foreign currency translation (a)	(202,892)	58,411	-	-
Option premium (b)	533,213	259,763	2,324,995	2,051,545
	330,321	318,174	2,324,995	2,051,545

(a) Foreign currency translation reserve

The foreign currency translation reserve is used to record exchange differences arising from the translation of the financial statements of self-sustaining foreign operations.

Balance at beginning of year	58,411	5,294	-	-
Gain / (loss) on translation of foreign controlled entities	(261,303)	53,117	-	-
Balance at end of year	(202,892)	58,411	-	-

(b) Option premium reserve

The option premium reserve is used to recognise the value of options issued of a capital nature.

Balance at beginning of year	259,763	169,436	2,051,545	-
Increase on issue of options (i)	203,450	-	203,450	1,975,327
Share based payment expense	70,000	90,327	70,000	76,218
Balance at end of year	533,213	259,763	2,324,995	2,051,545

(i) During the year the parent entity issued 6,500,000 options to Macquarie Bank in consideration for the working capital facility.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007

15. Accumulated losses

	Consolidated		Company	
	2007	2006	2007	2006
	\$	\$	\$	\$
Balance at beginning of year	(10,296,956)	(543,075)	(13,423,596)	(901,610)
Net loss attributable to members of the Company	(2,859,092)	(9,753,881)	(1,509,131)	(12,521,986)
Balance at end of year	<u>(13,156,048)</u>	<u>(10,296,956)</u>	<u>(14,932,727)</u>	<u>(13,423,596)</u>

16. Notes to the statement of cash flows

(a) Reconciliation of cash and cash equivalents

For the purposes of the statement of cash flows, cash includes cash on hand and in banks and investments in money market instruments. Cash at the end of the financial year as shown in the statement of cash flows is reconciled to the related items in the statement of financial position as follows:

Cash on hand	<u>5,706,863</u>	<u>2,422,258</u>	<u>2,241,592</u>	<u>2,257,632</u>
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(b) Reconciliation of loss after related income tax to net cash outflows from operating activities

Loss for the year	(2,859,092)	(9,753,881)	(1,509,131)	(12,521,986)
Depreciation	9,648	7,329	5,070	1,481
Impairment and write-offs of oil and gas assets	1,158,867	11,935,507	-	-
Write offs of intercompany loans and investments	-	-	578,135	11,719,889
Share based payments	70,000	90,327	70,000	76,217
Income tax benefit	-	(3,742,990)	-	-
Loss on disposal of property, plant and equipment	10,008	261	4,798	-
Gain on sale of oil and gas properties	(1,317,001)	-	-	-
Exchange rate adjustments on balance of cash held in foreign currencies	-	326	-	(30,143)
Changes in net assets and liabilities				
(Increase) / decrease in assets:				
Trade and other receivables	(68,177)	342,072	(57,937)	(8,106)
Prepayments/borrowing costs	(273,477)	18,044	(216,983)	(8,423)
Capitalised expenditure	(3,681,249)	(624,683)	-	-
Increase / (decrease) in liabilities:				
Trade and other creditors	131,675	(317,652)	205,525	16,434
Provisions	192,951	21,488	195,220	-
Net cash outflows from operating activities	<u>(6,625,847)</u>	<u>(2,023,851)</u>	<u>(725,303)</u>	<u>(754,637)</u>

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007

17. Expenditure commitments

(a) Capital commitments

Capital expenditure contracted for at the reporting date but not recognised as liabilities is as follows:

	Consolidated		Company	
	2007	2006	2007	2006
	\$	\$	\$	\$
Exploration and lease rentals commitments				
Not later than one year	-	1,417,360	-	-
Later than one year and not later than five years	-	-	-	-
Later than five years	-	-	-	-
	<u>-</u>	<u>1,417,360</u>	<u>-</u>	<u>-</u>

The above commitments relate to exploration expenditure on US joint venture projects as well as lease rentals on specific acreage held in the US.

(b) Lease commitments

Operating leases (non-cancellable)				
Not later than one year	24,451	24,561	24,451	24,561
Later than one year and not later than five years	11,330	-	11,330	-
Later than five years	-	-	-	-
	<u>35,781</u>	<u>24,561</u>	<u>35,781</u>	<u>24,561</u>

The above commitments relate to the sub-lease of premises held by the consolidated entity.

