



GAS2GRID LIMITED

A.B.N. 46 112 138 780

**FINANCIAL REPORT FOR THE
PERIOD ENDED 30th JUNE 2005**

DIRECTORS

David A. Munns, Chairman

David W. King

Hildegunde M. Royle

Michael H. Stirzaker

SECRETARY

Steven J. Danielson

REGISTERED OFFICE

C/- Mitchell & Partners,

Suite 1, Level 2,

1 York Street,

SYDNEY NSW 2000 AUSTRALIA

Telephone: (02) 9251 3838

SHARE REGISTRY

Gould Ralph Pty Limited,

Level 42, AAP Centre,

259 George Street

SYDNEY NSW 2000 AUSTRALIA

Telephone: (02) 9032 3000

SOLICITORS

Fearis, Salter, Power & Shervington

52 Ord Street

WEST PERTH WA 6005 AUSTRALIA

AUDITOR

PricewaterhouseCoopers, Chartered Accountants,

Darling Park Tower 2,

201 Sussex Street,

SYDNEY NSW 1171 AUSTRALIA

STOCK EXCHANGE LISTING

Gas2Grid Limited shares are listed on the Australian Stock Exchange under the code GGX.

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

DIRECTORS' REPORT

Your directors present their report on the consolidated entity of Gas2Grid Limited and the entity it controlled at the end of, or during, the period ended 30 June 2005.

The following persons were directors of Gas2Grid Limited during the period, and up to the date of this report:-

D.W. King
D.A. Munns

H.M. Royle
M.H. Stirzaker

Principal Activities

The company was incorporated on 22 December 2004 and the principal activity of the group in the course of the period was exploration for gas in the Philippines.

Operating Results

The consolidated loss of the consolidated entity after providing for income tax amounted to \$145,182.

Dividends

The directors report that during the period ended 30 June 2005 no dividends were declared or paid.

Review of Operations

Gas2Grid made its debut on the market on the 13th of May at 13:00 hours. The offer was fully subscribed for 20 million shares at 20 cents plus 5 million shares at 20 cents for over subscriptions. The company raised \$5 million for the appraisal of its core project, Service Contract SC44 (Gas2Grid 100%) onshore Cebu Island, Philippines that contains the Malolos and Zaragosa gas discoveries.

The licence is located some 30km south of Cebu City, which is an industrial center and has 1.5 million inhabitants. Gas2Grid's business model is to establish commerciality of the Malolos and Zaragosa fields and develop them for the power market. The company has a Deed of Agreement with Marubeni (a major Japanese trading house), who have an option to acquire the gas from Gas2Grid to operate their own power operations. Cebu City's energy demand is growing strongly and represents an obvious commercialization opportunity for the gas.

1. Field Mapping

Since 28th April, Gas2Grid has been conducting a field survey of its primary Prospect, the Barili/Malolos/Esperanza surface anticline. Two experienced geologists have been mapping the surface geology and taken some 240 readings of the structural configuration of the outcrops. This data will form the basis of further structural analysis of the anticlinal trend through computer reconstructions and modelling.

The objective of this work is to determine the architecture of the Barili/Malolos/Esperanza Anticline in the preparation for further appraisal drilling. Similar to Papua New Guinea, the area is not very suitable for seismic due to outcropping limestones and rugged terrain. However, many significant oil fields have been identified through surface mapping, particularly in the Middle East, Onshore Brunei and Papua New Guinea. Mapping of the Malolos/Barili trend confirms the architecture of the culmination and allows more confident projections into the sub-surface, particularly the hanging-wall of the thrusts.

Cebu Island is a large surface anticline that has been subjected to east/west compression and some rotation. These movements caused subsidiary folds to appear on the island and it is these features that provide the structural trap for any potential gas accumulations.

The areal extent of the Barili/Malolos/Esperanza anticline is some 17 km² with three interpreted en-echelon culminations. Each culmination has the potential to hold significant resources (.50 bcf) of gas in place. The

DIRECTORS' REPORT (Continued)**Review of Operations (Continued)**

anticlines are asymmetric. Their eastern flank dips steeply and is controlled by a series of steeply-dipping, high-angle reverse faults. In contrast, the western flanks are dipping more gently (+/- 20 degrees). This configuration is consistent with Gas2Grid's subsurface model and the well data.

2. Drilling at the Malolos Location**2.1 Objective**

In May, Gas2Grid engaged Mr. Jim Slater to manage the forthcoming drilling operations on the Malolos anticline.

The original gas discovery, Malolos 1, well was drilled in 1960 to a total depth of 2,700m. Some 15 drill stem tests, which typically last for one hour, were conducted and the most promising results came in the form of strong gas flows from two zones within a thick interbedded sand/shale sequence. The upper zone, located at 816 to 834 metres below the surface produced some 5 mmscf/d while the lower zone, located at 1847 to 1860 metres produced 12.6 mmscf/d on test, giving a total of 17.6mmscf/d from the Malolos 1 well. Other zones also recovered small amounts of gas, but were deemed as having too low a flow (less than 0.5 mmscf/d) to warrant further investigation.

The objective of re-visiting the Malolos 1 well site is to conduct a longer term production test of the section to establish if the original gas flows are sustainable and what reserves could be attributed. If a flow of 17 mmscf/d were to be sustainable, this amount would be sufficient to supply a 40MW power plant.

2.2 Operations

Gas2Grid presented the drilling proposal for Nuevo Malolos 1 to the Philippines Department of Energy on the 16th May. The Department approved Gas2Grid's proposal five days later.

At the same time, Gas2Grid also presented an assessment of the prospectivity of Service Contract SC44 to the Department. Gas2Grid had undertaken an extensive analysis of the geology of the licence combined seismic, well and remote sensing data to establish a prospect and lead inventory and provide preliminary estimates of the potential hydrocarbons-in-place. Gas2Grid relies to a large degree on the detailed analysis of a number of remote sensing data sets (radar, topography, geology) to define the structural configuration of the prospects and leads. PNG experience has shown that if the surface anticline is correctly mapped, the drilling success on the topside of the thrust increases significantly. The prospectivity review showed that the licence contains two prospects (Malolos and Zaragosa) and eight other structural leads.

**SC44 Onshore Cebu Island, Philippines
Summary of Prospects and Leads with Gas Resource Potential (Indicative Only)**

Lead Name	Play Type	Area (km ²)	Potential Gas Resources (BCF)	
			850m	1850n
Barili-Malolos-Esperanza	Volcanoclastic sands	16.9	38	119
Rosario	Volcanoclastic sands	12.2	55	114
Saavedra	Volcanoclastic sands	15.4	69	144
Tubud	Volcanoclastic sands	3.4	16	32
Bolokbolok	Volcanoclastic sands	9.6	43	90
Balingog	Carbonate build-up	14.3	64	134
Guadalupe	Volcanoclastic sands	9.5	43	89
Pangpang	Volcanoclastic sands	10.7	48	100
Basak	Volcanoclastic sands	5.0	22	47
Tulang	Volcanoclastic sands	25.3	114	237
	TOTAL:	122.3	512	1104

DIRECTORS' REPORT (Continued)

Review of Operations (Continued)

The analysis reveals that, based on some simple assumptions (20 metre sand, 15% porosity, 60% gas saturation, 80% recovery of gas) there is the potential for the leads in SC44 to contain significant gas resources.

