

GRAND GULF ENERGY LIMITED

ABN 22 073 653 175

INTERIM REPORT

FOR THE HALF YEAR ENDED

31 DECEMBER 2009

GRAND GULF ENERGY LIMITED
ABN 22 073 653 175

CONTENTS

DIRECTORS' REPORT.....	3
AUDITOR'S INDEPENDENCE DECLARATION.....	4
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME.....	5
CONSOLIDATED STATEMENT OF FINANCIAL POSITION.....	6
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY.....	7
CONSOLIDATED STATEMENT OF CASH FLOWS.....	8
NOTES TO THE FINANCIAL STATEMENTS.....	9-15
DIRECTORS' DECLARATION.....	16
INDEPENDENT AUDITOR'S REVIEW REPORT TO THE MEMBERS.....	17

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 2009.

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 \$599,247 (2008: loss of \$2,977,661).

Cash assets at 31 December 2009 of \$46,866 decreased from \$257,656 as at 30 June 2009, after operations.

Deferred exploration assets as at 31 December 2009 were \$7,168,618 (30 June 2009: \$7,375,756).

Information regarding the refinancing of the Macquarie Bank Facility is included in Notes 5 and 8.

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 2009.

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

Dated this 16th day of March 2010.



CHARLES MORGAN
Director

16 March 2010

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 2009, 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
- No contraventions of 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 Audit (WA) Pty Ltd
Perth, Western Australia

GRAND GULF ENERGY LIMITED
ABN 22 073 653 175

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE HALF YEAR ENDED 31 DECEMBER 2009

	Note	Consolidated Entity	
		31 December 2009 \$	31 December 2008 \$
Revenue from continuing operations			
Interest revenue		487	20,723
Oil and gas sales		38,796	464,077
Other income			
Foreign exchange gain /(loss)		-	123,654
Reversal of impairment		120,212	-
		159,495	608,454
Expenses			
Borrowing costs		(86,239)	(223,963)
Director and employee expenses		(350,716)	(386,716)
Depreciation and amortisation		(131,710)	(196,156)
Finance costs		(43,869)	(50,416)
Professional and consulting fees		(59,454)	(202,009)
Administration expenses		(62,202)	(109,711)
Exploration costs written off		-	(2,380,739)
Other expenses from ordinary activities		(24,552)	(36,405)
		(599,247)	(2,977,661)
Income tax benefit/(expense)		-	-
		(599,247)	(2,977,661)
Loss for the half year			
Other comprehensive income			
Exchange differences on translation of foreign entities		(102,116)	1,849,490
		(102,116)	1,849,490
Total comprehensive income for the half year			
Loss and total comprehensive income for the half year attributable to the ordinary equity holders of the company		(701,363)	(1,128,171)
		(701,363)	(1,128,171)
		Cents	Cents
Loss per share for profit from continuing operations attributable to the ordinary equity holders of the company:			
Basic and diluted loss per share		(0.18)	(0.98)
Loss per share for profit attributable to the ordinary equity holders of the company:			
Basic and diluted loss per share		(0.18)	(0.98)

The Consolidated Statement of Comprehensive Income is to be read in conjunction with the notes to the financial statements set out on pages 9 to 15.

GRAND GULF ENERGY LIMITED
ABN 22 073 653 175

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2009

	Note	Consolidated Entity	
		31 December 2009 \$	30 June 2009 \$
ASSETS			
Current Assets			
Cash and cash equivalents		46,866	257,656
Trade and other receivables		20,313	97,575
Other assets		441,892	508,163
Non current assets held for sale		-	1,159,724
Total Current Assets		509,071	2,023,118
Non-Current Assets			
Property, plant and equipment		1,362	2,454
Oil and gas exploration expenditures	4	7,168,618	7,375,756
Total Non-Current Assets		7,169,980	7,378,210
Total Assets		7,679,051	9,401,328
LIABILITIES			
Current Liabilities			
Trade and other payables		346,518	796,697
Borrowings	5	2,252,263	3,265,960
Total Current Liabilities		2,598,781	4,062,657
Non –Current Liabilities			
Provisions		12,119	13,481
Borrowings	5	-	-
Total Non- Current Liabilities		12,119	13,481
Total Liabilities		2,610,900	4,076,138
Net Assets		5,068,151	5,325,190
Equity			
Contributed equity	2	25,706,777	25,264,897
Option premium reserve	3	676,800	676,800
Share option reserve	3	1,396,601	1,394,157
Foreign currency translation reserve		112,709	214,825
Accumulated losses		(22,824,736)	(22,225,489)
Total Equity		5,068,151	5,325,190

