



# Grand Gulf Energy Limited

ABN 22 073 653 175

## Annual Financial Report

for the financial year ended

30 June 2014

## CONTENTS

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Corporate Directory .....	1
Letter from Chairman.....	2
Directors' Report .....	3-14
Auditor's Independence Declaration .....	15
Consolidated Financial Statements .....	16-19
Notes to the Consolidated Financial Statements .....	20-43
Directors' Declaration .....	44
Independent Audit Report .....	45-46
Corporate Governance Statement .....	47-53
Australian Stock Exchange Information .....	54-55

## **CORPORATE DIRECTORY**

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### **DIRECTORS**

Mr Charles Morgan – Executive Chairman  
Mr Mark Freeman - Managing Director  
Mr Stephen Keenihan – Non-Executive Director  
Mr Allan Boss – Executive Director

### **COMPANY SECRETARY**

Mr Mark Freeman

### **REGISTERED AND PRINCIPAL OFFICE**

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Website: [www.grandgulfenergy.com](http://www.grandgulfenergy.com)

### **AUDITORS**

BDO Audit (WA) Pty Ltd  
38 Station Street  
Subiaco WA 6008  
Telephone: +61 8 6382 4600  
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### **LEGAL ADVISORS**

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GPO Box 2799  
PERTH WA 6001  
Telephone: +61 8 9321 4000  
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### **SHARE REGISTRY**

Advanced Share Registry Services  
150 Stirling Hwy  
Nedlands WA 6009  
Australia  
Telephone: +61 8 9389 8033  
Facsimile: +61 8 9389 7871

### **BANKERS**

National Australia Bank  
1232 Hay Street  
Perth WA 6005

### **ASX CODE**

GGE

### **ABN**

22 073 653 175

## LETTER FROM CHAIRMAN

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Dear Shareholder,

In 2013/2014 Grand Gulf Energy continued to focus on its Louisiana Gulf Coast production. The year began with production commencing at around 370 BOPD from the Company's 35.6% owned Hensarling #1 well, in the Desiree Field on the Napoleonville Salt Dome. Subsequently, the well was put on jet pump and it is currently producing at around 400 BOPD for a yearly total of 120,160 barrels.

Financially the Company has had its best year to date with production revenue over \$7.5 million, more than doubling last year's revenue of \$3.5 million. Earnings before interest, tax and amortisation was \$3.8 million. The Company's debt position has reduced from \$629,000 to \$174,000. Most importantly, the Company had again another self-funding year, the third year in a row. The cash position has increased from \$1 million to \$1.8 million and working capital from \$1.3 million to \$3 million.

West Klondike facilities were completed in late August 2014 with the well recently commencing production in the lower nod sand.

The Abita field was recompleted in the upper 18 sand in June 2014 and production is presently stable with the well sustainably producing at 1 mmcf and 8 bbls condensate.

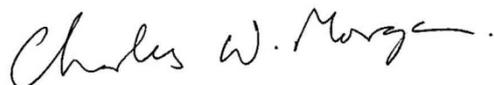
Remediation at the Dugas & Leblanc #1 site has made significant progress with the majority of the field handed back to farmers. The Company has settled most of the legal claims with one remaining legal matter being finalised. Insurance continues to cover all costs. The Company is unlikely to have any further liability for the matter, if anything it is unlikely to be for more than \$1 million.

During the year Grand Gulf revamped its G&G team in Houston and is ramping up work on the Napoleonville Salt Dome and elsewhere with the aim of accelerating the number of self-funded wells that it participates in through the coming year and beyond.

In addition, the Company completed a buy back and sale of unmarketable parcels in order to reduce costs of administration.

I would like to thank the CEO, Mark Freeman, co-directors, Alan Boss and Stephen Keenihan, KC Whittemore, Kevin Kenning, Bill Radford and Scott Sechrist for their work during the year.

Yours faithfully,



Charles W. Morgan  
Chairman

## **DIRECTOR'S REPORT FOR THE YEAR ENDED 30 JUNE 2014**

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The Directors of Grand Gulf Energy Limited submit herewith the annual financial report of the Group consisting of Grand Gulf Energy Limited and the entities it controlled at the end of, or during the year ended 30 June 2014 (referred to hereafter as the group).

### **DIRECTORS**

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

**Mr Charles Morgan**

Executive Chairman

Appointed 19 January 2006

Mr Morgan has been involved in the oil and gas industry since 1995. He has been involved in oil and gas assets in South East Asia, USA, Africa and Europe.

Mr Morgan is also a director of ADG Global Supply Ltd.

Directorships in Listed entities in last 3 years - Alcyone Resources Ltd and Tamaska Oil & Gas Ltd.

**Mr Mark Freeman**

B.com, CA, F.Fin

Managing Director – Appointed 27 October 2010

and Company Secretary - Appointed 22 April 2010

Mr Freeman is a Chartered Accountant and has more than 18 years' experience in corporate finance and the resources industry. He has experience in project acquisitions and management, strategic planning, business development, M&A, asset commercialisation, and project development. Prior experience with Mirabela Nickel Ltd, Exco Resources NL, Panoramic Resources Ltd and Matra Petroleum Plc.

Former and current directorships in last 3 years –Former: Quest Petroleum NL, Macro Energy Ltd, Current: Tamaska Oil & Gas Ltd and OGI Group Ltd.

**Mr Allan Boss**

B. Com

Doctor of Jurisprudence

Executive Director

Appointed 13 November 2006

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

Former directorships in last 3 years – none.

**Mr Stephen Keenihan**

B.Sce (Hons Geology)

Non-Executive Director

Appointed 13 November 2006

Mr Keenihan is a geologist with more than 40 years' of experience in the upstream oil and gas industry and extensive international experience. Previous positions include exploration manager for Apache Australia and LASMO, regional managers Australia for Novus Petroleum and WMC Resources Petroleum Division. He has managed exploration, development, operations, commercial and marketing activities in the energy industry.

Directorships in last 4 years – Transerv Energy Ltd

### **CORPORATE INFORMATION**

#### **Corporate Structure**

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

#### **Nature of Operations and Principal Activities**

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

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

### **REVIEW AND RESULTS OF OPERATIONS**

For the financial year ended 30 June 2014, the profit attributable to members of the Group is \$1,400,466 (2013: loss of \$2,167,264).

The Company has continued its strategy to focus its activities on conventional oil and gas exploration and development projects located in South Louisiana, and in particular the Napoleonville Salt Dome. The Company was handed back its operatorship of the Dome in February 2014 and the Company immediately set about ramping up its in-house G&G staff and secured the services of an experienced Gulf Coast geophysicist. Reprocessing of 3D seismic data is underway and is expected to mature up to 3 further drilling targets around the Napoleonville Salt Dome over the next 12 months.

The Salt Dome represents an excellent risk to reward proposition that is backed up by high quality seismic and an experienced Geology and Geophysics team.

The Company has focussed this year on increasing production and developing new projects. Production revenue has doubled as a result of Desiree coming on full production and in addition, the Company recompleted the Abita well in the upper 18 sand, and subsequent to year end West Klondike was placed on production.

The Company is currently producing ~188 barrels of oil equivalent per day and generating around US\$385,000 in monthly revenue (net of operating costs) that will be deployed into drilling programmes..

Most significantly, production revenue has increased by more than double to \$7.5 million compared with \$3.5 million in 2013. Gross Profit has increased from \$2.3 million to \$4.8 million whilst EBITDA for the year was \$3.7 million compared with \$1.2 million in the prior year.

The Company's creditor position has reduced from \$629,000 to \$174,000 whilst enjoying another self-funding year, the third year in a row. The cash position increased from \$1 million to \$1.8 million and working capital from \$1.3 million to \$3 million from 2013 to 2014.

Subsequent to year end the Company participated in drilled the Louise well, which unfortunately was dry. The well bore will now be used as a salt water disposal well for Desiree well.

Below is a detailed summary of the Company's exploration and development activities.

