

GRAND GULF ENERGY LIMITED

ABN 22 073 653 175

FINANCIAL REPORT

FOR THE HALF YEAR ENDED

31 DECEMBER 2008

GRAND GULF ENERGY LIMITED
ABN 22 073 653 175

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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 2008.

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>

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 \$2,977,661 (2007: loss of \$999,946), including a write off of capitalised exploration costs of \$2,380,739 (2007: Nil).

Cash assets at 31 December 2008 of \$1,258,431 decreased from \$2,412,488 as at 30 June 2008, after operations.

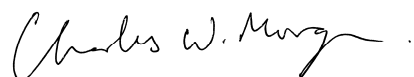
Deferred exploration assets as at 31 December 2008 of \$12,135,861 (30 June 2008: \$10,455,920).

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 2008.

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

Dated this 16th day of March 2009.



CHARLES MORGAN
Director



16 of March 2009

Board of Directors
Grand Gulf Energy Limited
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 2008, 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

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

GRAND GULF ENERGY LIMITED
ABN 22 073 653 175

CONSOLIDATED INCOME STATEMENT
FOR THE HALF YEAR ENDED 31 DECEMBER 2008

	Note	Consolidated Entity	
		31 December 2008 \$	31 December 2007 \$
Revenue from continuing operations			
Interest revenue		20,723	54,096
Oil and gas sales		464,077	356,225
Other income			
Foreign Exchange Gain /(loss)		123,654	(2,391)
		608,454	407,930
Expenses			
Borrowing costs		(223,963)	(36,142)
Director and employee expenses		(386,716)	(617,404)
Depreciation and amortisation		(196,156)	(179,325)
Finance costs		(50,416)	(52,722)
Professional and consulting fees		(202,009)	(338,362)
Administration expenses		(109,711)	(120,265)
Exploration costs written off	4	(2,380,739)	-
Other expenses from ordinary activities		(36,405)	(63,656)
		(2,977,661)	(999,946)
Profit/(loss) from ordinary activities before income tax expense		(2,977,661)	(999,946)
Income tax benefit/(expense)		-	-
Net profit/(loss) attributable to members of Grand Gulf Energy Limited		(2,977,661)	(999,946)
Basic earnings/(loss) per share (cents per share)		(0.98)	(0.34)
Diluted earnings/(loss) per share (cents per share)		(0.98)	(0.34)

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 2008

	Note	Consolidated Entity	
		31 December 2008 \$	30 June 2008 \$
ASSETS			
Current Assets			
Cash and cash equivalents		1,258,431	2,412,488
Trade and other receivables		159,702	328,026
Other current assets		264,896	25,707
Total Current Assets		1,683,029	2,766,221
Non-Current Assets			
Property, plant and equipment		3,620	4,808
Oil and gas exploration expenditures	4	12,135,861	10,455,920
Other assets		551,723	144,566
Total Non-Current Assets		12,691,204	10,605,294
Total Assets		14,374,233	13,371,515
LIABILITIES			
Current Liabilities			
Payables		1,221,678	1,564,237
Total Current Liabilities		1,221,678	1,564,237
Non –Current Liabilities			
Provisions		15,789	41,777
Interest bearing liability	5	2,588,734	670,000
Total Non- Current Liabilities		2,604,523	711,777
Total Liabilities		3,826,201	2,276,014
Net Assets		10,548,032	11,095,501
Equity			
Issued capital	2	25,264,897	25,264,897
Option premium reserve	3	676,800	676,800
Share option reserve	3	1,369,897	789,195
Foreign currency translation reserve		782,148	(1,067,342)
Accumulated losses		(17,545,710)	(14,568,049)
Total Equity		10,548,032	11,095,501

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
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CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE HALF YEAR ENDED 31 DECEMBER 2008