The Consolidated Statement of Financial Position is to be read in conjunction
with the notes to the financial statements set out on pages 9 to 15.

GRAND GULF ENERGY LIMITED
ABN 22 073 653 175

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE HALF YEAR ENDED 31 DECEMBER 2009

Attirbutable to owners of Grand Gulf Energy Limited

	Contributed Equity	Share Option Reserve	Option Premium Reserve	Foreign currency Translation Reserve	Accum Losses	Total Equity
	\$	\$	\$	\$	\$	\$
Balance at 1.7.2008	25,264,897	789,195	676,800	(1,067,342)	(14,568,049)	11,095,501
Loss for the half year					(2,977,661)	(2,977,661)
Other Comprehensive Income						
Exchange differences on translation of foreign operations	-	-	-	1,849,490	-	1,849,490
Total comprehensive income for the half year	-	-	-	1,849,490	(2,977,661)	(1,128,171)
Transactions with owners in their capacity as owners:						
Share Options Issued	-	580,702	-	-	-	580,702
Balance at 31.12.08	25,264,897	1,369,897	676,800	782,148	(17,545,710)	10,548,032
Balance at 1.7.2009	25,264,897	1,394,157	676,800	214,825	(22,225,489)	5,325,190
Loss for the half year	-	-	-	-	(599,247)	(599,247)
Other Comprehensive Income						
Exchange differences on translation of foreign operations	-	-	-	(102,116)	-	(102,116)
Total comprehensive income for the half year	-	-	-	(102,116)	(599,247)	(701,363)
Transactions with owners in their capacity as owners:						
Shares Issued	441,880	-	-	-	-	441,880
Share Options Issued	-	2,444	-	-	-	2,444
Balance at 31.12.09	25,706,777	1,396,601	676,800	112,709	(22,824,736)	5,068,151

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 15.

GRAND GULF ENERGY LIMITED
ABN 22 073 653 175

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE HALF YEAR ENDED 31 DECEMBER 2009

	Note	Consolidated Entity	
		31 December 2009 \$	31 December 2008 \$
Cash Flows From Operating Activities			
Payments in the course of operations		(232,317)	(704,207)
Payments for exploration and evaluation		(310,452)	(3,336,446)
Interest received		487	20,723
Interest and other costs of finance paid		(43,869)	(85,764)
Other receipts from operations		118,703	673,625
Net cash outflow from operating activities		(467,448)	(3,432,069)
Cash Flows From Investing Activities			
Proceeds on disposal of non current assets		924,795	(1,628)
Net cash inflow / (outflow) from investing activities		924,795	(1,628)
Cash Flows From Financing Activities			
Proceeds from loans		277,382	1,619,216
Repayment of loans		(924,795)	-
Net cash inflow / (outflow) from financing activities		(647,413)	1,619,216
Net decrease in cash held		(190,066)	(1,814,481)
Cash and cash equivalents held at beginning of financial period		257,656	2,412,488
Effect of exchange rate changes on cash and cash equivalents		(20,724)	660,424
Cash and cash equivalents at end of the half year		46,866	1,258,431

The Consolidated Statement of Cash Flows is to be read in conjunction with
the notes to the financial statements set out on pages 9 to 15.

