

**GRAND GULF ENERGY LIMITED**

ABN 22 073 653 175

**FINANCIAL REPORT**

FOR THE HALF YEAR ENDED

**31 DECEMBER 2007**

**GRAND GULF ENERGY LIMITED**  
**ABN 22 073 653 175**

**CONTENTS**

DIRECTORS' REPORT.....	3
AUDITOR'S INDEPENDENCE DECLARATION.....	4
INCOME STATEMENT.....	5
BALANCE SHEET.....	6
STATEMENT OF CHANGES IN EQUITY.....	7
CASH FLOW STATEMENT.....	8
NOTES TO THE FINANCIAL STATEMENTS.....	9-12
DIRECTOR'S DECLARATION.....	13
INDEPENDENT REVIEW REPORT.....	14

**GRAND GULF ENERGY LIMITED**  
**ABN 22 073 653 175**

**DIRECTORS' REPORT**

Your directors submit the financial report of the consolidated entity for the half-year ended 31 December 2007.

**Directors**

The names of directors who held office during or since the end of the half-year are:

Mr C Morgan	<i>Chairman</i>
Mr J Trimble	<i>Managing Director</i>
Mr A Boss	<i>Non-Executive Director</i>
Mr S Keenihan	<i>Non-Executive Director</i>
Mr A Grist	<i>Non-Executive Director- resigned 8 August 2007</i>

**Principal activity**

The principal activity of the consolidated entity during the period was exploration and evaluation of mineral interests and oil and gas leases.

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

**Results and review of operations**

During the financial period the consolidated entity continued its exploration activities.

The loss of the consolidated entity for the financial period after provision for income tax was \$999,946 (2006: profit of \$449,374).

Cash assets at 31 December 2007 of \$1,733,632 decreased from \$5,706,863 as at 30 June 2007, after operations, predominantly due to acquisition of fee minerals acreage.

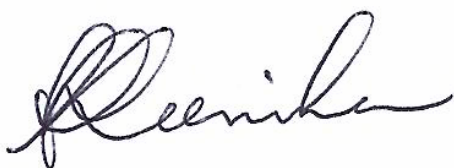
Deferred exploration assets as at 31 December 2007 of \$10,305,848 (30 June 2007: \$6,439,211) includes acquisition of 4,000 net fee mineral acres in the Arkoma Basin and a working interest in 200 net acres in Cluster County Oklahoma.

**Auditor's Declaration**

The lead auditor's independence declaration under section 307C of the Corporations Act 2001 is set out on page 4 of the financial statements for the half year ended 31 December 2007.

This report is signed in accordance with a resolution of the Board of Directors.

Dated this 14th day of March 2008.



**STEPHEN KEENIHAN**  
Director



BDO Kendalls

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14 March 2008

Grand Gulf Energy Ltd  
C/- Endeavour Corporate  
Suite 8, 7 The Esplanade  
MT PLEASANT WA 6153

Dear Sirs

**DECLARATION OF INDEPENDENCE BY PETER TOLL TO THE DIRECTORS OF GRAND GULF ENERGY LIMITED**

As lead auditor of Grand Gulf Energy Limited for the half year ended 31 December 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 review; and
- any applicable code of professional conduct in relation to the review.

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

**Peter Toll**  
Director

**BDO Kendalls Audit & Assurance (WA) Pty Ltd**  
Perth, Western Australia

**GRAND GULF ENERGY LIMITED**  
**ABN 22 073 653 175**

**CONSOLIDATED INCOME STATEMENT**  
**FOR THE HALF YEAR ENDED 31 DECEMBER 2007**

	Note	Consolidated Entity	
		31 December 2007 \$	31 December 2006 \$
<b>Revenue from continuing operations</b>			
Interest revenue		54,096	54,436
Oil and gas sales		356,225	76,588
<b>Other income</b>			
Gains on disposal of non-current assets		-	1,304,501
		<u>410,321</u>	<u>1,435,525</u>
<b>Expenses</b>			
Director and employee expenses		(617,404)	(403,806)
Depreciation and amortisation		(179,325)	(100,753)
Finance costs		(52,722)	-
Professional and consulting fees		(338,362)	(209,554)
Administration expenses		(120,265)	(163,430)
Other expenses from ordinary activities		<u>(102,189)</u>	<u>(107,993)</u>
Profit/(loss) from ordinary activities before income tax expense		(999,946)	449,989
Income tax benefit/(expense)		-	(615)
Net profit/(loss) attributable to members of Grand Gulf Energy Limited		<u>(999,946)</u>	<u>449,374</u>
Basic earnings/(loss) per share (cents per share)		<u>(0.34)</u>	<u>0.38</u>
Diluted earnings/(loss) per share (cents per share)		<u>(0.34)</u>	<u>0.38</u>

The Consolidated Income Statements is to be read in conjunction  
with the notes to the financial statements set out on pages 9 to 13.