**Review of operations of Grand Gulf Energy Limited consolidated group**

**Reserves**

<b>2014 Reserves and Resources Summary</b>							
Reserves and Resources as at 30 June 2014							
<b>WI to Grand Gulf Energy Ltd</b>							
	Proved(1P)				PROVED & PROBABLE(2P)		
	LIQUIDS	GAS	OIL EQUIVALENT <sup>(1)</sup>	LIQUIDS	GAS	OIL EQUIVALENT <sup>(1)</sup>	
<b>FILED (LICENCE)</b>	<b>INTEREST</b>	<b>MBBL</b>	<b>MMCF</b>	<b>MBOE</b>	<b>MBBL</b>	<b>MMCF</b>	<b>MBOE</b>
<b>Reserves</b>							
<b>USA</b>							
Dugas & Leblanc #3	40.50%	26	240	65	26	240	65
Desiree	34.56%	309		309	309	-	309
West Klondike	11.70%	0	21	4	12	21	32
Abita	20%	9	479	89	9	479	89
<b>Total Reserves</b>		<b>343</b>	<b>740</b>	<b>467</b>	<b>354</b>	<b>740</b>	<b>495</b>
<b>Contingent Resources</b>							
	High Estimate 1C				Mid to Low Estimate 2C		
<b>Reserves</b>							
<b>USA</b>							
Dugas & Leblanc #3	40.50%		608			203	34
Desiree	34.56%						
West Klondike	11.70%	55	1,276	268	18	425	89
Abita	20%						
<b>Total Contingent Resources</b>		<b>55</b>	<b>1,883</b>	<b>268</b>	<b>18</b>	<b>628</b>	<b>123</b>
<b>Total Reserves and Resources</b>		<b>398</b>	<b>2,623</b>	<b>735</b>	<b>373</b>	<b>1,367</b>	<b>618</b>
<sup>(1)</sup> Oil equivalent conversion factor: 6MSCF per BBL.							
<b>Competent Persons Statement</b>							
The information contained in these statements has been compiled by Kevin Kenning, Senior Petroleum Engineer, who is a consultant of the Company, is qualified in accordance with ASX listing rule 5.11 and has consented to the publication of this report.							
<b>Summary of Movements in Reserves</b>							
	Proved(1P)				PROVED & PROBABLE(2P)		
	LIQUIDS	GAS	OIL EQUIVALENT <sup>(4)</sup>	LIQUIDS	GAS	OIL EQUIVALENT <sup>(4)</sup>	
	<b>MBBL</b>	<b>MMCF</b>	<b>MBOE</b>	<b>MBBL</b>	<b>MMCF</b>	<b>MBOE</b>	
Total 2013		412	864	556	558	1,103	759
Plus/(less) adjustments					(135)	(239)	(528)
Less production		(69)	(125)	(89)	(69)	(125)	264
<b>Total 2014</b>		<b>343</b>	<b>740</b>	<b>467</b>	<b>354</b>	<b>740</b>	<b>495</b>

The reserve estimates in this report are solely based on Kevin Kennings professional opinion and are consistent with accepted industry standards for proved reserves. The proved reserve definition is based upon the criteria contained within the "SPE PRMS" (Society of Petroleum Engineers Petroleum Resources Management System).

The level of influence imposed by the Company's management is a desire to have a fair and accurate representation of the proved reserves utilizing modern techniques (3D seismic) coupled with proven industry standards.

**Desiree Discovery, non-operator 35.6% WI, Assumption Parish, Napoleonville**

The Hensarling #1 well commenced production on 3rd of July 2013, and is producing at around 400 barrels of oil per day, and has been placed on a jet pump to maintain production. Post drill Gross Prospect Reserves are estimated at 893,000 barrels of oil in the Cris R II, and Cris R III formations.

Production is sourced from the thicker Cris R III formation and is generating revenues of US\$265,000 – US\$295,000 per month (after royalties and operative costs), or US\$3.2 million to US\$3.54 million per year.

Production will continue through a 25/64 inch choke until depletion takes place, or water production becomes excessive, and will then switch to the thinner Cris R II formation.

The Company has been advised that a previous JV partner in the Desiree Project is suing two Texas based subsidiaries, Grand Gulf Energy, Inc. and GG Oil & Gas 1, Inc. ("GGE") seeking a 5.3% WI (4.63% WI net to GGE) in the Desiree Project and leases. The partner formally withdrew from the

## **DIRECTOR'S REPORT FOR THE YEAR ENDED 30 JUNE 2014**

project in December 2011 and, subsequent to the well having commenced drilling, thereafter demanded its interest be reinstated. GGE intends to vigorously defend its right to the additional forfeited interest as attempts to settle the matter have been rejected.

### **West Klondike Prospect, Iberville Parish, Louisiana, 11.7% WI**

The Company maintains an 11.71% non-operator working interest at West Klondike, with a 1.2% of that interest reverting to the original owner following a 400% recovery of the associated incremental cost incurred for development of the Wilbert Sons LLC #1 well.

All facilities were completed in September 2014 and the well commenced producing on 3 September 2014 and is presently producing ~1.4 mmcf/d through a 12/64 inch choke from the Lower Nod Blan.

The operator has stated that they will ease production up to ~2 MMcf/d / 2,000,000 cubic feet per day of gas and expect some associated condensate from the lower Nod Blan formation consistent with the previous flow tests.

Electric logs indicated the presence of hydrocarbons in 3 reservoir horizons. These include the Lario sand with 4 feet of net pay but with 18 – 20% tight porosity, upper Nod Blan sand with 6 feet of net pay of gas and condensate with good porosity, and the lower Nod Blan sand with 35 feet of net pay of oil and gas with good porosity.

Depths	Sand	Net Pay	Hydrocarbons	Description	contingent resource estimates
10,330-10,350	Lario	4ft	Oil	18-20% porosity appears tight	100,000-520,000 bbls oil
10,518-10,524	U Nod Blan	6ft	Condensate /gas	Good porosity	3-10,000 bbls oil / 100-135 mmcf
10,616-10,661	L Nod Blan	35ft	Oil/gas	Good porosity	10-40,000 bbls oil / .35-1.3 BCF gas

### **Napoleonville- Dugas & Leblanc #3 Well, Non Operator 40% WI**

The D&L#3 "M" sand was successfully perforated and placed on production on 18 October 2011. The well was placed on a jet pump in December of 2013 and produces 85 barrels of oil per day, and 332 barrels of water per day from a 21/64 inch choke. The well is currently delivering US\$75,000 per month to Grand Gulf Energy after deduction of royalties and operating costs. The Company has recently agreed to an AFE to convert the D&L #2 well into a salt water disposal well which should save the Company around \$10,000 per month in water disposal costs.

### **SL 19706 #1 Abita Prospect, Non-Operator 20% WI (15% APPO) Plaquemines Parish, Louisiana**

The field is being operated by Clayton Williams Energy Inc in Plaquemines Parish, Louisiana. The well commenced producing on 18 March 2012, the well was recently completed in the upper 18 sands and is presently producing 1,100 mcf/d and 8 bopd.

**COMPETENT PERSONS STATEMENT:** The information in this report has been reviewed and signed off by Mr KC Whittemore (Registered Geologist, Texas USA), and Kevin Kenning (Registered Reservoir Engineer) with over 38 and 32 years relevant experience respectively within oil and gas sector.

This report contains forward looking statements that are subject to risk factors associated with resources businesses. It is believed that the expectations reflected in these statements are reasonable but they may be affected by a variety of variables and changes in underlying assumptions which could cause actual results or trends to differ materially, including but not limited to: price fluctuations, actual demand, currency fluctuations, drilling and production results, reserve estimates, loss of market, industry competition, environmental risks, physical risks, legislative, fiscal and regulatory developments, economic and financial market conditions in various countries and regions, political risks, project delay or advancement, approvals and cost estimates.

### **Dugas & Leblanc #1 Well control, Assumption Parish, Louisiana**

Grand Gulf advised on 11 August 2010 that the Operator, Mantle Oil & Gas LLC of the Dugas & Leblanc # 1 well reported that the well was flowing uncontrollably to the atmosphere. The well was brought under control on 24 August 2010.

## **DIRECTOR'S REPORT FOR THE YEAR ENDED 30 JUNE 2014**

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Since 12 August 2010, the Company made a series of important announcements on the ASX in relation to efforts to control the blowout of the Dugas & Leblanc #1 Well ("#1 Well") at its Napoleonville Project in Louisiana, United States (U.S.), and the subsequent effects on the Company.

In June 2013 the Company settled all other commercial cases associated with landowners and neighbouring businesses operating in close proximity to the #1 Well event. In addition, a commercial settlement between the JV partners and the workover operator of the rig were reached. Both settlements were similar in value and have resulted in a negligible net impact to Grand Gulf but have removed a significant amount of exposure for the Company.

A class action was filed in the U.S. against the Operator of the #1 Well in State Court for damages by certain residents of the Napoleonville area in 2010. The Company is presently working to settle this matter.

The Company currently believes that insurance will substantially cover the costs of the #1 Well clean up operations and any court cases or settlements that occur. The Company considers a potential outflow for a possible cost to it, net of insurance, of US\$1,000,000. Based on current and future cashflows expected, the Board does not consider this potential outflow to have a material adverse effect on the company.

Apart from the potential contingent liability noted above, there are no further contingent assets or liabilities existing at 30 June 2014.