GRAND GULF ENERGY LIMITED
ABN 22 073 653 175

NOTES TO THE FINANCIAL STATEMENTS
FOR THE HALF YEAR ENDED 31 DECEMBER 2009

(1) Basis of preparation

The half-year consolidated financial statements are general purpose financial statements 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 these financial statements be read in conjunction with the annual financial report for the year ended 30 June 2009 for Grand Gulf Energy Limited and its controlled entities ('the Group'). The half-yearly statements do 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 2009

(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 2009. 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 Statement of comprehensive income.

(iii) Going Concern

The Group's half-year financial statements have 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 \$599,247 for the period and at 31 December 2009 had positive net assets of \$5,068,151 and a working capital deficiency of \$2,089,710.

At the date of these financial statements and as previously disclosed, the Company is in breach of lending covenants in relation to its Facility Agreement with Macquarie Bank. Macquarie Bank has the right to call the repayment of the facility, however the Company has received an undertaking from Macquarie Bank that it will not call for repayment at this stage or up until 15 April 2010, pending the completion of a pro rata issue and placement both of which remain open at the date of these financial statements. (Refer Note 7)

If the Group is not able to realise a portion of its assets, raise funds or establish financing facilities, 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 statements.

GRAND GULF ENERGY LIMITED
ABN 22 073 653 175

Adoption of new and revised Accounting Standards

In the half-year ended 31 December 2009, the Group has reviewed all of the new and revised Standards and Interpretations issued by the AASB that are relevant to its operations and effective for annual reporting periods beginning on or after 1 July 2009.

Accounting Standards not Previously Applied

The Group has adopted the following new and revised Australian Accounting Standards issued by the AASB which are mandatory to apply to the current interim period. Disclosures required by these Standards that are deemed material have been included in these financial statements on the basis that they represent a significant change in information from that previously made available.

Presentation of Financial Statements

AASB 101 prescribes the contents and structure of the financial statements. Changes reflected in this financial report include:

- the replacement of Income Statement with Statement of Comprehensive Income. Items of income and expense not recognised in profit or loss are now disclosed as components of 'other comprehensive income'. In this regard, such items are no longer reflected as equity movements in the Statement of Changes in Equity;
- the adoption of the separate income statement/single statement approach to the presentation of the Statement of Comprehensive Income; and
- other financial statements are renamed in accordance with the Standard.

Operating Segments

From 1 January 2009, operating segments are identified and segment information disclosed on the basis of internal reports that are regularly provided to, or reviewed by, the group's chief operating decision maker which, for the Group, is the board of directors. In this regard, such information is provided using different measures to those used in preparing the Statement of Comprehensive Income and Statement of Financial Position.

The Group has also reviewed all new Standards and Interpretations that have been issued but are not yet effective for the half-year ended 31 December 2009. As a result of this review the Directors have determined that there is no impact, material or otherwise, of the new and revised Standards and Interpretations on its business and, therefore, no change necessary to Group accounting policies.

GRAND GULF ENERGY LIMITED
ABN 22 073 653 175

NOTES TO THE FINANCIAL STATEMENTS
FOR THE HALF YEAR ENDED 31 DECEMBER 2009

2. ISSUED CAPITAL

	Consolidated		Consolidated	
	31 December 2009 No.	30 June 2009 No.	31 December 2009 \$	30 June 2009 \$
Balance brought forward at the beginning of the period	302,856,627	302,856,005	25,264,897	25,264,897
Shares issued during the half year:				
In lieu of Directors Fees	44,187,971	-	441,880	-
Balance carried forward at the end of the period	347,044,598	302,856,005	25,706,777	25,264,897

3. OPTIONS

Option Premium Reserve

As at 31 December 2009 the company has on issue 77,275,000 (30 June 2009: 78,775,000) unlisted options over unissued ordinary shares, and NIL listed options (30 June 2009: NIL).

Share Option Reserve

During the period an amount of \$ Nil (31 December 2008: \$14,577) 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 drawdowns on the facility agreement, Macquarie Bank was issued 1,000,000 unlisted options exercisable at \$0.04, on or before 24 November 2013, at a value of \$2,444.