At present, Gas2Grid's representative Mr. Gene Estrada is working with surveyors to prepare the site around the original well and the potential new drill location. Agreements with the landowner for an additional space near the original well have been prepared. The well site is located adjacent to a well maintained gravel road which will aid the mobilization of drilling equipment as supplies can be driven onto the site.

2.3 Forthcoming Operations

Investigation of Existing Well:

Gas2Grid discovered that Malolos 1 was cased down to total depth of 2,700 m. After receiving engineering advice, the company is now planning to investigate the state of the original discovery well in Q3 2005 with a view to re-entering it.

The scheme involves bringing a small drilling rig to the Malolos 1 site to drill out the abandonment cement plug and run some wireline logs to investigate the state of the casing (corrosion, parting etc) and run some basic petrophysical logs to supplement the sparse log data available for Malolos 1. If the well, or even its top section should be in a fit state, Gas2Grid would contemplate a perforation and test in the first well to supplement any further drilling.

Malolos 1 tested gas from two zones. In order to produce these efficiently, two wells will have to be drilled, each with one completion, either at the higher or lower zone. Hence utilising the existing well will not only help with additional data, but would also save cost in any development plan. However, there remains significant risk that after 45 years, the well is no longer usable.

New Well Drilling Tender:

The tender for the drilling operations closed on the 1st July and Gas2Grid is now engaged in negotiating the contractual details. The company expects to make an announcement regarding the award of the tender in the near future. The mobilization date is anticipated to be at the end of Q3/beginning of Q4 and depends on release dates from other operators.

Other Activities

The company continues to monitor exploration opportunities both in areas of current company activity and other regions throughout Australia.

Significant Changes in the State of Affairs

In the opinion of the directors there were no significant changes in the state of affairs of the group that occurred during the financial year under review, not otherwise disclosed in this report or the group financial statements.

Likely Developments and Expected Results of Operations

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

Matters Subsequent to the End of the Financial Year

As at the date of this report, the consolidated entity is in the process of establishing a branch office in the Philippines.

DIRECTORS' REPORT (Continued)

Environmental Regulation

The consolidated entity is required to carry out its activities in accordance with regulations determined by both the Philippino National and regional entities in the areas in which it undertakes its exploration, development and production activities. The consolidated entity is not aware of any matter which requires disclosure with respect to any significant environmental regulation in respect of its operating activities.

Information on Directors

David Alistair Munns, Bachelor in Mechanical Engineering (Peterborough Technical College, United Kingdom).

Non Executive Chairman of the Board since December, 2004.
Other Directorships: TD International Pty Limited and Desco.

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

As at the date of this report, Mr Munns held 6,711,800 shares in the parent entity in which he has a relevant interest.

David William King, Ph.D. Seismology, (Australian National University), M.Sc Geophysics (Imperial College, London).

Non Executive Director of the Board since December, 2004.
Other Directorships: Eastern Star Gas Limited.

He has held positions with Offshore Oil NL and Hartogen Energy before an appointment as Managing Director of North Flinders Mines Ltd. In 1991, he joined Beach Petroleum/Claremont Petroleum as Chief Executive Officer, a position he held until 1995. He is currently an Executive Director of Eastern Star Gas Limited.

As at the date of this report, Mr King and his related parties held 3,223,400 shares in the parent entity in which he has a relevant interest.

Hildegunde Maria Royle, Diplom Geology (University of Cologne, Germany).

Executive Director of the Board since December, 2004.
Other Directorships: Aquamex Limited.

She has extensive experience as a geologist and has also held senior positions with Deutsche Bank and Morgan Stanley. She now runs her own energy finance and strategy advisory practice and her clients include Horizon Investment Company, British Gas Group plc and BP plc.

As at the date of this report, Mrs Royle held 3,355,800 shares in the parent entity in which she has a relevant interest.

Michael Henry Stirzaker, CA (Australia), B.Com (University of Cape Town).

Non Executive Director of the Board since December, 2004.
Other Directorships: RFC Group Limited and related companies.

He qualified as a Chartered Accountant and has considerable experience in a broad range of corporate finance activity, including mergers and acquisitions, divestments and investments in the natural resource sector.

As at the date of this report, Mr Stirzaker and his related party held 472,000 shares in the parent entity in which he has a relevant interest.

DIRECTORS' REPORT (Continued)**Information on Directors (Continued)**

Due to the relatively small size of the company's operations and the number of directors constituting the Board, the Board of Directors unanimously believe that the company's policies and the review of external audit arrangements are best catered for by the involvement of the entire Board. Accordingly, no committees of the Board exist.

Company secretary

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

Meeting of Directors

The following table sets out the number of meetings of the company's directors held during the period ended 30 June 2005, and the number of meetings attended by each director:-

	Full Meetings of Directors
Number of Meetings Held:	8
Number of Meetings Attended By:	
D.W. King	7
D.A. Munns	6
H.M. Royle	8
M.H. Stirzaker	7

Remuneration Report (Audited)

The following disclosure on pages 7 and 8 forms part of the Financial Report as required by AASB 1046 – Director and Executive Disclosures by Disclosing Entities.

The Board determines remuneration policies and practices generally, including remuneration packages and other terms of employment for executive directors and non-executive directors.

Executive directors' and non-executive directors' remuneration and other terms of employment are reviewed annually by the Board having regard to performance against goals set at the start of the year and relevant comparative information.

Details of the nature and amount of each element of the emoluments of each director of Gas2Grid Limited are set out below:-

Executive Directors of Gas2Grid Limited	Directors' Base Fee	Super- annuation	Options	Total	Remuneration consisting of options
	\$	\$	\$	\$	%
H.M. Royle	15,000	1,350	40,000	56,350	71%
Non-executive Directors of Gas2Grid Limited					
D.A. Munns, Non Executive Chairman	17,500	1,575	20,000	39,075	51%
D.W. King	12,500	1,125	12,000	25,625	47%
M.H. Stirzaker	12,500	1,125	12,000	25,625	47%
Total	57,500	5,175	84,000	146,675	

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

DIRECTORS' REPORT (Continued)**Other transactions of directors and director-related entities**

During the period consultancy fees of \$109,065, for services rendered by H.M.Royle and another director of Aquamex Ltd., were paid to Aquamex Ltd., a company controlled by H.M. Royle.

Loans to directors

There are no outstanding loans to directors.

Share options granted to directors

Options over unissued ordinary shares of Gas2Grid Limited granted during the financial year to any of the directors of the company and consolidated entity as part of their remuneration were as follows:

Directors	Options granted
D.A. Munns, Non Executive Chairman	500,000
H.M. Royle	1,000,000
D.W. King	300,000
M.H. Stirzaker	300,000

The options were granted under an Option Deed in February 2005 and pursuant to the prospectus lodged with the Australian Securities and Investments Commission on 4th March 2005 by the company. The options vested upon grant.