The Board is mindful of its obligations to investors and will immediately update ASX as and when further information becomes available.

### **Equity Issues**

- No Shares were issued during the Financial Year

As at 30 June 2014 the consolidated cash position was \$1,840,990 (2013: \$1,005,646).

Exploration and development expenditure during the year was \$1.48m (2013: \$4.7m).

### **MATTERS SUBSEQUENT TO THE REPORTING PERIOD**

Other than as stated below, no events occurred subsequent to year end that would impact on the financial statements:

- The Templet #1 well commenced drilling on 10 August 2014 and was determined to be a dry well on 8 September 2014.

### **SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS**

In the opinion of the Directors, there were no other matters that significantly affected the state of affairs of the Group during the financial year, other than those referred to in the review of operations.

### **DIVIDENDS**

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

### **ENVIRONMENTAL REGULATION**

The group holds various exploration licences to regulate its exploration activities in the USA. These include conditions and regulations with respect to the rehabilitation of areas disturbed during the course of its exploration activities. So far as Directors are aware, all exploration activities have been undertaken in compliance with all relevant environmental regulations in all jurisdictions in which the group operates.

### **NGER ACT**

The Directors consider the National Greenhouse and Energy Reporting Act 2007 (the NGER Act) which introduces a single national reporting framework for the reporting and dissemination of information about the greenhouse gas emissions, greenhouse gas projects, and energy use and production of corporations. At the current stage of development, the Directors have determined that the NGER Act will have no effect on the Company for the current nor subsequent financial year. The Directors will reassess this position as and when the need arises.

**SHARE OPTIONS**

As at the date of this report, there were a total of nil listed options (2013:nil listed options) and nil unlisted options (2013: 41,200,000). Refer to note 12 of the financial statements for further details of the options outstanding.

Option holders do not have any right, by virtue of an option, to participate in any share issue of the Company or any related body corporate or in the interest issue of any other registered scheme. During the financial year, the Company did not issue any employee options. Details regarding the issue of share options under this plan are provided in the directors report. There were no shares issued on the exercise of options during the year.

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

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

	<b><u>Ordinary Shares</u></b>
Mr C Morgan	160,855,496
Mr S Keenihan	3,917,229
Mr A Boss	2,481,720

**REMUNERATION REPORT (Audited)**

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

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

The information provided in this remuneration report has been audited as required by section 308(3C) of the Corporations Act 2001.

**A. Principles Used to Determine the Nature and Amount of Remuneration**

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

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

Executive Officers are those directly accountable for the operational management and strategic direction of the Company and the Group. The following table shows key performance indicators for the group over the last five years:

	<b>2014</b>	<b>2013</b>	<b>2012</b>	<b>2011</b>	<b>2010</b>
Profit / (loss) for the year	1,400,466	(2,167,264)	2,917,786	(5,610,950)	(1,544,236)
Basic earnings/(loss) per share (cents per share)	0.11	(0.29)	0.40	(0.90)	(0.82)
Dividend payments	-	-	-	-	-
Dividend payment ratio (%)	-	-	-	-	-
Increase/(decrease) in share price (%)	100%	(73%)	(25%)	(60%)	(179%)
Total KMP incentives as percentage of profit/(loss) for the year (%)	1%	2%	2%	1%	2%

## **DIRECTOR'S REPORT FOR THE YEAR ENDED 30 JUNE 2014**

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The Corporate Governance Statement provides further information on the role of the Board.

### *Non-executive Directors*

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

### *Fixed remuneration*

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

Fixed remuneration levels for Directors and executive officers are reviewed annually by the Board through a process that considers the employee's personal development, achievement of key performance objectives for the year, industry benchmarks wherever possible and CPI data. Key performance indicators (KPIs) are individually tailored by the Board for each director and executive officer each year, and reflect an assessment of how that employee can fulfil their particular responsibilities in a way that best contributes to Company performance and shareholder wealth in that year.

### *Performance-linked remuneration*

All employees may receive bonuses and/or share options as part of a package to retain their services and/or based on achievement of specific goals related to performance against individual KPIs and to the performance of the Company as a whole as determined by the Directors, based on a range of factors. These factors include traditional financial considerations such as operating performance, cash consumption and deals concluded and also industry-specific factors relating to the advancement of the Company's exploration and development activities and relationships with third parties and internal employees.

During 30 June 2014 the following incentive options expired and no additional incentive options were issued:

<b>Name</b>	<b>Number of options granted</b>
A Boss	4,000,000
S Keenihan	2,000,000
M Freeman	10,000,000

These options were not linked to any performance linked remuneration, but rather an overall remuneration package aligning the KMP with the Company's growth strategy.

The plan rules contain a restriction on removing the 'at risk' aspect of the instruments granted to executives. Plan participants may not enter into any transaction designed to remove the 'at risk' aspect of an instrument before it vests.

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

During the financial year a bonus of US\$30,000 was paid to Allan Boss. The bonus was paid on top of Mr Boss's fixed remuneration of US\$120,000 pa and as a result of the additional work required by Mr Boss to assist with resolution of the Company's legal issues associated with the Dugas and Leblanc blowout. The bonus was based on additional time required by Mr Boss to undertake this work. The Company did not engage with remuneration consultants during the year.

### **Voting and comments made at the Company's 2013 Annual General Meeting**

GGE received more 94% of "yes" votes (excluding director's votes) on its remuneration report for the 2013 financial year. The Company did not receive any specific feedback at the AGM or throughout the year on its remuneration practices.

## DIRECTOR'S REPORT FOR THE YEAR ENDED 30 JUNE 2014

### B. Service Agreements

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

Other major provisions of the agreements relating to remuneration are set out below. The contract may be terminated early by the Company with reason or by the executive, with three months notice, or by the Company without reason, giving 3 months notice, subject to termination payments as detailed below:

Name	Term of agreement	Base salary including superannuation	Termination benefit
Mr C Morgan	Commencing 1 July 2013	\$72,000	3 months base salary
Mr M Freeman	Commencing 1 November 2011	\$260,000	3 months base salary
Mr S Keenihan	Commencing 1 July 2013	\$48,000	3 months base salary
Mr A Boss	Commencing 1 November 2011	US\$120,000	3 months base salary

### C. Details of Remuneration

Details of the remuneration of the Directors and the key management personnel of Grand Gulf Energy Limited consolidated group are set out in the following tables. The key management personnel of Grand Gulf Energy Limited consolidated group during the year ended 30 June 2014 includes the following Directors and executives:

- Mr C Morgan (Executive Chairman)
- Mr M Freeman (Managing Director) - Appointed 27/10/2010 and Company Secretary appointed 22 April 2010)
- Mr A Boss (Executive Director)
- Mr S Keenihan (Non-Executive Director)

Remuneration packages contain the following key elements:

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

The following tables disclose the detailed remuneration of the Directors of Grand Gulf Energy Limited and controlled entities within the Group:

2014

	Short term benefits		Post-employment	Equity	Equity	Total	Remuneration relating to Options	Performance based remuneration
	Salary and fees	Bonus	Super-annuation	Options*	Shares			
	\$	\$	\$	\$	\$	\$	%	%
<i>Directors</i>								
Mr C Morgan	72,000	-	-	-	-	72,000	-	-
Mr S Keenihan	48,000	-	-	2,573	-	50,573	5.09	-
Mr A Boss	130,087	32,403**	-	5,146	-	167,636	3.07	19.33
Mr M Freeman	260,000	-	-	12,261	-	272,261	4.5	-
Total Directors	510,087	32,403	-	19,980	-	562,470		

\* No performance equity settled securities were issued during the year. The expense of these options relate to options issued in prior years.

\*\* Allan Boss received a discretionary bonus of A\$32,403 for services performed for the year.

## DIRECTOR'S REPORT FOR THE YEAR ENDED 30 JUNE 2014

2013

	Short term benefits		Post-employment	Equity	Equity	Total	Remuneration relating to Options	Performance based remuneration
	Salary and fees	Bonus	Super-annuation	Options*	Shares			
	\$	\$	\$	\$	\$	\$	%	%
<i>Directors</i>								
Mr C Morgan	120,000	-	-	-	-	120,000	-	-
Mr S Keenihan	80,000	-	-	6,179	-	86,179	7.2	-
Mr A Boss	119,382	29,151*	-	12,358	-	160,891	7.7	18.1
Mr M Freeman	260,000	-	-	24,717	-	284,717	8.7	-
Total Directors	579,382	29,151	-	43,254	-	651,787		

\* Allan Boss received a discretionary bonus of A\$29,151 for services performed for the year.

\*\* No performance equity settled securities were issued during the year. The expense of these options relate to options issued in prior years.