GRAND GULF ENERGY LIMITED
ABN 22 073 653 175

NOTES TO THE FINANCIAL STATEMENTS
FOR THE HALF YEAR ENDED 31 DECEMBER 2009

4. OIL AND GAS EXPLORATION EXPENDITURES

	Consolidated	
	31 December 2009 \$	30 June 2009 \$
Capitalised oil and gas expenditure	11,195,007	12,127,319
Provision for impairment	(4,026,389)	(4,751,563)
	7,168,618	7,375,756
Capitalised oil and gas expenditure		
Carrying amount at beginning of year	7,375,756	10,455,920
Expenditure during the year	181,056	4,732,439
Disposals	(257,577)	-
Transfer to assets held for sale	-	(4,528,225)
Amortisation	(130,617)	(388,367)
Impairment of capitalised expenditure	-	(2,896,011)
Carrying amount at end of year	7,168,618	7,375,756

During the period, expenditure on exploration was \$181,056, amortisation on producing assets of \$130,617 was charged and the remaining movement in value for the six months of \$257,577 related to the written down value of the Ashby wells disposed of during the period.

5. INTEREST BEARING LIABILITIES

The Company has entered into the Restated Facility Agreement with Macquarie Bank pursuant to which, subject to the satisfaction of a number of conditions, Macquarie Bank has agreed to provide an additional USD1,500,000 or such higher amount as notified by Macquarie Bank (**Increased Facility**).

The Restated Facility Agreement restates the terms of the Facility Agreement and provides that the Company satisfy a number of conditions precedent before Macquarie Bank is required to provide the Increased Facility. Key conditions include:

- (i) the Company to provide evidence satisfactory to Macquarie Bank that it has raised not less than USD1,500,000 from a party other than Macquarie Bank to fund the remainder of the costs for the development of Napoleonville; and
- (ii) that the Company issue Macquarie Bank with 75,000,000 Options exercisable at \$0.009 on or before the date that is four years from the date of issue of those Options.

Refer Note 8 for further details.

GRAND GULF ENERGY LIMITED
ABN 22 073 653 175

6. CONTINGENT LIABILITIES

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

7. RELATED PARTIES

As at the date of this report, Seaspin Pty Ltd (a company associated with Mr Charles Morgan) has advanced AUD 40,000 on an unsecured basis repayable as consideration for the participation by Seaspin Pty Ltd in an entitlement issue being undertaken by the Company.

In the event the Share offer does not proceed the advance will remain as an unsecured creditor repayable on 31 December 2010 or as agreed between the parties, interest will accrue at 10% per annum.

Post balance date the following related party transactions have occurred:

James M Trimble (an officer and director of the Company) advanced USD 58,330.71 cash and converted the expense receivable of USD 16,669.29 for a total of USD 75,000.00 on an unsecured basis repayable as consideration for the participation by James M Trimble in an entitlement issue being undertaken by the Company.

In the event a Share offer does not proceed the advance will remain as an unsecured creditor repayable on 31 December 2010 or as agreed between the parties, interest will accrue at 10% per annum.

Seaspin Pty Ltd (a company associated with Mr Charles Morgan) advanced USD 100,000, on an unsecured basis repayable as consideration for the participation by Seaspin Pty Ltd in an entitlement issue being undertaken by the Company.

In the event a Share offer does not proceed the advance will remain as an unsecured creditor repayable on 31 December 2010 or as agreed between the parties, interest will accrue at 10% per annum.

8. EVENTS SUBSEQUENT TO REPORTING DATE

Waterloo Farm-in

Grand Gulf has signed a Term Sheet with Waterloo Oil & Gas LLC whereby it will earn 50% of Waterloo's interest in Napoleonville and become operator of the Salt Dome Project and retain operatorship once the full farm-in obligation have been met.