(c) Remuneration commitments

Commitments for the payment of salaries and other remuneration under long term employment contracts in existence at the reporting date but not recognised as liabilities, payable:

Not later than one year	349,766	258,110	349,766	258,110
Later than one year and not later than five years	-	-	-	-
Later than five years	-	-	-	-
	<u>349,766</u>	<u>258,110</u>	<u>349,766</u>	<u>258,110</u>

Amounts disclosed as remuneration commitments include commitments arising from the service contracts of key management personnel referred to in section C of the remuneration report in the Directors report that are not recognised as liabilities and are not included in the key management personnel compensation.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007

18. Contingent liabilities

The consolidated entity had no contingent liabilities as at 30 June 2007.

19. Events occurring after balance date

In July 2007, GGE signed an agreement to acquire, at a cost of US\$2.23m, permanent mineral rights (fee minerals) to approximately 4,000 net fee mineral acres in Arkoma Basin, Oklahoma, one of the most prolific gas producing basins in the United States.

On 18 July 2007, the Company drew down the first tranche of \$670,000 available under the Macquarie Bank facility.

On 4 September 2007, the Company announced that it is acquiring a 3.825% working interest in four producing wells (Ashby Project), one well that is due to be completed, one well currently drilling and at least three additional wells to be drilled in 2007, and up to five wells in Custer County Oklahoma effective 1 September.

20. Earnings per share

The following reflects the income and share data used in the calculation of basic and diluted earnings per share:

	Consolidated	
	2007	2006
	\$	\$
Net loss	(2,859,091)	(9,753,881)
Adjustments:	-	-
Losses used in calculating basic earnings per share	<u>(2,859,658)</u>	<u>(9,753,881)</u>
	Number	Number
Weighted average number of ordinary shares used in calculating basic earnings per share	143,813,736	82,373,402
Effect of dilutive securities		
Share options	-	-
Adjusted weighted average number of ordinary shares used in calculating basic and diluted earnings per share	<u>143,813,736</u>	<u>82,373,402</u>

There have been no conversions to, calls of, or subscriptions for ordinary shares or issues of potential ordinary shares since the reporting date and before the completion of this annual report.

21. Key management personnel disclosures

(a) Directors

The directors of the Grand Gulf Energy Limited consolidated group and Grand Gulf Energy Limited during the financial year have been disclosed in section C of the remuneration report in the Directors report.

21. Key management personnel disclosures (continued)

(b) Other key management personnel

The executives of the Grand Gulf Energy Limited consolidated group and Grand Gulf Energy Limited during the financial year have been disclosed in section C of the remuneration report in the Directors report.

(c) Key management personnel compensation

	Consolidated		Company	
	2007	2006	2007	2006
	\$	\$	\$	\$
Short-term employee benefits	632,079	804,417	632,079	277,009
Post-employment benefits	13,589	40,096	13,589	14,680
Share-based payments	70,000	94,527	70,000	76,217
	<u>715,668</u>	<u>939,020</u>	<u>715,668</u>	<u>367,906</u>

The Company has taken advantage of the relief provided by ASIC Class Order 06/50 and has transferred the detailed remuneration disclosures to the directors' report. The relevant information can be found in sections a) to d) of the remuneration report in the Directors report.

(d) Equity instrument disclosures relating to key management personnel

(i) Options provided as remuneration and shares issued on the exercise of such options

Details of options provided as remuneration and shares issued on the exercise of such options, together with terms and conditions of the options, can be found in section D of the remuneration report in the Directors report. Details of assessed fair value of options granted can be found in note 26 (b)

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007

21. Key management personnel disclosures (continued)

(d) Equity instrument disclosures relating to key management personnel (continued)

(ii) Option holdings

The number of options over ordinary shares in the Company held during the financial year by each director of Grand Gulf Energy Limited and other key management personnel of the group, including their personally related parties, are set out below.