	\$	\$	\$	\$	\$	\$
	Share Capital Ordinary	Share Option Reserve	Option Premium Reserve	Accum Losses	Foreign currency Transn Reserve	Total Equity
Balance at 1.7.2007	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
Balance at 31.12.07	25,254,736	700,690	684,596	(14,155,994)	(513,636)	11,970,392
Balance at 1.7.2008	25,264,897	789,195	676,800	(14,568,049)	(1,067,342)	11,095,501
Foreign currency translation adjustment	-	-	-	-	1,849,490	1,849,490
Loss attributable to members of the consolidated entity	-	-	-	(2,977,661)	-	(2,977,661)
Share Options	-	580,702	-	-	-	580,702
Total recognised income and expense for the period	-	580,702	-	(2,977,661)	1,849,490	(547,469)
Contributions of equity net of issue costs	-	-	-	-	-	-
Balance at 31.12.08	25,264,897	1,369,897	676,800	(17,545,710)	782,148	10,548,032

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
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CONSOLIDATED CASH FLOW STATEMENT
FOR THE HALF YEAR ENDED 31 DECEMBER 2008

	Note	Consolidated Entity	
		31 December 2008	31 December 2007
		\$	\$
Cash Flows From Operating Activities			
Payments in the course of operations		(704,207)	(1,156,191)
Payments for exploration and evaluation		(3,336,446)	(2,231,005)
Interest received		20,723	54,096
Interest and other costs of finance paid		(85,764)	(16,580)
Other receipts from operations		673,625	141,679
Net cash used in operating activities		<u>(3,432,069)</u>	<u>(3,208,001)</u>
Cash Flows From Investing Activities			
Payment for fee minerals rights		-	(2,238,929)
Proceeds on disposal of non current assets		(1,628)	1,000
Net cash from/(used in) investing activities		<u>(1,628)</u>	<u>(2,237,929)</u>
Cash Flows From Financing Activities			
Proceeds from loans		1,619,216	676,235
Proceeds from the issue of share capital and options		-	1,044,698
Capital raising costs		-	(72,313)
Net cash provided by financing activities		<u>1,619,216</u>	<u>1,648,620</u>
Net increase/(decrease) in cash held		(1,814,481)	(3,797,310)
Cash and cash equivalents at beginning of financial period		2,412,488	5,706,862
Exchange rate adjustments		660,424	(175,920)
Cash and cash equivalents at end of financial period		<u>1,258,431</u>	<u>1,733,632</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
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NOTES TO THE FINANCIAL STATEMENTS
FOR THE HALF YEAR ENDED 31 DECEMBER 2008

(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 2008 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 AIFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed 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.

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE HALF YEAR ENDED 31 DECEMBER 2008

(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 2008. 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 \$2,977,661 for the period and at 31 December 2008 had positive net assets of \$10,548,032.

As at the date of this financial report the Company has received a reserves report that means that there is an Event of Default in relation to its Facility Agreement with Macquarie Bank. The value of the Company's total proven producing reserves are currently less than the value of the amount drawn down under its facility. However, Macquarie Bank has provided Grand Gulf with a waiver of the Events of Default as relates to the Proven Producing Reserves ratio and the fact that its securities have been suspended for a period more than five business days for a period until 16 May 2009. Macquarie Bank reserves its rights under the facility agreement to declare a breach of the Facility Agreement for other Events of Default other than the two outlined above for that period.

If the Group is not able to raise funds, make alternative arrangements with its financier or realise assets there is material uncertainty which may cast significant doubt as to whether the Group will 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.

GRAND GULF ENERGY LIMITED
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NOTES TO THE FINANCIAL STATEMENTS
FOR THE HALF YEAR ENDED 31 DECEMBER 2008

2. ISSUED CAPITAL

	Consolidated		Consolidated	
	31 December 2008 No.	31 December 2007 No.	31 December 2008 \$	31 December 2007 \$
Balance brought forward at the beginning of the period	302,856,005	297,856,005	25,264,897	24,977,108
Shares issued during the half year:				
Options exercised at \$0.06 each	-	5,000,000	-	300,000
Costs of raising capital	-	-	-	(12,211)
Balance carried forward at the end of the period	<u>302,856,005</u>	<u>302,856,005</u>	<u>25,264,897</u>	<u>25,264,897</u>

3. OPTIONS

Option Premium Reserve

As at 31 December 2008 the company has on issue 73,775,000 (30 June 2008: 41,580,643) unlisted options over unissued ordinary shares, and 74,464,156 listed options (30 June 2008: 74,464,156).

Share Option Reserve

During the period an amount of \$14,577 (31 December 2007: \$167,477) was recognised as an expense and corresponding movement in equity in respect of the fair value of options issued as equity based compensation.