### (a) Share Based Compensation

#### (i) Options

The terms and conditions of each grant of options affecting remuneration in the current or a future reporting period as follows:

Name	Year of grant	Years in which options may vest	Number of options granted	Value of options at grant date (\$)*	Vested %	Forfeited %	Expired %	Value at date of expiry
A Boss	2012	-	4,000,000	24,717	100%	-	100%	24,717
S Keenihan	2012	-	2,000,000	12,358	100%	-	100%	12,358
M Freeman	2012	-	10,000,000	49,433	100%	-	100%	49,433

\*The value at grant date calculated in accordance with AASB 2 Share-based Payment of options granted during the year as part of remuneration.

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

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

### D. KMP Interest in Securities

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

2014

Name	Balance at start of the period	Acquired during the period	Other changes (expired) during the period	Bal at the end of the year	Remun. options Vested and Exercisable at end of period	Remun. options unvested at end of period
	No.	No.	No.	No.	No.	No.
<b>Directors &amp; KMP</b>						
Mr M Freeman	10,000,000	-	10,000,000	-	-	-
Mr A Boss	4,000,000	-	4,000,000	-	-	-
Mr S Keenihan	2,000,000	-	2,000,000	-	-	-
Total	16,000,000	-	16,000,000	-	-	-

## DIRECTOR'S REPORT FOR THE YEAR ENDED 30 JUNE 2014

(ii) *Share Holdings*  
*Shares held in Grand Gulf Energy Limited*  
**2014**

Name	Balance at start of the year	Received during the year on exercise of options	Other changes during the year	Balance at end of the year
	Number	Number	Number	Number
<b>Directors &amp; KMP</b>				
Mr C Morgan	160,855,496	-		160,855,496
Mr M Freeman	-	-		-
Mr A Boss	2,481,720	-		2,481,720
Mr S Keenihan*	3,917,229	-		3,917,229
Total	167,254,445	-		167,254,445

\*Mr S Keenihan holds 1m shares directly and 2.8m shares indirectly through his superannuation fund

### E. Other transactions with key management personnel

No loans have been made during the financial period or at the date of this report to any key management personnel. A number of key management personnel, or their personally-related entities, hold positions in other entities that result in them having control or significant influence over the financial or operating policies of those entities. A number of these entities transacted with the Company in the reporting period. The terms and conditions of those transactions were no more favourable than those available, or which might reasonably be expected to be available, on similar transactions to unrelated entities on an arm's length basis.

Transaction	Note	2014 \$	2013 \$
<b>Specified Directors &amp; Executives</b>			
Mr M Freeman	(i)	-	94,472
Mr C Morgan	(ii)	3,713	1,246
Mr S Keenihan	(iii)	11,025	-
Mr A Boss	(iv)	31,167	25,786

- (i) Meccano Consulting Pty Ltd, of which Mr M Freeman is a director, provided accounting services, bookkeeping services and a serviced office during the 2013 financial year.
- (ii) Travel expenses of \$3,713 were paid through Seaspin Pty Ltd. Mr Morgan is a Director of Seaspin Pty Ltd.
- (iii) Travel expenses of \$11,025 were paid through TBS Consulting Pty Ltd. Mr Keenihan is a Director of TBS Consulting Pty Ltd.
- (iv) \$31,167 was paid to Mr. Boss during the year for legal secretarial services performed relating to ongoing litigation.

Share price over the last 5 years



***This the end of the audited remuneration report.***

## DIRECTOR'S REPORT FOR THE YEAR ENDED 30 JUNE 2014

### Shares issued on the exercise of options

There were no ordinary shares of Grand Gulf Energy Limited issued during the year ended 30 June 2014 on the exercise of options granted under the Grand Gulf Energy Limited Employee Option Plan. No amounts are unpaid on any of the shares.

There were no unissued ordinary shares under option at the date of this report.

### Indemnification and Insurance of Directors and officers

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

### DIRECTORS' MEETINGS

The following table sets out the number of Directors' meetings held during the financial year and the number of meetings attended by each Director (while they were a director or committee member).

#### *Grand Gulf Energy Limited*

	Board of Directors	
	Held	Attended
Mr C Morgan	6	6
Mr A Boss	6	6
Mr S Keenihan	6	6
Mr M Freeman	6	6

The Company did not have committee meetings in the year.

### NON-AUDIT SERVICES

The Company may decide to employ the auditor on assignments additional to their statutory audit duties where the auditor's expertise and experience with the Company and/or the group are important.

Details of the amounts paid or payable to the auditor (BDO WA) for audit and non-audit services provided during the year are set out below.

The board of Directors has considered the position and, in accordance with advice received from the audit committee, is satisfied that the provision of the non-audit services is compatible with the general standard that the provision of non-audit services by the auditor, as set out below, did not compromise the auditor independence requirements of the Corporation Act 2001 for the following reasons:

- All non-audit services have been reviewed by the audit committee to ensure they do not impact the impartiality and objectivity of the auditor; and
- None of the services undermine the general principles relating to auditor independence as set out in APES 110 Code of Ethics for Professional Accountants.

During the year the following fees were paid or payable for non-audit services provided by the auditor of the parent entity, its related practices and non-related audit firm:

	Consolidated	
	2014 \$	2013 \$
<b>Taxation services</b>		
BDO Tax (WA) Pty Ltd:		
Tax compliance services	-	4,500
	<hr/>	<hr/>
	-	4,500

**AUDITOR'S INDEPENDENCE DECLARATION**

The auditor's independence declaration as required under section 307C of the Corporations Act 2001 is included on the following page.

Dated at Perth 11 September 2014, and signed in accordance with a resolution of the Directors.

A handwritten signature in black ink, appearing to read 'Mark Freeman', written over a horizontal line.

**Mr Mark Freeman**  
Managing Director

DECLARATION OF INDEPENDENCE BY PHILLIP MURDOCH TO THE DIRECTORS OF GRAND GULF ENERGY LIMITED

As lead auditor of Grand Gulf Energy Limited for the year ended 30 June 2014, I declare that, to the best of my knowledge and belief, there have been:

- No contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
- No contraventions of any applicable code of professional conduct in relation to the audit.

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



Phillip Murdoch

Director

BDO Audit (WA) Pty Ltd

Perth, 11 September 2014

**CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER  
COMPREHENSIVE INCOME  
FOR THE YEAR ENDED 30 JUNE 2014**

	Notes	2014 \$	2013 \$
Revenue from continuing operations	2	7,510,572	3,487,033
Gain on sale of assets	3(a)	-	129
Other income	3(a)	-	66,179
Cost of sales	3(b)	(2,700,173)	(1,191,898)
Interest income	3(a)	41	2,021
Corporate office expenses		(215,117)	(140,680)
Employee benefits expense		(667,825)	(768,666)
Amortisation of oil and gas properties	9	(1,165,143)	(865,947)
Impairment of capitalised oil and gas expenditure	8	(1,210,382)	(2,446,305)
Foreign exchange	3(b)	10,499	(20,038)
Professional and statutory fees		(155,305)	(165,683)
Borrowing expenses	3(b)	-	(23)
Depreciation	3(b)	(461)	(239)
Other expenses		(6,240)	(4,297)
<b>Profit/(loss) before income tax</b>		<u>1,400,466</u>	<u>(2,167,264)</u>
Income tax (expense)/ benefit	4	-	-
Profit/(loss) from continuing operations		<u>1,400,466</u>	<u>(2,167,264)</u>
<b>Profit/(loss) after income tax</b>	14	<u>1,400,466</u>	<u>(2,167,264)</u>
<i>Items that may be reclassified to profit or loss</i>			
Foreign currency translation		(567,344)	1,649,451
<b>Total comprehensive profit/(loss) for the year</b>		<u>833,122</u>	<u>(517,813)</u>
<b>Earnings/(loss) per share for the year attributable to the member of Grand Gulf Energy Ltd</b>			
Basic earnings/(loss) per Share (cents per share)	20	0.19	(0.29)
Diluted earnings/(loss) per share (cents per share)	20	0.19	(0.29)

*The above consolidated statement of Profit or Loss and Other Comprehensive Income should be read in conjunction with the accompanying notes to the financial statements.*