Options held in Grand Gulf Energy Limited

2007

Name	Balance at start of the period	Granted during the period	Exercised during the period	Other changes during the period	Balance at the end of the year	Remuneration options Vested and Exercisable at end of period
	Number	Number	Number	Number	Number	Number
Directors						
Mr J Trimble	1,500,000	5,000,000	-	-	6,500,000	6,500,000
Mr C Morgan	9,731,250	-	-	-	9,731,250	9,731,250
Mr A Boss	-	1,000,000	-	-	1,000,000	1,000,000
Mr G Channon #	2,535,937	-	-	-	2,535,937	2,535,937
Mr A Dimsey #	1,500,000	500,000	-	-	2,000,000	2,000,000
Mr A Grist (1)	916,096	-	-	-	916,096	916,096
Mr S Keenihan	-	1,000,000	-	-	1,000,000	1,000,000
Total	16,183,283	7,500,000	-	-	23,683,283	23,683,283

Closing balance at date of resignation

(i) Resigned subsequent to year end

2006

Name	Balance at start of the year	Granted during the year as remuneration	Exercised during the year	Other changes during the year	Balance at end of the year	Remuneration Options Vested and exercisable at end of the year
	Number	Number	Number	Number	Number	Number
Directors						
Mr A Grist *	916,096	-	-	-	916,096	-
Mr C Morgan	9,731,250	-	-	-	9,731,250	-
Mr G Channon	2,535,937	-	-	-	2,535,937	-
Mr A Dimsey *	-	1,500,000	-	-	1,500,000	500,000
Mr J Trimble *	-	1,500,000	-	-	1,500,000	-
Mr R Monti #	125,000	-	-	-	125,000	-
Mr A Sierakowski #	250,000	-	-	73,829	323,829	-
Mrs N Donovan #	250,000	-	-	-	250,000	-
Executives						
Mr R Prudnick *	-	-	-	-	-	-
Total	14,581,076	3,000,000	-	73,829	17,654,905	500,000

* Opening balance at date of appointment

Closing balance at date of resignation

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007

21. Key management personnel disclosures (continued)

(d) Equity instrument disclosures relating to key management personnel (continued)

(iii) *Share Holdings*
Shares held in Grand Gulf Energy Limited

2007

Name	Balance at start of the year	Received during the year on exercise of options	Other changes during the year	Balance at end of the year
	Number	Number	Number	Number
Directors				
Mr J Trimble	100,000	-	30,079,815	30,179,815
Mr C Morgan	15,662,500	-	2,599,125	18,261,625
Mr A Boss	-	-	1,000,000	1,000,000
Mr G Channon #	296,094	-	-	296,094
Mr A Dimsey #	-	-	-	-
Mr A Grist (1)	5,182,500	-	593,124	5,775,624
Mr S Keenihan	-	-	1,250,000	1,250,000
Total	21,241,094	-	35,522,064	56,763,158

Closing balance at date of resignation

(1) Resigned subsequent to year end

(iii) *Share Holdings*

2006

Name	Balance at start of the year	Received during the year on exercise of options	Other changes during the year	Balance at end of the year
	Number	Number	Number	Number
Directors				
Mr A Grist *	4,282,500	-	900,000	5,182,500
Mr C Morgan * ^	10,062,500	-	5,600,000	15,662,500
Mr G Channon *^	296,094	-	-	296,094
Mr A Dimsey *	-	-	-	-
Mr J Trimble *	-	-	100,000	100,000
Mr R Monti #	125,000	-	-	125,000
Mr A Sierakowski #	875,000	-	365,625	1,240,625
Mrs N Donovan #	375,000	-	-	375,000
Total	16,016,094	-	6,965,625	22,981,719

* Opening balance at date of appointment

Closing balance at date of resignation

^ Mr Morgan and Mr Channon were shareholders of both Lach Drummond Resources and Alto Energy Limited at the time of the merger.

21. Key management personnel disclosures (continued)

(e) Other transactions with key management personnel

All transactions with related parties are made on normal commercial terms and conditions except where indicated.

An amount of \$2,342 (2006: \$34,974) was paid to Seaspin Pty Limited, of which Mr C Morgan is a director, for sundry office services (2006 - lease of office space and other consulting services).

During the 2006 financial year, the Group incurred costs of \$31,904 (2006: \$9,865) for communication services from Purple Communications, a company related to Mr C Morgan's spouse.

An amount of \$60,274 (2006: 45,015) was paid to Albion Capital Partners, of which Mr A Grist is a partner, for sublease of BGC Centre office space (in the period subsequent to Mr Grist being appointed as a director). A further amount of \$19,923 (2006: 8,603) was paid to Albion Capital Partners for financial analyst services (in the period subsequent to Mr Grist being appointed as a director).