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

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

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

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

The amounts disclosed for emoluments relating to options above are the assessed fair values at grant date, which is also the vesting date, of options granted to executive directors and other executives. 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 vesting criteria, the impact of dilution, the non-tradeable nature of the option, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk-free interest rate for the term of the option.

The model inputs for options granted during the period ended 30 June 2005 included:

- a. options are granted for no consideration and are immediately exercisable
- b. exercise price: \$0.30
- c. grant date: February 2005
- d. expiry date: 15 March 2009
- e. share price at grant date: \$0.24
- f. expected price volatility of the company's shares: 45%
- g. expected dividend yield: 0%
- h. risk-free interest rate: 5%

DIRECTORS' REPORT (Continued)**Shares under option**

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

Date options granted	Expiry date	Exercise price of shares	Number under option
February 2005	15 March 2009	\$0.30	2,600,000

These options vested upon grant. No options have been issued since 30 June 2005.

Insurance of officers

During the financial period, Gas2Grid Limited paid a premium of \$25,000 to insure the directors of the company and the consolidated entity.

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

Non-audit services

The company has not employed the auditor on assignments additional to their statutory audit duties.

However, a total of \$511,419 in non-audit fees were paid to various independent firms, as part of the company's capital raising costs. This amount included fees paid for the Investigating Accountant's Report, Due Diligence Report, brokerage and other prospectus costs.

A copy of the auditors' independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 10.

Auditors

PricewaterhouseCoopers have consented to begin office in accordance with Section 327 of the Corporations Act 2001.

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

H. M. Royle
Director
Sydney,

2005

PricewaterhouseCoopers
ABN 52 780 433 757

Darling Park Tower 2
201 Sussex Street
GPO BOX 2650
SYDNEY NSW 1171
DX 77 Sydney
Australia
www.pwc.com/au
Telephone +61 2 8266 0000
Facsimile +61 2 8266 9999

Auditors' Independence Declaration

As lead auditor for the audit of Gas2Grid Limited for the period ended 30 June 2005, I declare that, to the best of my knowledge and belief, there have been:

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

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

Peter Buchholz
Partner
PricewaterhouseCoopers

Sydney
2005

CORPORATE GOVERNANCE STATEMENT

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

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

The Board of Directors

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

- The Board should comprise between 3 and 10 directors, with a mix of executive and non-executive directors;
- The Board should comprise directors with a range of skills and experience that are appropriate and assist the directors in performing their duties within the scope of the company's operations.

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

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

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

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

Independent Professional Advice

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

Performance Assessment

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

The Chairman undertakes an annual assessment of the performance of individual directors. The Directors' performance is measured against specific performance goals as set out by the Board annually.

CORPORATE GOVERNANCE STATEMENT (Continued)

Nomination and Remuneration of Directors and Audit Committees

Corporate governance best practice recommendations 2.4, 4.2 and 9.2 require listed entities to establish a nomination committee, an audit committee and a remuneration committee respectively. During the period ended 30 June 2005, the company did not have a separate nomination, audit or remuneration committee. However, the duties and responsibilities typically delegated to such committees are considered to be the responsibility of the full Board.

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

Nomination of Directors

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

Remuneration of Directors

The amount of remuneration payable to directors is determined and reviewed by the full Board. Further information on directors' remuneration is set out in the Directors' Report at pages 7 and 8.

Review of External Audit Arrangements

The assessment of the scope and quality of the company's audit is carried out by the full Board. Assessment procedures include:-

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

Ethical Standards

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

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

Communication with Shareholders and Continuous Disclosure

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

The Board has established policies and procedures to ensure compliance with ASX Listing Rule disclosure requirements and accountability at a senior management level for that compliance. However, the Board believes that the formalisation of these policies and procedures in a written form as recommended in best

CORPORATE GOVERNANCE STATEMENT (Continued)

Communication with Shareholders and Continuous Disclosure (Continued)

practice recommendation 5.1 is not necessary as the Board is satisfied that all Board members are acutely aware of the importance of making timely and balanced disclosure.

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

Risk Assessment and Management

The Board is responsible for ensuring there are adequate policies in relation to risk management, compliance and internal control systems.

The assessment of identified and potential significant business risk is monitored by the executive directors. The executive directors are responsible for the development and implementation of appropriate risk management strategies in order to mitigate such risk.

The Chairman has declared, in writing to the Board, that the financial reporting risk management and associated compliance and controls have been assessed and found to be operating efficiently and effectively. All risk assessments covered the whole financial year and the period up to the signing of the annual financial report for all material operations in the company.

GAS2GRID LIMITED

Financial report – 30 June 2005

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This financial report covers both Gas2Grid Limited as an individual entity and the consolidated entity consisting of Gas2Grid Limited and its controlled entity.

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

C/- Mitchell & Partners,
Suite 1, Level 2, 1 York Street,
Sydney NSW 2000.

A description of the nature of the consolidated entity's operations and its principal activities is included in the directors' report on pages 3-9, which are not part of this financial report.

This financial report does not cover an annual period as the company was incorporated on 22 December 2004.

**STATEMENT OF FINANCIAL PERFORMANCE
FOR THE PERIOD ENDED 30 JUNE 2005**

	NOTES	CONSOLIDATED 2005 \$	PARENT ENTITY 2005 \$
Revenue from ordinary activities	2	45,360	49,140
Administration expenses		(110,022)	(98,847)
Auditor's remuneration		(24,448)	(10,000)
Insurance costs		(25,000)	(25,000)
Travelling expenses		(22,161)	(22,140)
Other expenses		(8,911)	(8,972)
Loss from ordinary activities before income tax expense	3	(145,182)	(115,819)
Income tax expense	4	--	--
Loss from ordinary activities after income tax expense		(145,182)	(115,819)
Net Loss		(145,182)	(115,819)
		Cents	
Earnings per share	20	(0.42)	
Diluted earnings per share	20	(0.42)	

The above statement of financial performance should be read in conjunction with the accompanying notes.

**STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2005**

	NOTES	CONSOLIDATED 2005 \$	PARENT ENTITY 2005 \$
Current Assets			
Cash	5	5,084,379	4,731,941
Receivables	6	39,495	32,850
Total Current Assets		5,123,874	4,764,791
Non-Current Assets			
Receivables	7	--	979,052
Investments	8	--	3,789,714
Exploration expenditure and rights	9	4,404,057	--
Total Non-Current Assets		4,404,057	4,768,766
Total Assets		9,527,931	9,533,557
Current Liabilities			
Creditors and Borrowings	10	224,368	200,631
Total Current Liabilities		224,368	200,631
Total Liabilities		224,368	200,631
Net Assets		9,303,563	9,332,926
Equity			
Share Capital	11	9,448,745	9,448,745
Accumulated Losses	12	(145,182)	(115,819)
Total Equity	13	9,303,563	9,332,926
Commitments for expenditure	21		
Contingent liabilities	22		

The above statement of financial position should be read in
conjunction with the accompanying notes.