**GRAND GULF ENERGY LIMITED**  
**ABN 22 073 653 175**

**CONSOLIDATED BALANCE SHEET**  
**AS AT 31 DECEMBER 2007**

	Note	Consolidated Entity	
		31 December 2007 \$	30 June 2007 \$
<b>ASSETS</b>			
<b>Current Assets</b>			
Cash and cash equivalents		1,733,632	5,706,863
Trade and other receivables		241,873	92,222
Other current assets		617,005	278,293
<b>Total Current Assets</b>		<b>2,592,510</b>	<b>6,077,378</b>
<b>Non-Current Assets</b>			
Property, plant and equipment		6,348	16,548
Oil and gas exploration expenditures	4	10,229,121	6,439,211
<b>Total Non-Current Assets</b>		<b>10,235,469</b>	<b>6,455,759</b>
<b>Total Assets</b>		<b>12,827,979</b>	<b>12,533,137</b>
<b>LIABILITIES</b>			
<b>Current Liabilities</b>			
Payables		147,618	339,270
<b>Total Current Liabilities</b>		<b>147,618</b>	<b>339,270</b>
<b>Non -Current Liabilities</b>			
Provisions		43,693	52,647
Interest bearing liability	5	666,276	-
<b>Total Non- Current Liabilities</b>		<b>709,969</b>	<b>52,647</b>
<b>Total Liabilities</b>		<b>857,587</b>	<b>391,917</b>
<b>Net Assets</b>		<b>11,970,392</b>	<b>12,141,220</b>
<b>Equity</b>			
Issued capital	2	25,254,736	24,966,947
Option premium reserve	3	684,596	-
Share option reserve		700,690	533,213
Foreign currency translation reserve		(513,636)	(202,892)
Accumulated losses		(14,155,994)	(13,156,048)
<b>Total Equity</b>		<b>11,970,392</b>	<b>12,141,220</b>

The Consolidated Balance Sheet is to be read in conjunction  
with the notes to the financial statements set out on pages 9 to 13.

**GRAND GULF ENERGY LIMITED**  
**ABN 22 073 653 175**

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**  
**FOR THE HALF YEAR ENDED 31 DECEMBER 2007**

	\$	\$	\$	\$	\$	\$
	Share Capital Ordinary	Share Option Reserve	Option Premium Reserve	Accum Losses	Foreign currency Transn Reserve	Total Equity
<b>Balance at 1.7.2006</b>	15,993,205	259,763	-	(10,296,955)	58,411	6,014,423
Foreign currency translation adjustment	-	-	-	-	(268,468)	(268,467)
Loss attributable to members of the consolidated entity	-	-	-	449,374	-	449,374
Total recognised income and expense for the period	-	-	-	449,374	(268,468)	180,906
Contributions of equity net of issue costs	3,600,450	-	-	-	-	3,600,450
Adjustments	-	23,554	-	-	-	23,554
<b>Balance at 31.12.06</b>	<b>19,593,655</b>	<b>283,317</b>	<b>-</b>	<b>(9,847,581)</b>	<b>(210,057)</b>	<b>9,819,334</b>
<b>Balance at 1.7.2007</b>	24,966,947	533,213	-	(13,156,048)	(202,892)	12,141,220
Foreign currency translation adjustment	-	-	-	-	(310,744)	(310,744)
Loss attributable to members of the consolidated entity	-	-	-	(999,946)	-	(999,946)
Share Options	-	167,477	684,596	-	-	852,073
Total recognised income and expense for the period	-	167,477	684,596	(999,946)	(310,744)	(458,617)
Contributions of equity net of issue costs	287,789	-	-	-	-	287,789
<b>Balance at 31.12.07</b>	<b>25,254,736</b>	<b>700,690</b>	<b>684,596</b>	<b>(14,155,994)</b>	<b>(513,636)</b>	<b>11,970,392</b>

The Consolidated Statement of Changes in Equity is to be read in conjunction with the notes to the financial statements set out in pages 9 to 13.