Amounts owing to directors, director-related parties and other related parties at 30 June 2007 and included in sundry creditors were \$55,020 (2006: nil).

22. Auditor's remuneration

	Consolidated		Company	
	2007	2006	2007	2006
	\$	\$	\$	\$
Audit or review of the financial report	58,942	54,055	26,077	26,617
Other services	-	1,545	-	-
	<u>58,942</u>	<u>55,600</u>	<u>26,077</u>	<u>26,617</u>

The auditor of Grand Gulf Energy Limited is BDO Kendall Audit & Assurance (WA) Pty Ltd (Formerly Horwath Audit (WA) Pty Ltd)

23. Segment information

Geographic segment – primary segment

The consolidated entity operates in only one geographic segment, being North America.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007

24. Financial instruments

(a) Interest rate risk

The consolidated entity is exposed to movements in market interest rates on short term deposits. The policy is to monitor the interest rate yield curve to ensure a balance is maintained between the liquidity of cash assets and the interest rate return. The consolidated entity's exposure to interest rate risks and the effective interest rates of financial assets and financial liabilities, both recognised and unrecognised at the reporting date, are as follows:

	Notes	Floating interest rate	Consolidated Fixed interest rate			Non- interest bearing	Total	Weighted average interest rate
			1 year or less	Over 1 to 5 years	More than 5 years			
		\$	\$	\$	\$	\$	\$	%
2007								
<i>Financial assets</i>								
Cash	16(a)	5,633,579	73,084	-	-	200	5,706,863	5.4
Trade and other receivables	6	-	-	-	-	92,222	92,222	-
		<u>5,633,579</u>	<u>73,084</u>	<u>-</u>	<u>-</u>	<u>92,422</u>	<u>5,799,085</u>	
<i>Financial liabilities</i>								
Trade creditors and accruals	11	-	-	-	-	339,270	339,270	-
		<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>339,270</u>	<u>339,270</u>	
2006								
<i>Financial assets</i>								
Cash	16(a)	169,109	2,252,949	-	-	200	2,422,258	5.2
Trade and other receivables	6	-	-	-	-	41,194	41,194	-
		<u>169,109</u>	<u>2,252,949</u>	<u>-</u>	<u>-</u>	<u>41,394</u>	<u>2,463,452</u>	
<i>Financial liabilities</i>								
Trade creditors and accruals	11	-	-	-	-	236,679	236,679	-
		<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>236,679</u>	<u>236,679</u>	

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007

24. Financial instruments (continued)

(a) Interest rate risk (continued)

	Notes	Company				Non-interest bearing	Total	Weighted average interest rate
		Floating interest rate	Fixed interest rate					
			1 year or less	Over 1 to 5 years	More than 5 years			
		\$	\$	\$	\$	\$	%	
2007								
<i>Financial assets</i>								
Cash	16(a)	2,168,308	73,084	-	-	200	2,241,592	5.4
Trade and other receivables	6	-	-	-	-	5,424,500	5,424,500	-
		<u>2,168,308</u>	<u>73,084</u>	<u>-</u>	<u>-</u>	<u>5,424,500</u>	<u>7,666,092</u>	
<i>Financial liabilities</i>								
Trade creditors and accruals	11	-	-	-	-	1,352,752	1,352,752	-
		<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,352,752</u>	<u>1,352,752</u>	
2006								
<i>Financial assets</i>								
Cash	16(a)	4,483	2,252,949	-	-	200	2,257,632	5.5
Trade and other receivables	6	-	-	-	-	1,362,259	1,362,259	-
		<u>4,483</u>	<u>2,252,949</u>	<u>-</u>	<u>-</u>	<u>1,362,459</u>	<u>3,619,891</u>	
<i>Financial liabilities</i>								
Trade creditors and accruals	11	-	-	-	-	1,234,709	1,234,709	-
		<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,234,709</u>	<u>1,234,709</u>	

b) Net fair values

The net fair values of the financial assets and liabilities at balance date approximate the carrying amounts in the financial statements, except where specifically stated.

(c) Credit risk exposure

The consolidated entity's maximum exposure to credit risk to each class of recognised financial asset is the carrying amount, net of any provisions for doubtful debts, of those assets as indicated in the balance sheet. As the group does not currently have any significant debtors, lending, stock levels or any other credit risk, a formal credit risk management policy is not maintained.