**STATEMENT OF CASH FLOWS
FOR THE PERIOD ENDED 30 JUNE 2005**

	NOTES	CONSOLIDATED 2005 \$	PARENT ENTITY 2005 \$
Cash flows from operating activities			
Interest received		39,654	39,654
Payments to suppliers and employees (inclusive of goods and services tax)		(18,738)	(9,650)
Net cash inflow/(outflow) from operating activities	19	<u>20,916</u>	<u>30,004</u>
Cash flows from investing activities			
Exploration expenditure		(168,272)	--
Subsidiary loan repayments		--	238,830
Net cash inflow/(outflow) from investing activities		<u>(168,272)</u>	<u>238,830</u>
Cash flows from financing activities			
Proceeds from issues of shares and other equity securities		4,459,937	4,459,937
Loans received from related parties		3,170	3,170
Net cash inflow/(outflow) from financing activities		<u>4,463,107</u>	<u>4,463,107</u>
Net increase/(decrease) in cash held		<u>4,315,751</u>	<u>4,731,941</u>
Cash at the beginning of the financial year		755,814	--
Effects of exchange rate changes on cash		<u>12,814</u>	<u>--</u>
Cash at the end of the financial year	5	<u><u>5,084,379</u></u>	<u><u>4,731,941</u></u>

The above statement of cash flows should be read in conjunction with the accompanying notes

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 30 JUNE 2005**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) BASIS OF ACCOUNTING

This general purpose financial report has been prepared in accordance with Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board, Urgent Issues Group Consensus Views and the *Corporations Act 2001*.

It is prepared in accordance with the historical cost convention, except for certain assets which, as noted, are at valuation.

(b) INTANGIBLE ASSETS AND EXPENDITURE CARRIED FORWARD

(i) Goodwill

Where an entity or operation is acquired, the identifiable net assets acquired are measured at fair value. The excess of the fair value of the cost of acquisition over the fair value of the identifiable net assets acquired, including any liability for restructuring costs, is brought to account as goodwill and amortised on a straight line basis over the period during which the benefits are expected to arise, which vary from 5 to 15 years for the carrying amounts of goodwill relating to acquisitions to date.

(ii) Exploration and development

Costs incurred on research and development projects and in-process research and development acquired in the acquisition of an entity or operation are deferred to future periods to the extent that they are expected beyond any reasonable doubt to be recoverable. Deferred costs are amortised from the commencement of commercial production of the produce to which they relate on a straight line basis over the period of the expected benefit, which varies from 3 to 5 years.

Where not separately recognised as a research and development asset at the date of acquisition of an entity or operation, in-process research and development is included in the amount of goodwill or discount on acquisition recognised in accordance with note 1(b)(i).

(iii) Patents and trademarks

Significant costs associated with patents and trademarks are deferred and amortised on a straight line basis over the periods of their expected benefit, which vary from 3 to 5 years.

(c) INCOME TAX

Tax effect accounting procedures are followed whereby the income tax expense in the statement of financial performance is matched with the accounting profit after allowing for permanent differences. The future tax benefit relating to tax losses is not carried forward as an asset unless the benefit is virtually certain of realisation. Income tax on cumulative timing differences is set aside to the deferred income tax or the future income tax benefit accounts at the rates which are expected to apply when those timing differences reverse.

(d) CASH

For purposes of the statement of cash flows, cash includes deposits at call with financial institutions and other highly liquid investments with short periods to maturity which are steadily convertible to cash on hand and are subject to an insignificant risk of changes in value, net of outstanding bank overdrafts.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 30 JUNE 2005 (Continued)**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(e) PRINCIPLES OF CONSOLIDATION

The consolidated financial statements incorporate the assets and liabilities of all entities controlled by Gas2Grid Limited as at 30 June 2005 and the results of the controlled entity for the period then ended. Gas2Grid Limited and its controlled entity together are referred to in this financial report as the consolidated entity. The effects of all transactions between entities in the consolidated entity are eliminated in full. Outside equity interests in the results and equity of controlled entities are shown separately in the consolidated statement of financial performance and statement of financial position respectively.

Where control of an entity is obtained during a financial year, its results are included in the consolidated statement of financial performance from the date on which control commences. Where control of an entity ceases during a financial year its results are included for that part of the year during which control existed.

Gas2Grid Limited acquired Gas2Grid Pte Limited in consideration of the Issue of 18,948,870 shares in the capital of Gas2Grid Limited on 28th February 2005. The Accounting Standards require this transaction to be accounted for on the basis of the fair value of the purchase consideration. The fair value of each issued share is considered to be \$0.20, based on the Offer Price of \$0.20. The value of the total consideration is therefore regarded as being \$3,789,714 which equates to the fair value of the identifiable net assets acquired. The acquisition has been accounted for as follows:

Net assets of Gas2Grid Pte Limited at 31 December 2004	1,811
Purchase consideration	<u>3,789,714</u>
Exploration rights	3,787,903
	=====

The acquisition has been accounted for as if it had taken place on 31 December 2004. There were no movements in any Statement of Financial Position items for the period 1 January 2005 to 28 February 2005.

(f) INVESTMENTS

Investments in controlled entities are valued in the parent entity's financial statements at cost less amounts written off for permanent diminution in the value of investments.

(g) PAYABLES

Trade payables and other accounts payable are recognised when the consolidated entity becomes obliged to make future payments resulting from the purchase of goods and services.

(h) REVENUE RECOGNITION

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

Interest revenue

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

(i) RECEIVABLES

Trade receivables and other receivables are recorded at amounts due less any allowance for doubtful debts. The collectibility of debts assessed at the reporting date and specific provision is made for any doubtful accounts. Bad debts are written off in the period they are identified.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 30 JUNE 2005 (Continued)**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(j) FOREIGN CURRENCY

Foreign currency transactions

All foreign currency transactions during the financial year are brought to account using the spot rate on the date of transaction. Foreign currency monetary items at reporting date are translated at the exchange rate existing at that date.

Exchange differences are recognised in net profit or loss in the period in which they arise except exchange differences on transactions entered into in order to hedge the purchase or sale of specific goods and services are deferred and included in the measurement of the purchase or sale.

The assets and liabilities of foreign operations, including controlled entities, associates and joint ventures, that are integrated are translated using the temporal method. Monetary assets and liabilities are translated into Australian currency at rates of exchange current at reporting date, while non-monetary items and revenue and expense items are translated at exchange rates current when the transactions occurred. Exchange differences arising on translation are brought to account in the statement of financial performance.

Foreign operations

The assets and liabilities of foreign operations, including controlled entities, associates and joint ventures, that are integrated are translated using the temporal method. Monetary assets and liabilities are translated into Australian currency at rates of exchange current at reporting date, while non-monetary items and revenue and expense items are translated at exchange rates current when the transactions occurred. Exchange differences arising on translation are brought to account in the statement of financial performance.