In consideration for draw downs on the facility agreement, Macquarie Bank was issued 45,000,000 (Value \$0.0102 per option) and 13,775,000 (Value \$0.0074 per option) unlisted options exercisable at \$0.04, on or before 18 September 2012 and 2 December 2012 respectively.

Argonaut Capital was issued 3,000,000 options exercisable at \$0.04 on or before 2 December 2012 in consideration for corporate advisory services performed. (Value \$0.0074 per option).

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE HALF YEAR ENDED 31 DECEMBER 2008

4. OIL AND GAS EXPLORATION EXPENDITURES

	Consolidated	
	31 December 2008 \$	30 June 2008 \$
Capitalised oil and gas expenditure	14,516,600	11,756,405
Provision for impairment	(2,380,739)	(1,300,485)
	12,135,861	10,455,920

During the period, expenditure on exploration was \$2,266,422, amortisation on producing assets of \$196,156 was charged and the remaining movement in value for the six months, prior to impairment, of \$1,990,414 was as a result of the fluctuation in foreign exchange.

The impairment charge related to either the relinquishment of the licence or the end of the productive life of the relevant asset.

The realisation of these oil and gas expenditures carried forward is dependent on the continued funding of the group (refer Note 1(iii)).

5. INTEREST BEARING LIABILITIES

In July 2008 the company entered into a \$50,000,000 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 2008, an amount of USD 1,793,475 has been drawn from the facility.

Subsequent to the end of the reporting period the Company has drawn down fully (USD\$ 2,500,000) on the funds available to it under the Macquarie Bank Limited facility agreement.

The Company is in breach of certain lending covenants in respect of this agreement. (Refer Note 1(iii)).

6. CONTINGENT LIABILITIES

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

7. EVENTS SUBSEQUENT TO REPORTING DATE

As at the date of this financial report the Company has received a reserves report that means that there is an Event of Default in relation to its Facility Agreement with Macquarie Bank. The value of the Company's total proven producing reserves are currently less than the value of the amount drawn down under its facility. However, Macquarie Bank has provided Grand Gulf with a waiver of the Events of Default as relates to the Proven Producing Reserves ratio and the fact that its securities have been suspended for a period more than five business days for a period until 16 May 2009. Macquarie Bank reserves its rights under the facility agreement to declare a breach of the Facility Agreement for other Events of Default other than the two outlined above for that period (Refer Note 1 (iii)).

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE HALF YEAR ENDED 31 DECEMBER 2008

7. EVENTS SUBSEQUENT TO REPORTING DATE (Continued)

On 30th January 2009, the Company announced its intention to place up to 100,000,000 shares at a price of \$0.01 subject to shareholders approval. The funds raised will be used for further drilling at the Napoleonville Salt Dome Project and for general working capital purposes.

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.

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DIRECTORS' DECLARATION

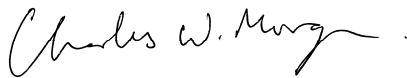
The directors of the company declare that:

1. The financial statements and notes, as set out on pages 5 to 13:
 - a. give a true and fair view of the consolidated entity's financial position as at 31 December 2008 and of its performance for the half-year then ended; and
 - b. complying with Accounting Standard AASB 134: Interim Financial Reporting and the Corporations Regulations. 2001; and
2. 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.

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

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

On behalf of the Directors



Charles Morgan
Director

Perth, 16th March 2009



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 balance sheet as at 31 December 2008, and the income statement, statement of changes in equity and 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.

Directors' Responsibility for the Half-Year Financial Report

The directors of the consolidated 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 2008 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 2008 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.

Material Uncertainty Regarding Continuation as a Going Concern

Without qualifying our conclusion, Grand Gulf Energy Limited incurred a net loss of \$2,977,661 and had net cash outflows from operating activities of \$3,432,069 during the half year ended 31 December 2008. These conditions, along with other matters as set forth in Note 2, indicate the existence of a material uncertainty which may cast significant doubt about the entity'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.

BDO Kendalls Audit & Assurance (WA) Pty Ltd

BDO Kendalls


Peter Toll
Director

Signed in Perth, Western Australia
Dated this 16th March 2009.