(d) Foreign currency risk

The Group is exposed to fluctuations in foreign currencies arising from the sale and purchase of goods and services in currencies other than the group's measurement currency. The Group operates internationally and is exposed to foreign exchange risk arising from currency exposures to the United States Dollar, being the functional currency of its operations in the United States. The Group has not formalised a foreign currency risk management policy, however it monitors its potential risk in light of exchange rate movements.

25. Business Combinations

Acquisition of Alto Energy Limited

On 24 January 2006, Alto Energy International Limited acquired 100% of the issued capital of Alto Energy Limited. In accordance with AASB 3 Business Combinations, when Alto Energy International Limited (the legal parent) acquired the Alto Energy Limited group (being Alto Energy Limited and its controlled entity, Alto Energy Inc) (the legal subsidiary), the acquisition was deemed to be a reverse acquisition since the substance of the transaction is that the existing shareholders of Alto Energy Limited have, effectively acquired Alto Energy International Limited.

The basis of the merger was that Alto shareholders would receive 13 Lach Drummond Resources Ltd shares for every 1 Alto share. Options in the Lach Drummond were issued in consideration for Alto options held on a 10.5 LDR options per Alto option basis.

The acquired business (Alto Energy International Limited) contributed revenues of \$47,931 and net loss of \$523,508 to the Group for the period from 1 February to 30 June 2006 (effective date of acquisition was 31 January 2006). If the acquisition had occurred on 1 July 2005, consolidated revenue and consolidated loss for the year ended 30 June 2006 would have been \$271,490 and \$10,080,723 respectively.

The fair value of the identifiable assets and liabilities of Alto Energy International Limited as at the date of acquisition are as follows:

	Recognised on Acquisition	Carrying Value per Alto Energy International Limited
	\$	\$
Property, Plant and Equipment	5,287	5,287
Cash and cash equivalents	1,910,351	1,910,351
Trade Receivables	30,473	30,473
Capitalised Oil and Gas expenditure	13,193,362	4,802,241
	<u>15,139,473</u>	<u>6,748,352</u>
Trade and other payables	161,159	161,359
Deferred Income tax liability	4,021,038	990,342
	<u>4,182,197</u>	<u>1,151,701</u>
Fair value of net assets	10,957,276	
Goodwill arising on acquisition	-	
	<u>10,957,276</u>	

25. Business Combinations (continued)

	Recognised on Acquisition
	\$
Consideration	
Fair value of issued equity instruments of acquiree before business combination	10,830,314
Direct costs relating to the acquisition	<u>126,962</u>
Total consideration	<u>10,957,276</u>

The cash outflow on acquisition is as follows:

Net cash acquired with subsidiary	1,910,351
Acquisition costs	<u>(126,962)</u>
Net cash inflow	<u>1,783,389</u>

Acquisition of Golden Fleece Petroleum Inc

On 15 September 2005, the parent entity acquired 100% of Golden Fleece Petroleum Inc, a Texas based oil and gas company, which holds the right to farm-in to a 50% working interest in the Home Run project. Due to the reverse acquisition of the Alto Energy Limited Group discussed above, and the accounting policy for basis of preparation under reverse acquisition accounting (refer to note 1(b)), the net assets of Golden Fleece Petroleum Inc were included as part of the net assets of Alto Energy International Limited consolidated entity above.

The following details outline the purchase of Golden Fleece Petroleum Inc:

- 18 million ordinary shares at an issue price of \$0.035 cents each;
- 12 million unlisted options exercisable at \$0.01 cents each;
- 15 million unlisted options exercisable at \$0.025 cents each;
- \$215,000 cash consideration; and
- \$224,860 paid for direct acquisition costs.

The issue was based on the market price at the date of purchase.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007

25. Business Combinations (continued)

The purchase price allocation is outlined below:

Purchase Consideration	\$
Cash consideration	215,000
Direct costs relating to the acquisition	224,860
Fair value of shares issued (as described above)	756,000
Fair value of options issued (as described above)	732,065
Total purchase consideration:	<u>1,927,925</u>

Assets and liabilities arising at acquisition date:

	\$
Cash	5,497
Capitalised oil and gas expenditure	2,912,771
Deferred tax liability	(990,342)
Net identifiable assets acquired	<u>1,927,926</u>

The assets arising from the acquisition are recognised at fair value which are equal to their carrying value at acquisition date.