**GRAND GULF ENERGY LIMITED**  
**ABN 22 073 653 175**

**CONSOLIDATED CASH FLOW STATEMENT**  
**FOR THE HALF YEAR ENDED 31 DECEMBER 2007**

	Note	Consolidated Entity	
		31 December 2007	31 December 2006
		\$	\$
<b>Cash Flows From Operating Activities</b>			
Payments in the course of operations		(1,156,191)	(985,879)
Payments for exploration and evaluation		(2,231,005)	(1,528,029)
Interest received		54,096	54,608
Interest paid		(16,580)	-
Other receipts from operations		141,679	49,565
<b>Net cash used in operating activities</b>		<u>(3,208,001)</u>	<u>(2,409,735)</u>
<b>Cash Flows From Investing Activities</b>			
Payment for fee minerals rights		(2,238,929)	-
Proceeds on disposal of non current assets		1,000	2,046,934
<b>Net cash from/(used in) investing activities</b>		<u>(2,237,929)</u>	<u>2,046,934</u>
<b>Cash Flows From Financing Activities</b>			
Proceeds from loans		676,235	-
Proceeds from the issue of share capital and options		1,044,698	2,500,000
Capital raising costs		(72,313)	(159,550)
<b>Net cash provided by financing activities</b>		<u>1,648,620</u>	<u>2,340,450</u>
Net increase/(decrease) in cash held		(3,797,310)	1,977,649
Cash and cash equivalents at beginning of financial period		5,706,862	2,422,258
Exchange rate adjustments		(175,920)	2,001
<b>Cash and cash equivalents at end of financial period</b>		<u>1,733,632</u>	<u>4,401,908</u>

The Consolidated Cash Flow Statement is to be read in conjunction with  
the notes to the financial statements set out on pages 9 to 13.

**GRAND GULF ENERGY LIMITED**  
**ABN 22 073 653 175**

**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE HALF YEAR ENDED 31 DECEMBER 2007**

**(1) Basis of preparation**

The half-year consolidated financial statements are a general purpose financial report prepared in accordance with the requirements of the *Corporations Act 2001*, Accounting Standard AASB 134: Interim Financial Reporting, Urgent Issues Group Interpretations and other authoritative pronouncements of the Australian Accounting Standards Board. Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 34 Interim Financial Reporting.

It is recommended that this financial report be read in conjunction with the annual financial report for the year ended 30 June 2007 for Grand Gulf Energy Limited and its controlled entities ('the group'). The half-year report does not include full disclosures of the type normally included in the annual financial report.

*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 below.

**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:

*Impairment of assets*

In determining the recoverable amounts of assets, in the absence of quoted market prices, estimations are made using estimated sale value. The carrying value of oil and gas properties is reviewed semi-annually for indicators of impairment by the board of directors.

**GRAND GULF ENERGY LIMITED**  
**ABN 22 073 653 175**

**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE HALF YEAR ENDED 31 DECEMBER 2007**

*(i) Critical accounting estimates and assumptions (continued)*

*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.

*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.

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

*Exploration and evaluation*

The Group's accounting policy for exploration and evaluation is unchanged from the policy used at 30 June 2007. 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.

*(iii) Going Concern*

The Group's half-year financial report has been prepared on a going concern basis, which contemplates continuity of normal business activities and the realisation of assets and settlement of liabilities in the ordinary course of business. The Group incurred an operating loss after tax of \$999,946 for the period and at 31 December 2007 had positive net assets of \$11,970,392. The directors are actively pursuing the continued raising of funds and the establishment of financing arrangements as the company heads towards generating positive future cashflows.

If the Group is not able to raise funds or establish financing facilities, the Group may not be able to continue as a going concern and therefore whether it will realise its assets and extinguish its liabilities in the normal course of business and at the amounts stated in the interim financial report.

The Directors are of the opinion that there are reasonable grounds to believe the Group will be able to pay its debts as and when they become due and payable.

**GRAND GULF ENERGY LIMITED**  
**ABN 22 073 653 175**

**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE HALF YEAR ENDED 31 DECEMBER 2007**

**2. ISSUED CAPITAL**

	Consolidated		Consolidated	
	31 December 2007 No.	31 December 2006 No.	31 December 2007 \$	31 December 2006 \$
Balance brought forward at the beginning of the period	297,856,005	114,270,901	24,966,947	15,993,205
Shares issued during the half year:				
Issued at \$0.05 each	-	50,000,000	-	2,500,000
Issued in respect of acquisition of the acquisition of 12.5% share of the Arkoma Basin Exploration Project at \$0.06 each	-	21,000,000	-	1,260,000
Options exercised at \$0.06 each	5,000,000		300,000	
Costs of raising capital	-	-	(12,211)	(159,550)
Balance carried forward at the end of the period	<u>302,856,005</u>	<u>185,270,901</u>	<u>25,254,736</u>	<u>19,593,655</u>

**3. OPTIONS**

**Option Premium Reserve**

During the period the following listed options over unissued ordinary shares were issued by the company:

Options issued/(expired)	Exercise price	Expiry date
74,464,156	\$0.06	28 February 2009

As at 31 December 2007 the company has on issue 41,580,643 (30 June 2007: 46,580,643) unlisted options over unissued ordinary shares, and 74,464,156 listed options (30 June 2007: nil).