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2014

	Notes	2014	2013
		\$	\$
<b>ASSETS</b>			
<b>Current Assets</b>			
Cash and cash equivalents	15(a)	1,840,990	1,005,646
Trade and other receivables	6	1,423,152	995,223
Insurance claim receivable	6	84,550	97,143
Prepayments	6	111,819	-
<b>Total Current Assets</b>		3,460,511	2,098,012
<b>Non-Current Assets</b>			
Computer Equipment	7	9,081	-
Exploration expenditure	8	10,141,894	10,176,369
Oil & gas properties	9	4,264,994	5,162,200
<b>Total Non-Current Assets</b>		14,415,969	15,338,569
<b>Total Assets</b>		17,876,480	17,436,581
<b>LIABILITIES</b>			
<b>Current Liabilities</b>			
Trade and other payables	10	174,873	629,593
<b>Total Current Liabilities</b>		174,873	629,593
<b>Non-Current Liabilities</b>			
Restoration provision	11	216,377	207,618
<b>Total Non-Current Liabilities</b>		216,377	207,618
<b>Total Liabilities</b>		391,249	837,211
<b>Net Assets</b>		17,485,230	16,599,370
<b>EQUITY</b>			
Contributed equity	12	42,045,942	42,046,976
Reserves	13	2,668,976	3,182,548
Accumulated losses	14	(27,229,688)	(28,630,154)
<b>Total Equity</b>		17,485,230	16,599,370

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

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR YEAR ENDED 30 JUNE 2014**

	Contributed Equity	Foreign currency translation reserve	Share Option Reserve	Option premium reserve	Accumulated losses	Total
	\$	\$	\$	\$	\$	\$
Balance at 1 July 2013	42,046,976	870,773	1,634,975	676,800	(28,630,154)	16,599,370
Profit/(loss) attributable to members of the parent entity	-	-	-	-	1,400,466	1,400,466
Foreign currency translation adjustment	-	(567,344)	-	-	-	(567,344)
Total comprehensive income/(loss) for the year	-	(567,344)	-	-	1,400,466	833,122
<b>Transactions with owners in their capacity of owners</b>						
Shares issued, net of issue costs	(1,034)	-	-	-	-	(1,034)
Share based payment	-	-	53,772	-	-	53,772
Balance at 30 June 2014	42,045,942	303,429	1,688,747	676,800	(27,229,688)	17,485,230
Balance at 1 July 2012	42,046,976	(778,678)	1,538,770	676,800	(26,462,890)	17,020,978
Profit/(loss) attributable to members of the parent entity	-	-	-	-	(2,167,264)	(2,167,264)
Foreign currency translation adjustment	-	1,649,451	-	-	-	1,649,451
Total comprehensive income/(loss) for the year	-	1,649,451	-	-	(2,167,264)	(517,813)
<b>Transactions with owners in their capacity of owners</b>						
Shares issued, net of issue costs	-	-	-	-	-	-
Share based payment	-	-	96,205	-	-	96,205
Balance at 30 June 2013	42,046,976	870,773	1,634,975	676,800	(28,630,154)	16,599,370

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

**CONSOLIDATED STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED 30 JUNE 2014**

	Notes	2014	2013
		\$	\$
<b>Cash flows from operating activities</b>			
Receipts from customers		6,946,822	3,517,913
Payments to suppliers and employees		(833,207)	(552,060)
Interest received		42	2,108
Insurance pre-payment (refundable)		-	(136,542)
Production costs		<u>(2,470,121)</u>	<u>(1,191,898)</u>
Net cash inflows from operating activities	15(b)	<u>3,643,536</u>	<u>1,639,520</u>
<b>Cash flows from investing activities</b>			
Payments for exploration and evaluation		(1,570,167)	(2,961,023)
Payments for development of oil & gas properties		(1,228,974)	(1,439,013)
Acquisition of project assets		<u>-</u>	<u>(92,766)</u>
Net cash (outflows) from investing activities		<u>(2,799,141)</u>	<u>(4,492,803)</u>
<b>Cash flows from financing activities</b>			
Proceeds from loans		-	-
Repayment of loans		-	-
Proceeds from issue of ordinary shares and other equity securities		-	-
Share issue costs		(1,034)	-
Net cash inflow from financing activities		<u>(1,034)</u>	<u>-</u>
<b>Net increase / (decrease) in cash and cash equivalents</b>		843,361	(2,853,283)
<b>Cash and cash equivalents at the beginning of the financial year</b>		1,005,646	3,816,422
Effects of exchange rate changes on the balance of cash and cash equivalents in foreign currencies		<u>(8,017)</u>	<u>42,507</u>
<b>Cash and cash equivalents at the end of the financial year</b>	15(a)	<u>1,840,990</u>	<u>1,005,646</u>

*The above consolidated statement of cash flows should be read in conjunction with the accompanying notes to the financial statements.*

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## 1. Notes to the Consolidated Financial Statements

### REPORTING ENTITY

Grand Gulf Energy Ltd (the 'Parent Entity') is a company listed on the Australian Securities Exchange, limited by shares, incorporated and domiciled in Australia. The consolidated financial statements of the Group for the financial year ended 30 June 2014 comprises the Parent Entity and its subsidiaries (together referred to as the 'Group').

The financial statements were authorised for issue by the Board of Directors on 11 September 2014.

### BASIS OF PREPARATION

#### (a) Statement of compliance

The financial report is a general purpose financial report which has been prepared in accordance with Australian Accounting Standards ('AASBs') (including Australian Interpretations) adopted by the Australian Accounting Standards Board ('AASB') and the Corporations Act 2001. The financial statements of the Group also complies with International Financial Reporting Standards and interpretations adopted by the International Accounting Standards Board. Grand Gulf Energy Limited is a for-profit entity for the purpose of preparing the financial statements.

#### (i) New accounting standards and interpretations

Certain new accounting standards have been published that are not mandatory for 30 June 2014 reporting periods. The Group has not applied any of the following in preparing this financial report:

Reference	Title	Nature of Change	Application date of standard	Impact on Entity financial statements	Application date for Entity
AASB 9 (issued December 2009 and amended December 2010)	Financial Instruments	<p>Amends the requirements for classification and measurement of financial assets. The available-for-sale and held-to-maturity categories of financial assets in AASB 139 have been eliminated.</p> <p>AASB 9 requires that gains or losses on financial liabilities measured at fair value are recognised in profit or loss, except that the effects of changes in the liability's credit risk are recognised in other comprehensive income.</p>	Periods beginning on or after 1 January 2015	Adoption of AASB 9 is only mandatory for the year ending 30 June 2016. The Entity has not yet made an assessment of the impact of these amendments.	1 January 2015
AASB 2013-9 (issued December 2013)	Amendments to Australian Accounting Standards – Conceptual Framework, Materiality and Financial Instruments	<p>Makes three amendments to AASB 9:</p> <ul style="list-style-type: none"> <li>• Adding the new hedge accounting requirements into AASB 9</li> <li>• Deferring the effective date of AASB 9 from 1 January 2015 to 1 January 2018, and</li> <li>• Making available for early adoption the presentation of changes in 'own credit' in other comprehensive income (OCI) for financial liabilities under the fair value option without early applying the other AASB 9 requirements.</li> </ul> <p>Under the new hedge accounting requirements:</p> <ul style="list-style-type: none"> <li>• The 80-125% highly effective threshold has been removed</li> <li>• Risk components of non-financial items can qualify for hedge accounting provided that the risk component is separately identifiable and reliably measurable</li> <li>• An aggregated position (i.e. combination of a derivative and a non-derivative) can qualify for hedge accounting provided that it is managed as one risk exposure</li> <li>• When entities designate the intrinsic value of options, the initial time value is deferred in OCI and subsequent</li> </ul>	Annual reporting periods beginning on or after 1 January 2018	The Entity currently applies hedge accounting. It is expected that the application of the new amendments will not have an impact on the entity's financial statements.	1 January 2019

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

		<p>changes in time value are recognised in OCI</p> <ul style="list-style-type: none"> <li>When entities designate only the spot element of a forward contract, the forward points can be deferred in OCI and subsequent changes in forward points are recognised in OCI. Initial foreign currency basis spread can also be deferred in OCI with subsequent changes be recognised in OCI</li> <li>Net foreign exchange cash flow positions can qualify for hedge accounting.</li> </ul>			
AASB 2013-5 (issued August 2013)	Amendments to Australian Accounting Standards - Investment Entities	<p>The amendment defines an 'investment entity' and requires a parent that is an investment entity to measure its investments in particular subsidiaries at fair value through profit or loss in its consolidated and separate financial statements.</p> <p>The amendment prescribes three criteria that must be met in order for an entity to be defined as an investment entity, as well as four 'typical characteristics' to consider in assessing the criteria.</p> <p>The amendment also introduces disclosure requirements for investment entities into AASB 12 <i>Disclosure of Interests in Other Entities</i> and amends AASB 127 <i>Separate Financial Statements</i>.</p>	Annual reporting periods beginning on or after 1 January 2014	As the Entity does not meet the definition of an investment entity, it will continue to consolidate its investments in subsidiaries in accordance with AASB 10 <i>Consolidated Financial Statements</i> .	1 January 2014
AASB 2012-6 (issued September 2012)	Amendments to Australian Accounting Standards - Mandatory Effective Date of AASB 9 and Transition Disclosures	Defers the effective date of AASB 9 to 1 January 2015. Entities are no longer required to restate comparatives on first time adoption. Instead, additional disclosures on the effects of transition are required.	Annual reporting periods beginning on or after 1 January 2015	As comparatives are no longer required to be restated, there will be no impact on amounts recognised in the financial statements. However, additional disclosures will be required on transition, including the quantitative effects of reclassifying financial assets on transition.	1 January 2015
Interpretation 21 (issued June 2013)	Levies	Clarifies the circumstances under which a liability to pay a levy imposed by a government should be recognised, and whether that liability should be recognised in full at a specific date or progressively over a period of time.	1 January 2014	The Entity is not liable to pay any government levies. There will therefore be no impact on the financial statements when this interpretation is first adopted.	1 January 2014