Outflow of cash to acquire subsidiaries, net of cash acquired:

	\$
Cash	439,860
Less: Balances acquired	(5,497)
Net outflow of cash	<u>434,363</u>

26. Share Based Payments

(a) Employee Option Plan

The Grand Gulf Energy Limited Employee Option Plan was approved at the general meeting held on 26 June 2007. Options are granted under the plan to senior level executives of the Company for no consideration.

Options granted under the plan carry no dividend or voting rights and have varied contractual lives.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007

26. Share Based Payments (continued)

(a) Employee Option Plan (continued)

The options granted under the plan are set out below:

Grand Gulf Energy Limited – 2007

Grant date	Expiry date	Exercise price	Balance at start of the year Number	Granted during the year Number	Exercised during the year Number	Balance at end of the year Number	Exercisable at end of the year Number
29 Nov 05	31 Dec 08	\$0.20	1,250,000	-	-	1,250,000	1,250,000
29 Nov 05	31 Dec 08	\$0.08	1,906,250	-	-	1,906,250	1,906,250
24 Jan 06	30 Sep 09	\$0.20	7,491,096	-	-	7,491,096	7,491,096
11 May 06	31 Dec 08	\$0.25	750,000	-	-	750,000	750,000
11 May 06	31 Dec 08	\$0.30	750,000	-	-	750,000	750,000
27 Dec 06	31 Dec 10	\$0.08	-	1,000,000	-	1,000,000	1,000,000
27 Dec 06	31 Dec 10	\$0.08	-	1,000,000	-	1,000,000	1,000,000
27 Dec 06	31 Dec 10	\$0.08	-	500,000	-	500,000	500,000
24 Jan 07	30 Sep 09	\$0.06	-	5,000,000	-	5,000,000	5,000,000
Total			12,147,346	7,500,000	-	19,647,346	19,647,346

Grand Gulf Energy Limited – 2006

Grant date	Expiry date	Exercise price	Balance at start of the year Number	Granted during the year Number	Exercised during the year Number	Balance at end of the year Number	Exercisable at end of the year Number
29 Nov 05	31 Dec 08	\$0.32	-	500,000	-	500,000	500,000
29 Nov 05	31 Dec 08	\$0.40	-	500,000	-	500,000	-
29 Nov 05	31 Dec 08	\$0.40	-	500,000	-	500,000	-
11 May 06	31 Dec 08	\$0.25	-	750,000	-	750,000	-
11 May 06	31 Dec 08	\$0.30	-	750,000	-	750,000	-
Total			-	3,000,000	-	3,000,000	500,000

The above 2006 options have been disclosed on a post 1:8 reconstruction basis.

(b) Fair value of options granted

The assessed fair value at grant date of options granted during the year ended 30 June 2007 was between 2.9 cents and 4.2 cents per option (2006: 3.4 cents). The fair value at grant date is determined using a Black-Scholes option pricing model which 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, and the risk free interest rate for the term of the option.

The weighted average model inputs used for options granted during the year ended 30 June 2007 included:

- (i) share price at grant date: between \$0.06 and \$0.07 (2006: \$0.20)
- (j) expected price volatility of the company's shares: 88% (2006: 65%)
- (k) expected dividend yield: Nil (2006: Nil)
- (l) risk free interest rate: 5.98% to 6.38% (2006: 5.17%)

The expected price volatility is based on the historic volatility (based on the remaining life of the options), adjusted for any expected changes to future volatility due to publicly available information.

26. Share Based Payments (continued)

(c) Expenses arising from share-based payment transactions

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

	Consolidated		Company	
	2007	2006	2007	2006
	\$	\$	\$	\$
Options issued under employee option plan	-	36,778	-	76,217
Options issued to directors	70,000	53,549	70,000	-
	<u>70,000</u>	<u>90,327</u>	<u>70,000</u>	<u>76,217</u>

This expense related to the fair value of the 7,500,000 options issued to Directors during the year (refer note 1 (o))

27. Related Party Transactions

(a) Parent entity

The ultimate parent entity within the group is Grand Gulf Energy Limited (the legal parent). For discussion of the reverse acquisition accounting transaction and its effect upon the basis of preparation of the financial statements for the consolidated group, please refer to note 1(b).