The issue price of the options was \$0.01. Net proceeds received from the issue were \$684,596 after deducting \$60,045 of costs incurred.

**Share Option Reserve**

During the period an amount of \$167,477 (31 December 2006: \$23,554) was recognised as an expense and corresponding movement in equity in respect of the fair value of options issued as equity based compensation.

On 6 December 2007 5,000,000 options were exercised by one of the directors, Mr J Trimble. The options had previously been valued at \$0.035 each amounting to total compensation value of \$175,000. Upon the exercise of these options, the remaining fair value was brought to account and included in the aforementioned expense.

**GRAND GULF ENERGY LIMITED**  
**ABN 22 073 653 175**

**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE HALF YEAR ENDED 31 DECEMBER 2007**

**4. OIL AND GAS EXPLORATION EXPENDITURES**

During the period there was a net increase in deferred exploration expenditure of \$3,789,910 after charging amortisation on producing assets of \$176,950.

**5. INTEREST BEARING LIABILITIES**

In July 2007 the company entered into a \$4,000,000 working capital facility with one of its major shareholders, Macquarie Bank Limited, for the acquisition of new acreage and continuing drilling operations. As at 31 December 2007, an amount of USD 587,000 has been drawn from the facility.

**5. CONTINGENT LIABILITIES**

There has been no change in contingent liabilities since the last annual reporting date.

**7. EVENTS SUBSEQUENT TO REPORTING DATE**

There has not arisen in the interval between the end of the period and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the Directors of the Company, to affect significantly the operations of the Company, the results of those operations, or the state of affairs of the Company in future financial periods.

**8. SEGMENT REPORTING**

**Geographic segment – primary segment**

The consolidated entity operates in the oil and gas industry in only one geographic segment being North America.

**9. DIVIDENDS**

No dividends have been paid or proposed during the financial period.

**GRAND GULF ENERGY LIMITED**  
**ABN 22 073 653 175**

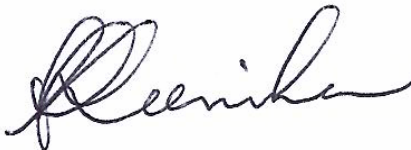
**DIRECTORS' DECLARATION**

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 become 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 consolidated entity; and
- (c) the directors have been given the declarations required by s295A of the Corporations Act 2001.

Signed in accordance with a resolution of the directors made pursuant to s295(5) of the Corporations Act 2001.

On behalf of the Directors

A handwritten signature in black ink, appearing to read 'Stephen Keenihan', written in a cursive style.

**Stephen Keenihan**  
Director

Perth, 14<sup>th</sup> March 2008

## INDEPENDENT AUDITOR'S REVIEW REPORT TO THE MEMBERS OF GRAND GULF ENERGY LIMITED

We have reviewed the accompanying half-year financial report of Grand Gulf Energy Limited, which comprises the condensed balance sheet as at 31 December 2007, and the condensed income statement, condensed statement of changes in equity and condensed cash flow statement for the half-year ended on that date, a statement of accounting policies, other selected explanatory notes and the directors' declaration of the consolidated entity comprising the disclosing entity and the entities it controlled at the half-year end or from time to time during the half-year in order for the disclosing entity to lodge the half-year financial report with the Australian Securities and Investments Commission.

### Directors' Responsibility for the Half-Year Financial Report

The directors of the disclosing entity are responsible for the preparation and fair presentation of the half-year financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the half-year 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.

### Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of an Interim Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the disclosing entity's financial position as at 31 December 2007 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Grand Gulf Energy Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

## **Independence**

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

## **Conclusion**

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Grand Gulf Energy Limited is not in accordance with the *Corporations Act 2001* including:

- (a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2007 and of its performance for the half-year ended on that date; and
- (b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and Corporations Regulations 2001.

## ***Inherent Uncertainty Regarding Continuation as a Going Concern***

Without qualifying our opinion, we draw attention to Note 1(iii) in the financial report which states that the company incurred a net loss of \$999,946 during the period ended 31 December 2007. These conditions, along with other matters as set forth in Note 1(iii), indicate the existence of a inherent uncertainty about the company's ability to continue as a going concern and therefore whether it will realise its assets and extinguish its liabilities in the normal course of business and at the amounts stated in the financial report.

## **BDO Kendalls Audit & Assurance (WA) Pty Ltd**

BDO Kendalls  
Peter Toll

**Peter Toll**  
Director

Perth, Western Australia  
Dated this 14<sup>th</sup> day of March 2008