### (ii) Adoption of new and revised accounting standards

The following new and revised standards and amendments are applied for the first time in the annual reporting period commencing July 1, 2013. These standards and amendments have no material effect on any of the amounts recognised in the current year or any prior period consolidated financial report:

- AASB 10 Consolidated financial Statements
- AASB 11 Joint Arrangements
- ASB 12 Disclosure of Interests in Other Entities
- AASB 13 Fair Value Measurement
- AASB 119 Employee Benefits (September 2011) and AASB 2011-10 Amendments to Australian Accounting Standards arising from AASB 119 (September 2011)
- AASB 2011-9 Amendments to Australian Accounting Standards — Presentation of Items of Other Comprehensive Income.

The nature and effect of each new standard and amendment on the Group's consolidated financial report are described below

#### **AASB 10 Consolidated Financial Statements**

AASB 10 Consolidated Financial Statements (AASB 10) was issued in August 2011 and replaces the guidance on control and consolidation in AASB 127 Consolidated and Separate Financial Statements (AASB 127). AASB 10 introduces a new control model, which broadens the situations in which an entity is considered to be

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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controlled by another entity and is applicable to all subsidiaries. The group has reviewed its investments in other entities and concluded that the assessment to consolidate is consistent under AASB 10 with the assessments made under AASB 127.

### **AASB 11: Joint Arrangements**

Under AASB 11 Joint Arrangements (AASB 11), investments in joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligations of each investor. Application of this standard will not have a material impact on the Group's financial statements.

### **AASB 12: Disclosure of Interests in Other Entities**

AASB 12 Disclosure of Interests in Other Entities (AASB 12) sets out the requirements for disclosure relating to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. Application of this standard by the Group does not affect any of the amounts recognised in the financial statements.

### **AASB 13: Fair Value Measurement**

AASB 13 Fair Value Measurement (AASB 13) aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single framework for fair value measurement and disclosure requirements for use across Australian Accounting Standards. Application of AASB 13 has not materially impacted the fair value measurement of the Group. Additional disclosure is provided in Note 2.

### **AASB 119 Employee Benefits**

Under revised AASB 119 Employee Benefits (AASB 119), employee benefits expected to be settled (as opposed to due to be settled under current standard) wholly within 12 months after the end of the reporting period are short-term benefits, and therefore not discounted when calculating leave liabilities. Annual leave not expected to be used wholly within twelve months of the end of the reporting period will in future be discounted when calculating leave liability. The requirements of the revised AASB 119 Employee Benefits are consistent with the Group's existing accounting policy.

### **Amendments to AASB 101 Presentation of Financial Statements**

The amendments to AASB 101 Presentation of Financial Statements (AASB 101), as part of AASB 2011-9 Amendments to Australian Accounting Standards — Presentation of Items of Other Comprehensive Income, require that items presented in other comprehensive income that could be reclassified to profit or loss at a future point in time be presented separately from items that will never be reclassified. The amendment affects presentation only.

Several other amendments apply for the first time in 2014, however they do not impact the Group's annual consolidated financial statements.

### **(b) Principles of Consolidation**

A Controlled Entity is any entity Grand Gulf Energy Ltd is exposed to, or has the rights to, variable returns from its involvement with an entity and has the ability to affect those returns through its power, directly or indirectly, to govern the financial and operating policies of the entity.

All Controlled Entities have a June financial year-end. All inter-company balances and transactions between entities in the Group, including any unrealised profits or losses, have been eliminated on consolidation. Accounting policies of subsidiaries have been changed where necessary to ensure consistencies with those policies applied by the parent entity. Where controlled entities have entered or left the Group during the year, their operating results have been included from the date control was obtained or until the date control ceased.

### **(c) Basis of measurement**

The financial statements are prepared on the historical cost basis.

### **(d) Functional and presentation currency**

These consolidated financial statements are presented in Australian dollars which is the Parent entity's functional currency. The functional currency of the Company's foreign subsidiaries is US dollars. The functional currency of each of the Group's entities is measured using the currency of the primary economic environment in which that entity operates.

### **(e) Use of estimates and judgments**

In preparing these financial statements the Group has been required to make certain estimates and assumptions concerning future occurrences. There is an inherent risk that the resulting accounting estimates will not equate exactly with actual events and results.

### **Significant accounting judgements**

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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### *Exploration, evaluation and development expenditure*

The Group's accounting policy for exploration, evaluation and development is set out at note 1(h). Application of this policy necessarily requires management to make certain estimates and assumptions as to future events and circumstances, in particular, the assessment of whether economic quantities of reserves exist. Any such estimates and assumptions may change as new information becomes available. If, after having capitalised expenditure under our policy, management conclude that it is unlikely that capitalised expenditure will be recovered by future exploitation or sale, the relevant capitalised amount will be written off to profit or loss. As at 30 June 2014 the carrying amount of Capitalised Oil and Gas Expenditure is \$10,265,373 (2013: \$10,176,369).

### *Recoverability of Insurance receivable*

The group has incurred costs in relation to the well blowout of the Dugas & Leblanc #1 well with an associated recognised an insurance claim receivable of \$84,550 (2013: \$97,143). Management consider this balance to be recoverable, however until the insurance company has fully assessed the claim, the amount recognised cannot be guaranteed.

### **Critical accounting estimates**

The carrying amounts of certain assets and liabilities are often determined based on estimates and assumptions of future events. The key estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of certain assets and liabilities within the next annual reporting period are:

#### *Share-based payment transactions*

The cost of share-based payments to employees is measured by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined using the Black-Scholes model, taking into account the terms and conditions upon which the options were granted.

#### *Determination of hydrocarbon reserves*

Estimates of recoverable quantities of proven, probable and possible reserves reported include judgemental assumptions regarding commodities prices, exchange rates and production and transportation costs for future cash flows. It also requires interpretation of complex and difficult geological and geophysical models in order to make an assessment of the size, shape, depth and quality of reservoirs, and their anticipated recoveries. The economic, geological and technical factors used to estimate reserves may change from period to period. Changes in reported reserves can impact asset carrying values and the recognition of deferred tax assets due to changes in expected future cash flows. Reserves are integral to the amount of amortisation charged to the profit and loss. The Group uses suitably qualified persons to prepare an annual evaluation of proven hydrocarbon reserves compliant with US professional standards for petroleum engineers.

#### *Rehabilitation obligations*

The Group estimates its share of the future removal and remediation costs of oil and gas production facilities, wells and pipelines at the time of acquisition or installation of the assets. In most instances, removal of assets occurs many years into the future. This requires judgemental assumptions regarding removal date, future environmental legislation, the extent of remediation activities required, the engineering methodology for estimating cost, future removal technologies in determining the removal cost, and asset specific discount rates to determine the present value of these cash flows. For more detail regarding the policy in respect of provision for rehabilitation refer to note 1(l). As at 30 June 2014 rehabilitation obligations have a carrying value of \$216,377 (2013: \$207,618).

#### *Impairment of oil and gas properties*

In the absence of readily available market prices, the recoverable amounts of assets are determined using estimates of the present value of future cash flows using asset-specific discount rates. For oil & gas properties, these estimates are based on assumptions concerning reserves, future production profiles and costs. As at 30 June 2014, the carrying value of oil & gas properties is \$4,264,994 (2013: \$5,162,200).

#### *Reserves estimates*

Estimation of reported recoverable quantities of Proven and Probable reserves include judgemental assumptions regarding commodity prices, exchange rates, discount rates and production and transportation costs for future cash flows. It also requires interpretation of complex geological and geophysical models in

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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order to make an assessment of the size, shape, depth and quality of reservoirs and their anticipated recoveries. These factors used to estimate reserves may change from period to period.