(b) Subsidiaries

Interests in subsidiaries are set out in note 8.

(c) Key management personnel

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

(d) Loans to / from related parties

Grand Gulf Energy Limited has provided an unsecured, interest free and repayable on demand loan to its wholly owned subsidiary Alto Energy Incorporated (formerly Golden Triangle Energy Incorporated), totalling \$8,423,091 at balance date (2006: \$242,474). There were no repayments made during the year.

Grand Gulf Energy Limited has provided an unsecured, interest free and repayable on demand loan to its wholly owned subsidiary Golden Fleece Petroleum Incorporated, totalling \$1,345,905 at balance date (2006: \$1,345,905). There were no repayments made during the year.

Alto Energy Limited has provided an unsecured, interest free and repayable on demand loan to its parent Grand Gulf Energy Limited, totalling \$1,074,472 at balance date (2006: \$1,161,834).

Alto Energy Limited has provided an unsecured, interest free and repayable on demand loan to its wholly owned subsidiary Alto Energy Inc (formerly Golden Triangle Energy Inc), totalling \$2,036,939 at balance date (2006: \$2,036,939). There were no repayments made during the year.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007

27. Related Party Transactions (continued)

(e) Loans to / from related parties (continued)

Alto Energy Inc (formerly Golden Triangle Energy Inc) has provided an unsecured, interest free and repayable on demand loan to a related group entity, Golden Fleece Petroleum, totalling nil at balance date (2006: \$102,886).

28. Interests in joint ventures

Included in the assets of the Company and the consolidated entity are the following items which represent the Company and the consolidated entity's interest in the assets and liabilities in joint ventures recorded in accordance with the accounting policy described in note 1(s).

	Consolidated		Company	
	2007	2006	2007	2006
	\$	\$	\$	\$
Current Assets				
Receivables	14,397	18,230	-	-
Total Current Assets	14,397	18,230	-	-
Non-Current Assets				
Capitalised oil and gas expenditure	2,669,469	2,699,597	-	-
Total Non-Current Assets	2,669,469	2,699,597	-	-
Total Assets	2,683,866	2,717,828	-	-
Current Liabilities				
Payables	110,487	38,839	-	-
Total Current Liabilities	110,487	38,839	-	-
Total Liabilities	110,487	38,839	-	-

The principal activity of all the joint venture operations is oil and gas exploration and production.

28. Interests in joint ventures (continued)

Listed below is the name of each of the areas of joint venture operations and the percentage interest held in the joint venture by the consolidated entity assuming farm-in and farm-out commitments in respect of leases are met.

	Working Interest	
	2007	2006
Kentucky leased acreage	-	30.0% - 50.0%
West Virginia leased acreage	-	29.0% - 90.0%
Tennessee leased acreage	-	37.5% - 50.0%
Louisiana leased acreage	3.7% - 25.0%	-
Oklahoma leased acreage	5.6% - 24.6%	-

29. Non-cash investing and financing activities

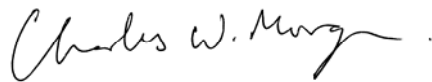
Options issued to employees under the Grand Gulf Energy Limited Employee Share Option Plan for no cash consideration are shown in note 26.

DIRECTORS' DECLARATION

The directors declare that:

- (a) in the directors' opinion, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they fall due and payable;
- (b) in the directors' opinion, the attached financial statements and notes thereto are in accordance with the Corporations Act 2001, including compliance with accounting standards and giving a true and fair view of the financial position and performance of the Company and the consolidated entity;
- (c) the audited remuneration disclosures set out on pages 12 to 18 of the director's report comply with Accounting Standards AASB 124 Related Party Disclosures and the Corporations Regulations 2001; and
- (d) the directors have been given the declarations required by s 295A of the Corporations Act 2001.

Signed in accordance with a resolution of the directors.



Mr Charles Morgan
Chairman

Perth, 24 September 2007



INDEPENDENT AUDITOR'S REPORT

To the members of Grand Gulf Energy Limited

Report on the Financial Report and AASB 124 Remuneration Disclosures Contained in the Directors' Report

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

We have also audited the remuneration disclosures contained in the directors' report. As permitted by the *Corporations Regulations 2001*, the consolidated entity has disclosed information about the remuneration of directors and executives ("remuneration disclosures"), required by Accounting Standard AASB 124 *Related Party Disclosures*, under the heading "Remuneration Report".