(k) EARNINGS PER SHARE

(i) Basic earnings per share

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

(ii) Diluted earnings per share

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

(l) EXPLORATION EXPENDITURE & RIGHTS

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

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

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

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 30 JUNE 2005 (Continued)**

NOTE 2: REVENUE

	CONSOLIDATED	PARENT ENTITY
	2005	2005
	\$	\$
Revenue from outside the operating activities		
Interest	42,963	42,963
Foreign exchange gain	2,397	6,177
Revenue from ordinary activities	45,360	49,140

NOTE 3: OPERATING LOSS

Loss from ordinary activities before income tax expense includes the following specific expenses:

Auditor's remuneration	24,448	10,000
Insurance costs	25,000	25,000
Travelling expenses	22,161	22,140

The company has no employees.

NOTE 4: INCOME TAX

The income tax expense for the financial year differs from the amount calculated on the loss. The differences are reconciled as follows:-

Loss from ordinary activities before income tax expense	(145,182)	(115,819)
Income tax calculated at 30%	(43,555)	(34,746)
Future income tax benefit not recognised/ (brought to account)	43,555	34,746
Income tax charge/(credit) attributable to operating loss	--	--

The directors estimate that the potential future income tax benefit at 30 June 2005 in respect of tax losses not brought to account is:

	43,555	34,746
--	--------	--------

This benefit for tax losses will only be obtained if:

- (i) the company derives future assessable income of a nature and of an amount sufficient to enable the benefit from the deductions for the losses to be realised in a jurisdiction that permits their deductibility.
- (ii) the company continues to comply with the conditions for deductibility imposed by tax legislation; and
- (iii) no changes in tax legislation affect the company in realising the benefit from the deductions for the losses.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 30 JUNE 2005 (Continued)**

NOTE 5: CURRENT ASSETS - CASH

	CONSOLIDATED 2005 \$	PARENT ENTITY 2005 \$
Cash at bank and on hand	5,084,379	4,731,941

The above figures are reconciled to cash at the end of the year as shown in the Statement of Cash Flows as follows:-

Balances as above	5,084,379	4,731,941
Balance per Statement of Cash Flows	5,084,379	4,731,941

NOTE 6: CURRENT ASSETS - RECEIVABLES

Sundry debtors	39,495	32,850
	39,495	32,850

NOTE 7: NON CURRENT ASSETS - RECEIVABLES

Loan to controlled entity	--	979,052
	--	979,052

NOTE 8: NON CURRENT ASSETS - INVESTMENTS

Shares in subsidiary	--	3,789,714
	--	3,789,714

The investment held in the controlled entity is included in the financial statements at cost at 31 December 2004 is as follows:-

Name:	Country of Incorporation	Class of Shares	2004	
			Investment \$	Holding %
Gas2Grid Pte Limited	Singapore	Ordinary	3,789,714	100
			3,789,714	

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 30 JUNE 2005 (Continued)**

NOTE 8: NON CURRENT ASSETS – INVESTMENTS (Continued)**Acquisition of controlled entity**

On 28 February 2005 the parent entity acquired 100% of the share capital of Gas2Grid Pte Limited for \$3,789,714. The operating results of this newly controlled entity have been included in the consolidated statement of financial performance since the date of acquisition.

Details of the acquisition are as follows:

	\$'000
Fair value of identifiable net assets of controlled entity acquired	
Cash and cash equivalents	759,595
Other assets	1,331
Exploration assets	438,112
Other payables	(477,600)
Borrowings	(719,627)
	1,811
Exploration rights	3,787,903
Consideration (Via Share Issue)	3,789,714

Consideration for the acquisition was paid via a share issue of 18,948,570 ordinary shares of \$0.20 each. On acquisition, Gas2Grid Limited accepted in full and final satisfaction of the Founders' loans in Gas2Grid Pte Limited. These loans were subsequently extinguished via two tranches of share allotments – 1,972,037 ordinary shares of \$0.20 each and 604,591 ordinary shares of \$0.10 each.

NOTE 9: NON-CURRENT ASSETS – EXPLORATION EXPENDITURE & RIGHTS

	CONSOLIDATED	PARENT ENTITY
	2005	2005
	\$	\$
Exploration expenditure & rights		
<i>At cost</i>	4,404,057	-
	4,404,057	-

Reconciliation of the carrying amount of exploration expenditure and rights

Exploration expenditure & rights:		
Carrying amount at beginning of year	--	-
Exploration expenditure & rights	4,404,057	-
Exploration expenditure & rights written off	--	-
Carrying amount at end of year	4,404,057	-

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 30 JUNE 2005 (Continued)**

NOTE 10: CURRENT LIABILITIES – CREDITORS & BORROWINGS

	CONSOLIDATED 2005 \$	PARENT ENTITY 2005 \$
Sundry creditors	122,661	122,661
Trade creditors	98,537	74,800
Loans – related party	3,170	3,170
	224,368	200,631

NOTE 11: CONTRIBUTED EQUITY

	PARENT ENTITY 2005 SHARES	PARENT ENTITY 2005 \$
(a) Share Capital		
Fully paid ordinary shares	(c) 54,133,400	9,448,745

(b) Ordinary shares

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

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

(c) Movements in ordinary share capital:

Date	Details	Number of shares	Issue Price	\$
23.12.2004	Subscriber share issue	3	\$1.00	3
03.03.2005	Investment in subsidiary share issue	18,948,570	\$0.20	3,789,714
03.03.2005	Debt to equity swap share issue	1,972,037	\$0.20	394,407
03.03.2005	Debt to equity swap share issue	604,591	\$0.10	60,459
03.03.2005	Seed capital share issue	7,608,199	\$0.095	725,081
13.05.2005	Initial public offer	25,000,000	\$0.20	5,000,000
				9,969,664
	Less: Transaction costs arising on initial public offer			(520,919)
30.06.2005	Balance	54,133,400		9,448,745

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 30 JUNE 2005 (Continued)**

NOTE 12: ACCUMULATED LOSSES

	CONSOLIDATED 2005 \$	PARENT ENTITY 2005 \$
Accumulated Losses		
Accumulated losses at the beginning of the financial year	--	--
Net loss attributable to members of Gas2Grid Limited	145,182	115,819
	145,182	115,819
Accumulated losses at the end of the financial year	145,182	115,819

NOTE 13: EQUITY

Total equity at the beginning of the financial year	--	--
Total changes in equity recognised in the statement of financial performance	(145,182)	(115,819)
Transaction with owners as owners:		
- Contributions of equity	9,448,745	9,448,745
	9,303,563	9,332,926
Total equity at the end of the financial year	9,303,563	9,332,926

NOTE 14: REMUNERATION OF DIRECTORS

This note discloses equity instruments for Directors as required by AASB 1046 – Director and Executive Disclosures by Disclosing Entities. Disclosure of Specified Directors remuneration is detailed in the Directors' Report at pages 7 and 8.

Gas2Grid Limited Option Plan

Options were granted in February 2005 in recognition of the considerable time and effort expended and to be expended by the Founders, and as a reward for the risks to be undertaken by the Founders. Options are granted for a four year period.