Reserve estimates are used to calculate depletion of producing assets and therefore a change in reserve estimates impacts the carrying value of assets and the recognition of deferred tax assets due to the changes in expected future cash flows.

### *Depletion and depreciation*

In relation to the depletion, depreciation and amortisation of capitalised expenditure related to producing oil and gas properties, the Group uses a unit of production reserve depletion model to calculate depletion, depreciation and amortisation. This method of depletion, depreciation and amortisation necessitates the estimation of the oil and gas reserves over which the carrying value of the relevant assets will be expensed to the profit or loss. The calculation of oil and gas reserve is complex and requires management to make judgements about commodity prices, future production costs and geological structures. The nature of reserves estimation is such that reserves are not intended to be 100% accurate but rather provide a statistically probable outcome in relation to the economically recoverable reserve. As the actual reserve can only be accurately determined once production has ceased, depletion, depreciation and amortisation expensed during the production may not on a year to year basis accurately reflect the actual percentage of reserve depleted. However, over the entire life of the producing assets all capitalised costs will be expensed to the profit or loss.

### **(f) Income Tax**

The charge for current income tax expense is based on the profit for the year adjusted for any non-assessable or disallowed items. It is calculated using tax rates that have been enacted or are substantively enacted by the reporting date.

Deferred tax is accounted for using the liability method in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. No deferred income tax will be recognised from the initial recognition of an asset or liability, excluding a business combination, where there is no effect on accounting or taxable profit or loss.

Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realised or liability is settled. Deferred tax is credited in the profit or loss statement except where it relates to items that may be credited directly to equity, in which case the deferred tax is adjusted directly against equity.

Deferred income tax assets are recognised to the extent that it is probable that future tax profits will be available against which deductible temporary differences can be utilised.

The amount of benefits brought to account or which may be realised in the future is based on the assumption that no adverse change will occur in income taxation legislation and the anticipation that the Group will derive sufficient future assessable income to enable the benefit to be realised and comply with the conditions of deductibility imposed by the law.

### **(g) Property, Plant and Equipment**

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

Plant and equipment are measured on the cost basis less depreciation and impairment losses.

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

The cost of fixed assets constructed within the Group includes the cost of materials, direct labour, borrowing costs and an appropriate proportion of fixed and variable overheads.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the profit or loss during the financial period in which they are incurred.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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### **Depreciation**

The depreciable amount of all fixed assets including capitalised lease assets is depreciated on a straight-line basis over their useful lives to the Group commencing from the time the asset is held ready for use. Leasehold improvements are depreciated over the shorter of either the unexpired period of the lease or the estimated useful lives of the improvements. The major categories of assets are depreciated as follows:

- Oil and gas properties are amortised over the useful lives of the asset on a unit of production basis once a reserve has been established.
- Motor Vehicles are depreciated based on diminishing value at 22.5%.
- Plant and equipment and drilling parts are depreciated based on diminishing value at 25% to 40%.
- Office equipment is depreciated based on diminishing value at 25% to 40%.
- Currently there are no buildings owned by the Group

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These gains or losses are included in profit or loss.

### **(h) Non-operator interests in oil & gas properties**

#### **Exploration and evaluation expenditures**

Expenditure on exploration and evaluation is accounted for in accordance with the area of interest method which is closely aligned to the US GAAP based successful efforts method of accounting for oil and gas exploration and evaluation expenditure.

This approach is strongly linked to the Group's oil and gas reserves determination and reporting process and is considered to most fairly reflect the results of the Group's exploration and evaluation activity because only assets with demonstrable value are carried on the statement of financial position.

Once a well commences producing commercial quantities of oil and gas, capitalised exploration and evaluation costs are transferred to Oil and Gas Properties – Producing Projects and amortisation commences.

This method allows the costs associated with the acquisition, exploration and evaluation of a prospect to be aggregated on the Consolidated Statement of Financial Position and matched against the benefits derived from commercial production once this commences.

#### **Costs**

Exploration lease acquisition costs relating to greenfield oil and gas exploration provinces are expensed as incurred while the costs incurred in relation to established or recognised oil and gas provinces are initially capitalised and then amortised over the shorter term of the lease or the expected life of the project. All other exploration and evaluation costs, including general permit activity, geological and geophysical costs and new venture activity costs are charged as expenses as incurred except where:

- the expenditure relates to an exploration discovery that, at the reporting date, had not been recognised as an area of interest as an assessment of the existence or otherwise of economically recoverable reserves has not yet been completed; or
- where there exists an economically recoverable reserve, and it is expected that the capitalised expenditure will be recouped through exploitation of the area of interest, or alternatively, by its sale.

Areas of interest are recognised at field level. Subsequent to the recognition of an Area of Interest, all further costs relating to the Area of Interest are initially capitalised. Each Area of Interest is reviewed at least bi-annually to determine whether economic quantities of reserves exist or whether further exploration and evaluation work is required to support the continued carry forward of capitalised costs. To the extent it is considered that the relevant expenditure will not be recovered, it is written off.

The cost of drilling exploration and evaluation wells are initially capitalised pending the results of the well. Costs are expensed where the well does not result in the discovery of economically recoverable hydrocarbons. To the extent that it is considered that the relevant expenditure will not be recovered, it is immediately expensed.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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### ***Prepaid drilling and completion costs***

Where the Company has a non-operator interest in an oil and gas property, or has outsourced certain development processes of an operated interest in an oil and gas property, it may periodically be required to make a cash contribution for its share of the operator's/contractors estimated drilling and/or completion costs, in advance of these operations taking place.

Where these contributions relate to a prepayment for exploratory or early stage drilling activity, prior to a decision on the commerciality of a well having been made, the costs are capitalised as prepaid drilling costs.

Where these contributions relate to a prepayment for well completion, these costs are capitalised as prepaid completion costs within current assets.

As the operator/contractor notifies the Company as to how funds have been expended, the costs are reclassified from prepaid costs to the appropriate expenditure or capitalised category.

### ***Transfer of capitalised exploration and evaluation expenditure to producing projects (oil and gas properties)***

When a well comes into commercial production, accumulated exploration and evaluation expenditure for the relevant Area of Interest it is transferred to producing projects and amortised on a units of production basis.

### ***Producing projects***

Producing projects are stated at cost less accumulated amortisation and impairment charges. Producing projects include construction, installation or completion of production and infrastructure facilities such as pipelines, transferred exploration and evaluation assets, development wells and the provisions for restoration.

### ***Amortisation and depreciation of producing projects***

The Group uses the "units of production" ("UOP") approach when amortising and depreciating field-specific assets. Using this method of amortisation and depreciation requires the Consolidated Entity to compare the actual volume of production to the reserves end then to apply this determined rate of depletion to the carrying value of depreciable asset.

Capitalised producing projects costs relating to commercially producing wells are depreciated/amortised using the UOP basis once commercial quantities are being produced within an area of interest. The reserves used in this calculations are the Proved plus Probable reserves and are reviewed at least annually.

### **(i) Financial Instruments**

#### ***Recognition***

Financial instruments are initially measured at cost on trade date, which includes transaction costs, when the related contractual rights or obligations exist. Subsequent to initial recognition these instruments are measured as set out below.

#### ***Trade and Other Receivables***

Trade receivables, which generally have 30-90 day terms, are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less an allowance for any uncollectible amounts.

Collectability of trade receivables is reviewed on an ongoing basis. Debts that are known to be uncollectible are written off when identified. An allowance for doubtful debts is raised when there is objective evidence that the Group will not be able to collect the debt.

#### ***Loans and receivables***

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are stated at amortised cost using the effective interest rate method.

#### ***Fair value***

Fair value is determined based on current bid prices for all quoted investments. Valuation techniques are applied to determine the fair value for all unlisted securities, including recent arm's length transactions, reference to similar instruments and option pricing models.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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### ***Impairment***

At each reporting date, the Group assess whether there is objective evidence that a financial instrument has been impaired. Impairment of receivables are recognised in profit and loss statement.

#### **(j) Impairment of Assets**

At each reporting date, the group reviews the carrying values of its tangible and intangible assets to determine whether there is any indication that those assets have been impaired. If such an indication exists, the recoverable amount of the asset, being the higher of the asset's fair value less costs to sell and value in use, is compared to the assets carrying value. Any excess of the asset's carrying value over its recoverable amount is expensed to the profit and loss. Impairment testing is performed annually for goodwill and intangible assets with indefinite lives.

Where it is not possible to estimate the recoverable amount of an individual asset, the group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

#### **(k) Foreign Currency Transactions and Balances**

##### ***Transaction and balances***

Foreign currency transactions are translated into functional currency using the exchange rates prevailing at the date of the transaction. Foreign currency monetary items are translated at the year-end exchange rate. Non-monetary items measured at historical cost continue to be carried at the exchange rate at the date of the transaction. Non-monetary items measured at fair value are reported at the exchange rate at the date when fair values were determined.