Golden Gate Petroleum Farm-out

As announced to ASX on 5 March 2010, the Company has executed a letter of intent with Golden Gate Petroleum Ltd (Golden Gate). Subject to a mutually agreed Sale and Purchase agreement Golden Gate will pay 23% of costs to earn a 15% working interest with an entry fee of US\$300,000 payable to earn an interest in the first three prospects. Golden Gate will have the option to participate in the subsequent three well programs on the same terms and can ultimately earn a 15% working interest over the entire dome.

Macquarie Bank Facility

Macquarie Bank has agreed to increase its existing banking facility with Grand Gulf by USD1.5 million from the current USD2.0 million subject to Grand Gulf raising matching funds. The funds are to be used for the drilling of the three initial wells at Napoleonville and cash flow from the wells will be used to repay the facility.

Capital Raisings

Grand Gulf has negotiated a convertible loan from Skye Equity Pty Ltd whereby Skye has agreed to provide Grand Gulf with a loan of \$225,000 to meet its short term working capital requirements. Subject to finalisation of the Waterloo Farm-in Agreement and the Macquarie Bank Facility documentation, the loan will automatically convert to 45,000,000 shares in Grand Gulf at an issue price of \$0.005 per share. In addition Grand Gulf will issue Skye with 25,000,000 options exercisable within four years from the date of issue at a price of \$0.009 per share.

Further to the convertible loan, the directors have lent the company approximately \$200,000 for working capital which will be offset against their respective entitlements under the non-renounceable entitlements issue.

Grand Gulf has offered existing shareholders a one for one non-renounceable entitlements issue at a price of \$0.005 to raise approximately \$1.7 million before costs.

At a general meeting held on 18 February 2010, shareholders approved the placement of 200 million shares at a price of \$0.005 to raise an additional \$1 million.

On 26 February 2010 the prospectus and entitlement issue forms were dispatched to shareholders.

9. SEGMENT REPORTING

Management has determined, based on reports reviewed by the Board of Directors that are used to make strategic decisions, that the group has one reportable segment being oil and gas exploration.

The Board of Directors review internal management reports on a regular basis which reflect the information provided in the half year financial statements.

10. 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 of the company declare that:

1. The financial statements and notes, as set out on pages 5 to 15 are in accordance with the Corporations Act and:
 - a. give a true and fair view of the consolidated entity's financial position as at 31 December 2009 and of its performance for the half-year ended; and
 - b. comply 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.

On behalf of the Directors



Charles Morgan
Director

Perth, 16th March 2010

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

Matters Relating to the Electronic Presentation of the Half-Year Financial Report

This auditor's report relates to the half-year financial report of Grand Gulf Energy Limited for the period ended 31 December 2009 included on Grand Gulf Energy Limited's web site. The disclosing entity's directors are responsible for the integrity of Grand Gulf Energy Limited's web site. We have not been engaged to report on the integrity of Grand Gulf Energy Limited's web site. The auditor's review report refers only to the statements named below. It does not provide an opinion on any other information which may have been hyperlinked to/from these statements. If users of this half-year report are concerned with the inherent risks arising from electronic data communications, they are advised to refer to the hard copy of the reviewed half-year financial report to confirm the information included in the reviewed half-year financial report presented on this web site.

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Grand Gulf Energy Limited, which comprises the statement of financial position as at 31 December 2009, and the statement of comprehensive income, statement of changes in equity and statement of cash flows 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 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 establishing and maintaining internal controls 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 and Other Financial Reports 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 2009 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*. We confirm that the independence declaration required by the *Corporations Act 2001* would be in the same terms if it had been given to the directors at the time that this auditor's review report was made.

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 2009 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, we draw attention to the statement of comprehensive income in the financial report which indicates that the group incurred a net loss of \$599,247 during the period ended 31 December 2009. This condition, along with other matters as set forth in Note 1 (iii), indicate the existence of a material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern and therefore whether it will realise its assets and extinguish its liabilities in the ordinary course of business and at the amounts stated in the financial statements.

BDO Audit (WA) Pty Ltd

A handwritten signature in blue ink, appearing to read 'Peter Toll', with the BDO logo above it.

Peter Toll
Director

Signed in Perth, Western Australia
Dated 16 March 2010.