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

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

<u>Director</u>	<u>Grant date</u>	<u>Expiry date</u>	<u>Value at grant date</u>	<u>Balance at start of the year</u> <u>Number</u>	<u>Issued during the year</u> <u>Number</u>	<u>Exercised during the year</u> <u>Number</u>	<u>Lapsed during the year</u> <u>Number</u>	<u>Balance at end of the year</u> <u>Number</u>
D.A. Munns	Feb 05	15 March 09	\$0.04	--	500,000	--	--	500,000
H.M. Royle	Feb 05	15 March 09	\$0.04	--	1,000,000	--	--	1,000,000
D.W. King	Feb 05	15 March 09	\$0.04	--	300,000	--	--	300,000
M.H. Stirzaker	Feb 05	15 March 09	\$0.04	--	300,000	--	--	300,000
Total				--	2,100,000	--	--	2,100,000

No remuneration was paid to any officers of the company other than the amounts disclosed above.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 30 JUNE 2005 (Continued)**

NOTE 14: REMUNERATION OF DIRECTORS (Continued)**Shareholdings**

The numbers of shares in the company held during the financial period by each director of Gas2Grid Limited, including their personally related entities, are set out below.

<u>Name</u>	<u>Balance at the start of the year</u>	<u>Received during the year</u>	<u>Balance at the end of the year</u>
D.A. Munns	--	6,711,800	6,711,800
H.M. Royle	--	3,355,800	3,355,800
D.W. King (i)	--	3,223,400	3,223,400
M.H. Stirzaker (ii)	--	472,000	472,000

(i) 3,223,400 shares and 300,000 options are held by Seistend Pty Ltd, an entity associated with and controlled by David King

(ii) 472,000 shares and 300,000 options are held by Stith Pty Ltd, an entity of which Michael Stirzaker is a director and could be a beneficiary.

Loans to directors

There are no loans outstanding to directors of Gas2Grid Limited.

Other transaction with directors

Refer to note 16 for disclosure of other transactions.

NOTE 15: REMUNERATION OF AUDITORS

	CONSOLIDATED 2005 \$	PARENT ENTITY 2005 \$
Remuneration for audit or review of the financial reports of the company	10,000	10,000
Fees paid to related practices of PricewaterhouseCoopers Australian firm	14,448	--
Total remuneration for audit services	24,448	10,000

NOTE 16: RELATED PARTY DISCLOSURES**(a) Directors**

The names of each person holding the position of director of the company during the period are Messrs. D.W. King, D.A. Munns, M.H. Stirzaker and Mrs H.M. Royle.

(b) Remuneration

Information on remuneration of directors is provided on pages 7 and 8 of the Directors' Report.

(c) Interest of directors

Information on directors' interest is provided in note 14.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 30 JUNE 2005 (Continued)**

NOTE 16: RELATED PARTY DISCLOSURES (Continued)**(d) Interest of director-related parties**

At balance date, the director-related parties held a relevant interest in the share capital of the company as follows:-

	Beneficially Held Fully Paid	Number of Options
B. Rumph (i)	100,000	--
HM Royle & B Rumph Superannuation Fund (ii)	35,000	--
S.C. Stirzaker (iii)	10,000	--

- (i) Brian Rumph is the spouse of Hildegunde Royle.
- (ii) HM Royle & B Rumph Superannuation Fund is a self-managed superannuation fund, of which Hildegunde Royle and Brian Rumph are members.
- (iii) Clare Stirzaker is the spouse of Michael Stirzaker.

(e) Loan to controlled entity

Loan to controlled entity disclosed in note 7 comprise:

	CONSOLIDATED 2005	PARENT ENTITY 2005
	\$	\$
Gas2Grid Pte Limited	--	<u>979,052</u>

The loan is non-interest bearing. We note that realisation of this loan will occur only upon the successful development of the exploration areas of interest into producing sites.

(f) Other transactions of directors and director-related entities

During the period consultancy fees of \$109,065, for services rendered by H.M. Royle and another director of Aquamex Ltd., were paid to Aquamex Ltd., a company controlled by H.M. Royle.

After balance date, the company entered into an agreement with RFC Group Limited, a company of which M. Stirzaker is a director, to rent part of its office space. Monthly rental is \$1,315 (inclusive of GST).

NOTE 17: FINANCIAL REPORTING BY SEGMENTS

The company operates primarily as a gas explorer and in one geographical location, being the Philippines.

NOTE 18: FINANCIAL INSTRUMENTS**(a) Interest rate risk exposures**

The company's exposure to interest rate risk and the effective weighted average interest rate by maturity periods is set out in the following table. For interest rates applicable to each class of asset or liability refer to individual notes to the financial statements.

Exposures arise predominantly from assets and liabilities bearing variable interest rates as the company intends to hold fixed rate assets and liabilities to maturity.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 30 JUNE 2005 (Continued)**

NOTE 18: FINANCIAL INSTRUMENTS (Continued)**(b) Net fair values of financial assets and liabilities**

The carrying amounts of financial assets and liabilities as disclosed in the statement of financial position equate to their estimated net fair value.

(c) Interest rate risk exposures

2005	Notes	Floating interest rate \$	Fixed interest maturing in: 1 year or less \$	Non- interest bearing \$	Total \$
Financial assets					
Cash	5	2,077,153	3,007,223	3	5,084,379
Receivables	6	-	-	39,495	39,495
		2,077,153	3,007,223	39,498	5,123,874
Weighted average interest rate		0.91%	3.76%		
Financial liabilities					
Creditors and borrowings	10	-	-	224,368	224,368
		-	-	224,368	224,368
Net financial assets (liabilities)		2,077,153	3,007,223	(184,870)	4,899,506

NOTE 19: RECONCILIATION OF OPERATING LOSS AFTER INCOME TAX TO NET CASH OUTFLOW FROM OPERATING ACTIVITIES

	CONSOLIDATED 2005 \$	PARENT ENTITY 2005 \$
Operating loss after income tax	(145,182)	(115,819)
Foreign exchange loss	5,938	--
Change in operating assets and liabilities:		
(Increase) decrease in sundry debtors	(16,352)	(11,122)
Increase (decrease) in trade and other creditors	176,512	156,945
Net cash inflow (outflow) from operating activities	20,916	30,004

Non-cash financing and investing activities

Acquisition of subsidiary – Gas2Grid Pte Limited	--	3,789,714
--	----	-----------

Consideration for the acquisition of Gas2Grid Pte Limited was paid via an issue of 18,948,570 ordinary shares of \$0.20 each. Details of the acquisition are shown under note 8.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 30 JUNE 2005 (Continued)**

NOTE 20: EARNINGS PER SHARE

	CONSOLIDATED 2005 \$
Basic earnings per share (cents)	(0.42)
Weighted average number of ordinary shares outstanding during the period used as the denominator in calculating basic earnings per share	34,189,517

Diluted earnings per share is the same as basic earnings per share.