Directors' Responsibility for the Financial Report and the AASB 124 Remuneration Disclosures Contained in the Directors' Report

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

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report and the remuneration disclosures contained in the directors' report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report and the remuneration disclosures contained in the directors' report, whether due to fraud or error. In making those risk

assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report and the remuneration disclosures contained in the directors' report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report and the remuneration disclosures contained in the directors' report.

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

Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, provided to the directors of Grand Gulf Energy Limited on 24th September 2007, would be in the same terms if provided to the directors as at the date of this auditor's report.

Auditor's Opinion on the Financial Report

In our opinion the financial report of Grand Gulf Energy Limited is in accordance with the *Corporations Act 2001*, including:

- (a) giving a true and fair view of the company's and consolidated entity's financial position as at 30 June 2007 and of their performance for the year ended on that date; and
- (b) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*.

Auditor's Opinion on the AASB 124 Remuneration Disclosures Contained in the Directors' Report

In our opinion the remuneration disclosures that are contained in the directors' report comply with Accounting Standard AASB 124.

BDO Kendalls Audit & Assurance (WA) Pty Ltd



Peter Toll
Director

Subiaco, 24th September 2007

ASX INFORMATION as at 6 September 2007

Information required by Australian Stock Exchange Limited

Additional information included in accordance with the Listing Rules of the Australian Stock Exchange Limited. The information is current as at 6 September 2007.

1. Statement of issued capital

a) Distribution of fully paid ordinary shares

<i>Size of Holding</i>	<i>Number of Shareholders</i>	<i>Shares Held</i>
1 - 1,000	44	13,289
1,001 - 5,000	36	90,878
5,001 - 10,000	57	493,059
10,001 - 100,000	619	25,545,461
100,001 and Over	369	271,713,940
	<hr/>	<hr/>
	1,125	297,856,627
	<hr/>	<hr/>

- b) There are no restrictions on voting rights attached to the ordinary shares. On a show of hands every member present in person shall have one vote and upon a poll, every member present or by proxy shall have one vote every share held.

2. Substantial shareholders

The names of substantial shareholders who had notified the Company in accordance with section 671B of the *Corporations Act 2001* are:

Macquarie Bank Ltd	33,018,000 shares
Mr James Trimble	30,179,815 shares
Mr Charles Morgan	18,261,625 shares
Argonaut Capital Ltd	15,271,172 shares

3. Quotation

Listed securities in Grand Gulf Energy Limited are quoted on the Australian Stock Exchange.

ASX INFORMATION as at 6 September 2007

5. Top Twenty Shareholders as at 6 September 2007

The twenty largest shareholders hold 42.44% of the total issued ordinary shares in the Company as at 6 September 2007.

	Name	Number of Shares	% of Issued Shares
1.	Macquarie Bank Ltd	33,018,000	11.08
2.	Mr James Trimble	30,000,000	10.07
3.	Mr Charles Morgan	8,156,250	2.74
4.	Craig Ian Burton	7,977,738	2.68
5.	AFM Perseus Fund Limited	6,142,578	2.06
6.	Seaspin Pty Ltd	5,950,000	2.00
7.	Aymon Pacific Pty Ltd	4,837,500	1.62
8.	Argonaut Capital Ltd	3,046,875	1.02
9.	Marble Hill Investments Ltd	3,000,000	1.01
10.	EGR Investments Pty Ltd	2,919,220	0.98
11.	Argonaut Capital Limited	2,500,000	0.84
12.	Topsfield Pty Ltd	2,475,941	0.83
13.	WZ Nominees Pty Ltd	2,200,000	0.74
14.	Nutsville Pty Ltd	2,165,706	0.73
15.	ANZ Nominees Limited	2,121,790	0.71
16.	P & J Bartter	2,000,000	0.67
17.	Miss Bettie Marie Friend	2,000,000	0.67
18.	Mr John Roderick Bestall	2,000,000	0.67
19.	J & B Murphy	2,000,000	0.67
20.	HSBC Custody Nominees	1,912,500	0.64
		<hr/>	
		126,424,098	42.44