NOTE 21: COMMITMENTS FOR EXPENDITURE**Exploration Commitments**

In order to maintain current rights to tenure to exploration tenements, the company has the following discretionary exploration expenditure requirements up until expiry of leases. These obligations, which are subject to renegotiation upon expiry of the leases are not provided for in the financial statements and are payable:-

	2005 \$
Not later than one year	474,785
Later than one year but not later than five years	3,264,134
	3,738,919

If the company decides to relinquish certain leases and/or does not meet these obligations, assets recognised in the balance sheet may require review to determine the appropriateness of carrying values. The sale, transfer or farm-out of exploration rights to third parties will reduce or extinguish these obligations.

NOTE 22: CONTINGENT LIABILITIES

The consolidated entity had contingent liabilities at 30 June 2005 in respect of:

Restoration

Restoration obligations in relation to exploration activities are expected to amount to \$6,000.

NOTE 23: EVENT OCCURRING AFTER BALANCE DATE

As at the date of this report, the consolidated entity is in the process of establishing a branch office in the Philippines.

NOTE 24: EMPLOYEE BENEFITS

There were no other employee entitlements for the period ended 30 June 2005.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 30 JUNE 2005 (Continued)**

NOTE 25: IMPACTS OF ADOPTING AUSTRALIAN EQUIVALENTS TO IFRS

The Australian Accounting Standards Board (AASB) is adopting International Financial Reporting Standards (IFRS) for application to reporting periods beginning on or after 1 January 2005. The AASB has issued Australian equivalents to IFRS, and the Urgent Issues Group has issued interpretations corresponding to IASB interpretations originated by the International Financial Reporting Interpretations Committee or the former Standing Interpretations Committee. These Australian equivalents to IFRS are referred to hereafter as AIFRS. The adoption of AIFRS will be first reflected in the consolidated entity's financial statements for the half-year ending 31 December 2005 and the year ending 30 June 2006.

Entities complying with AIFRS for the first time will be required to restate their comparative financial statements to amounts reflecting the application of AIFRS to that comparative period. Most adjustments required on transition to AIFRS will be made, retrospectively, against opening retained earnings as at 1 July 2004.

The consolidated entity has established a project team to manage the transition to AIFRS, including training of staff and system and internal control changes necessary to gather all the required financial information. The project team is chaired by the Managing Director and reports quarterly to the Board. The project team has prepared a detailed timetable for managing the transition and is currently on schedule.

The project team has analysed all of the AIFRS and has identified the accounting policy changes that will be required. In some cases choices of accounting policies are available, including elective exemptions under

Accounting Standards AASB 1 *First-time Adoption of Australian Equivalents to International Financial Reporting Standards*. These choices have been analysed to determine the most appropriate accounting policy for the consolidated entity.

The known or reliably estimable impacts on the financial report for the period ended 30 June 2005 had it been prepared using AIFRS are set out below. No material impacts are expected in relation to the statements of cash flows.

Although the adjustments disclosed in this note are based on management's best knowledge of expected standards and interpretations, and current facts and circumstances, these may change. For example, amended or additional standards or interpretations may be issued by the AASB and the IASB. Therefore, until the company prepares its first full AIFRS financial statements, the possibility cannot be excluded that the accompanying disclosures may have to be adjusted.

Major changes to date that will be required to the entity's existing accounting policies include the following:

(i) *Income tax*

Under AASB 112 *Income Taxes*, deferred tax balances are determined using the balance sheet method which calculated temporary differences based on the carrying amount of the group's assets and liabilities in the balance sheet and their associated tax losses. In addition, current and deferred taxes attributable to amounts recognised directly in equity are also recognised directly in equity.

This will result in a change to the current accounting policy, under which deferred tax balances are determined using the income statement method, items are only tax effected if they are included in the determination of pre tax accounting profit and deferred taxes cannot be recognised directly in equity.

The material impacts on the financial report for the period ended 30 June 2005 had it been prepared using AASB 112 are not known or reliably estimable as management has not completed its assessment.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 30 JUNE 2005 (Continued)**

NOTE 25: IMPACTS OF ADOPTING AUSTRALIAN EQUIVALENTS TO IFRS (Continued)

(ii) *Equity-based compensation benefits*

Under AASB 2 *Share-based Payment*, from 1 July 2004 the group is required to recognise an expense for those options that were issued to employees under the Gas2Grid Limited Option Plan after 7 November 2002 but that had not vested by 1 January 2005.

This will result in a change to the current accounting policy under which no expense is recognised for equity-based compensation.

If the policy required by AASB 2 had been applied during the period ended 30 June 2005, consolidated and parent entity operating loss for the year ended 30 June 2005 would have been \$84,000 higher, with a corresponding increase in the share-based payment reserve.

(iii) *Business Combination*

Under AASB 3 *Business Combinations*, the legal acquirer in an acquisition may not be the same party as the acquirer for financial reporting purposes. For financial reporting purposes, the deemed acquirer is the combining entity that obtains control of the other business. The standard also indicates that when a new entity is formed to issue equity instruments to effect a business combination, the entity existing before the combination shall be identified as the acquirer. As a result the uplift in fair value of assets recognised in the consolidated Statement of Financial Position under current accounting standards will not be available. The application of the above concept will result in Gas2Grid Pte Limited (the legal subsidiary) being deemed as the acquirer of Gas2Grid Limited for financial reporting purposes.

This will differ from the current treatment in which the fair value of the shares issued to the owners of Gas2Grid Pte Limited was considered to be acquisition cost, and was allocated to identifiable assets and liabilities with the excess consideration allocated to exploration expenditure and rights. The adoption of this standard may result in the reduction of Exploration expenditure and rights by up to \$3,787,903 with a corresponding decrease to share capital. Management has not completed its assessment of the impact of adopting this standard.

(iv) *Exploration for and evaluation of mineral resources*

Under AASB 6 *Exploration for and Evaluation of Mineral Resources*, the group is required to apply “area of interest” accounting to their exploration and evaluation expenditures. The group is also required to perform an impairment test when recognising exploration and evaluation assets when facts and circumstances suggest that the carrying amount of an asset may exceed its recoverable amount.

The Company has assessed the recoverability of its exploration assets and has determined that no impairment results from the application of the current standard, and no impairment would be recognised as a result of adopting AASB 6.

The adoption of this standard is not expected to impact the statement of financial position or the statement of financial performance.

DIRECTORS' DECLARATION

The directors declare that the financial statements and notes set out on pages 15 to 31:

- (a) comply with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and
- (b) give a true and fair view of the company's and consolidated entity's financial position as at 30 June 2005 and of their performance, as represented by the results of their operations and their cash flows, for the financial period ended on that date.

The Chief Executive Officer has declared that:

- (a) the financial records of the company for the financial period have been properly maintained in accordance with section 286 of the *Corporations Act 2001*;
- (b) the financial statements and notes for the financial period comply with the Accounting Standards; and
- (c) the financial statements and notes for the financial period give a true and fair view.

In the directors' opinion:

- (a) the financial statements and notes are in accordance with the *Corporations Act 2001*; and
- (b) there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

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

H. M. Royle
Director
Sydney,

2005

Independent audit report to the members of Gas2Grid Limited

Audit opinion

In our opinion:

1. the financial report of Gas2Grid Limited:
 - gives a true and fair view, as required by the *Corporations Act 2001* in Australia, of the financial position of Gas2Grid Limited and the Gas2Grid Group (defined below) as at 30 June 2005, and of their performance for the period ended on that date,
 - is presented in accordance with the *Corporations Act 2001*, Accounting Standards and other mandatory financial reporting requirements in Australia, and the *Corporations Regulations 2001*, and
2. the remuneration disclosures that are contained in pages 7 to 8 of the directors' report comply with Accounting Standard AASB 1046 *Director and Executive Disclosures by Disclosing Entities* (AASB 1046) and the *Corporations Regulations 2001*.

This opinion must be read in conjunction with the rest of our audit report.

Scope

The financial report, remuneration disclosures and directors' responsibility

The financial report comprises the statement of financial position, statement of financial performance, statement of cash flows, accompanying notes to the financial statements, and the directors' declaration for both Gas2Grid Limited (the company) and the Gas2Grid Group (the consolidated entity), for the period ended 30 June 2005. The consolidated entity comprises both the company and the entities it controlled during that period.

The company has disclosed information about the remuneration of directors and executives (remuneration disclosures) as required by AASB 1046, under the heading "remuneration report" on pages 7 to 8 of the directors' report, as permitted by the *Corporations Regulations 2001*.

The directors of the company are responsible for the preparation and true and fair presentation of the financial report in accordance with the *Corporations Act 2001*. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report. The directors are also responsible for the remuneration disclosures contained in the directors' report.

Audit approach

We conducted an independent audit in order to express an opinion to the members of the company. Our audit was conducted in accordance with Australian Auditing Standards, in order to provide reasonable assurance as to whether the financial report is free of material misstatement and the remuneration disclosures comply with AASB 1046 and the *Corporations Regulations 2001*. The nature of an audit is influenced by factors such as the use of professional judgement, selective testing, the inherent limitations of internal control, and the availability of persuasive rather than conclusive evidence. Therefore, an audit cannot guarantee that all material misstatements have been detected. For further explanation of an audit, visit our website <http://www.pwc.com/au/financialstatementaudit>.

We performed procedures to assess whether in all material respects the financial report presents fairly, in accordance with the *Corporations Act 2001*, Accounting Standards and other mandatory financial reporting requirements in Australia, a view which is consistent with our understanding of the company's and the consolidated entity's financial position, and of their performance as represented by the results of their operations and cash flows. We also performed procedures to assess whether the remuneration disclosures comply with AASB 1046 and the *Corporations Regulations 2001*. We formed our audit opinion on the basis of these procedures, which included:

examining, on a test basis, information to provide evidence supporting the amounts and disclosures in the financial report and remuneration disclosures, and
assessing the appropriateness of the accounting policies and disclosures used and the reasonableness of significant accounting estimates made by the directors.

Our procedures include reading the other information in the Annual Report to determine whether it contains any material inconsistencies with the financial report.

While we considered the effectiveness of management's internal controls over financial reporting when determining the nature and extent of our procedures, our audit was not designed to provide assurance on internal controls.

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

Independence

In conducting our audit, we followed applicable independence requirements of Australian professional ethical pronouncements and the *Corporations Act 2001*.

PricewaterhouseCoopers

Peter Buchholz
Partner

Sydney
__ September 2005

SHAREHOLDER INFORMATION

The shareholder information set out below was applicable as at 5 September 2005.

1. Substantial Holders

Substantial holders in the company are set out below:-

Ordinary Shares

	Number held	Percentage
Westpac Custodian Nominees Limited	7,736,000	14.27%
David Munns	6,711,800	12.38%
Dennis Morton	3,355,800	6.19%
Hildegunde Royle	3,355,800	6.19%
Keith Schulstad	3,126,345	5.77%
Seistend Pty Limited <DWK Super A/C>	3,120,000	5.76%

2. Voting Rights

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

3. On-Market Buy-Back

There is no current on-market buy-back.

4. Distribution of Shareholders

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

No. of Shares	No. of Shareholders
1 – 1,000	--
1,001 – 5,000	8
5,001 – 10,000	116
10,001 – 100,000	274
100,001 and over	52
	450

(ii) There were no holders of less than a marketable parcel of shares.

5. Twenty Largest Shareholders

Name of Shareholders:	Number Held:	Percentage of Issued Shares:
1. Westpac Custodian Nominees Limited	7,736,000	14.27
2. Mr. David Munns	6,711,800	12.38
3. Mr. Dennis Morton	3,355,800	6.19
4. Mrs Hildegunde Maria Royle	3,355,800	6.19
5. Mr Keith Schulstad	3,126,345	5.77
6. Seistend Pty Limited <DWK Super A/C>	3,120,000	5.76
7. Mr. Robert Goold	1,695,000	3.13
8. Topspeed Pty Limited <Skinner No 1 Super A/C>	1,225,000	2.26
9. HSBC Custody Nominees (Australia) Limited – GSCO ECA	697,000	1.29
10. Debuscey Pty Limited	500,000	0.92
11. Primdonn Nominees Pty Limited <Primdonn Securities S/F A/C>	500,000	0.92
12. Mr. John Robertson	500,000	0.92
13. UBS Nominees Pty Limited <Prime Broking A/C>	482,770	0.89
14. Stith Pty Limited	472,000	0.87
15. Mrs. Jola Wilson <Lincoln Superfund #1 A/C>	472,000	0.87
16. Merrill Lynch (Australia) Nominees Pty Limited	460,000	0.85
17. Mr. Reginald George Maddock & Mrs Julie Dianne Maddock	390,000	0.72
18. ANZ Nominees Limited <Cash Income A/C>	350,000	0.65
19. Mr. Mike Walcott	329,200	0.61
20. Mr. Thomas L. Cleary	325,000	0.60
	35,803,715	66.06

SHAREHOLDER INFORMATION (Continued)**6. Option Holders - Unquoted**

Name of Optionholders:	Number Held:	Percentage of Options Held:
1. Mrs. Hildegunde Maria Royle	1,000,000	38.46
2. Mr. David Munns	500,000	19.23
3. Mr. Dennis Morton	300,000	11.54
4. Seistend Pty Limited <DWK Super A/C>	300,000	11.54
5. Stith Pty Limited	300,000	11.54
6. Mr. Robert Goold	100,000	3.85
7. Mr. Keith Schulstad	100,000	3.85
	<hr/>	
	2,600,000	100
	<hr/>	

7. Restricted Securities

Class	Number of Restricted Securities	Date of Release
1. Directors & Executives – fully paid ordinary shares	13,006,164	24 months from date of official quotation
2. Other – fully paid ordinary shares	7,782,375	24 months from date of official quotation
3. Other – fully paid ordinary shares	3,648,700	3 March 2006
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	24,437,239	
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SCHEDULE OF MINERAL TENEMENTS AS AT 5 September 2005

LOCATION	TENEMENT	HOLDER	INTEREST	AREA	CURRENT TO
Cebu Island, the Philippines	SC44	Gas2Grid Limited	100%	10,000km2	28/11/2011

Key to Tenement Types

SC Service Contract

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