Exchange differences arising on the translation of monetary items are recognised in the profit and loss, except where deferred in equity as a qualifying cash flow or net investment hedge.

Exchange differences arising on the translation of non-monetary items are recognised directly in equity to the extent that the gain or loss is directly recognised in equity; otherwise the exchange difference is recognised in the in the profit and loss statement.

##### ***Group companies***

The financial results and position of foreign operations whose functional currency is different from the group's presentation currency are translated as follows:

- assets and liabilities are translated at year-end exchange rates prevailing at that reporting date; and
- income and expenses are translated at average exchange rates for the period.

Exchange differences arising on translation of foreign operations are transferred directly to the Group's foreign currency translation reserve in the statement of financial position. These differences are recognised in the profit and loss in the period in which the operation is disposed.

#### **(l) Provisions**

Provisions are recognised when the Group has a present obligation as a result of a past event, the future sacrifice of economic benefits is probable and the amount of the obligation can be reliably estimated.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognised as an asset if it is virtually certain that recovery will be received and the amount of the receivable can be measured reliably.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at reporting date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

An onerous contract is considered to exist where the Group has a contract under which the unavoidable cost of meeting the contractual obligations exceed the economic benefits estimated to be received. Present obligations arising under onerous contracts are recognised as a provision to the extent that the present obligation exceeds the economic benefits estimated to be received.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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### *Provision for restoration and rehabilitation*

Provision is made in the statement of financial position for restoration of operating locations. The estimated restoration and rehabilitation costs are initially recognised as part of the capitalised cost of the relevant project which gave rise to the future obligation. During the production phase of the project the capitalised restoration costs is amortised using the units of production method. Any actual costs incurred by the Group are allocated against the provision.

The provision for restoration and rehabilitation are based on the latest estimated future costs, determined on a discounted basis, which are re-assessed regularly and exclude any allowance for potential changes in technology or material changes in legislative requirements.

### **(m) Inventories**

Inventories consist of hydrocarbon stocks. Inventories are valued at the lower of cost and net realizable value. Cost is determined on a weighted average basis and includes direct costs and an appropriate portion of fixed and variable production overheads where applicable.

### **(n) Cash and Cash Equivalents**

Cash and cash equivalents includes cash on hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within short-term borrowings in current liabilities on the statement of financial position.

### **(o) Revenue Recognition**

Revenue is recognized at the fair value of consideration received or receivable to the extent that it is probable that economy benefits will flow to the Group and the revenue can be reliably measured.

Revenue is recognized when significant risks and rewards of ownership have been transferred to the customer, recovery of the consideration is probable, there is no continuing management involvement with the goods and the amount of revenue can be measured reliably

#### *(I) Oil and Gas Sales*

Revenue from the sale of oil/condensate, gas and natural gas liquids produced is recognized when the Consolidated Entity has transferred to the buyer the significant risks and rewards of ownership of the products from the following product streams:

- Dry Gas – upon transfer to third party, typically upon entry to a third party sale pipeline;
- Natural Gas Liquids (NGL's) – upon transfer to a third party, typically upon entry to a third party sales pipeline; or
- Oil/Condensate – upon transfer of product to purchasers transportation mode, either truck or pipeline.

#### *(II) Other revenue*

Dividend revenue is recognized on a receivable basis. Interest revenue is recognized on a time proportionate basis that takes into account the effective yield on the financial asset.

#### *(III) Service income*

Revenue from the provision of services is recognized when an entity has legally enforceable right to receive payment for services rendered.

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

### **(p) Goods and Services Tax (GST)**

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Tax Office. In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense. Receivables and payables in the statement of financial position are shown inclusive of GST.

Cash flows are presented in the statement of cash flows on a gross basis, except for the GST component of investing and financing activities, which are disclosed as operating cash flows.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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### **(q) Trade and Other Creditors**

These amounts represent liabilities for goods and services provided to the Group prior to the end of the financial year and which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition. They are recognised initially at fair value and subsequently at amortised cost.

### **(r) Dividends**

Provision is made for the amount of any dividend declared, determined, or publicly recommended by the Directors on or before the end of the financial year, but not distributed at reporting date.

### **(s) Options**

The fair value of options in the shares of the Company issued to Directors and other parties is recognised as an expense in the financial statements in relation to the granting of these options.

### **(t) Employee Benefits**

#### *(i) Wages, salaries and annual leave*

Liabilities for wages, salaries and annual leave expected to be settled within 12 months of the reporting date are recognised in respect of employees' services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled.

#### *(ii) Employee benefits payable later than one year*

Employee benefits payable later than one year have been measured at the present value of the estimated future cash outflows to be made for those benefits.

#### *(iii) Superannuation*

Contributions are made by the Group to superannuation funds as stipulated by statutory requirements and are charged as expenses when incurred.

#### *(iv) Employee benefit on costs*

Employee benefit on costs, including payroll tax, are recognised and included in employee benefits liabilities and costs when the employee benefits to which they relate are recognised as liabilities.

#### *(v) Options*

The fair value of options granted is recognised as an employee benefit expense with a corresponding increase in equity. The fair value is measured at grant date.

The fair value at grant date is independently determined using the Black-Scholes option pricing model that takes into account the exercise price, the term of the option, the vesting and performance 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.

### **(u) Earnings Per Share**

#### *(i) Basic earnings per share*

Basic earnings per share is determined by dividing the 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.

### **(v) Fair Value Estimation**

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes.

The fair value of financial instruments traded in active markets (such as publicly traded derivatives, and trading and available-for-sale securities) is based on quoted market prices at the reporting date. The quoted market

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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price used for financial assets held by the Group is the current bid price; the appropriate quoted market price for financial liabilities is the current ask price.

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined using valuation techniques. The Group uses a variety of methods and makes assumptions that are based on market conditions existing at each reporting date. Quoted market prices or dealer quotes for similar instruments are used for long-term debt instruments held. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments. The nominal value less estimated credit adjustments of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

### **(w) Segment reporting**

Operating segments are now reported in a manner that is consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker, who is responsible for allocating resources and assessing performance of operating segments, has been identified as the Board of Directors.

AASB 8 requires a 'management approach' under which segment information is presented on the same basis as that used for internal reporting purposes. In addition, the segments are reported in a manner that is consistent with the internal reporting provided to the chief operating decision makers.

The Board of Directors review internal management reports on a monthly basis that is consistent with the information provided in the Statement of Profit or Loss and Other Comprehensive Income, statement of financial position and statement of cash flows. As a result no reconciliation is required, because the information as presented is used by the Board to make strategic decisions.

### **(x) Parent entity financial information**

The financial information for the parent entity, Grand Gulf Energy Ltd, disclosed in note 27 has been prepared on the same basis as the consolidated financial statements, except as set out below.

#### *Investment in subsidiaries, associates and joint venture entities*

Investments in subsidiaries, associated and joint venture entities are accounted for at cost in the financial statements of Grand Gulf Energy Ltd. Dividends received from associated are recognised in the parent entity's profit or loss, rather than being deducted from the carrying amount of these investments.

#### *Tax consolidation legislation*

Grand Gulf Energy Ltd and its wholly-owned Australian controlled entities have implemented the tax consolidation legislation.

The head entity, Grand Gulf Energy Ltd, and the controlled entities in the tax consolidated group account for their own current and deferred tax amounts. These tax amounts are measured as if each entity in the tax consolidated group continues to be a stand alone taxpayer in its own right.

In addition to its own current and deferred tax amounts, Grand Gulf Energy Ltd also recognised the current tax liabilities (or assets) and the deferred tax assets arising from unused tax losses and unused tax credits assumed from controlled entities in the tax consolidation group.

The entities have also entered into a tax funding agreement under which the wholly-owned entities fully compensate Grand Gulf Energy Ltd for any current tax payable assumed and are compensated by Grand Gulf Energy Ltd for any current tax receivable and deferred tax assets relating to unused tax losses or unused tax credits that are transferred to Grand Gulf Energy Ltd under the tax consolidation legislation. The funding amounts are determined by reference to the amount recognised in the wholly-owned entities' financial statements.

The amounts receivable/payable under the tax funding agreement are due upon receipt of the funding advice from the head entity, which is issued as soon as practicable after the end of each financial year. The head entity may also require payment of interim funding amounts to assist with its obligation to pay tax instalments.

Assets or liabilities arising under tax funding agreements with the tax consolidation entities are recognised as current amounts receivable from or payable to other entities in the group.

Any difference between the amounts assumed and amounts receivable or payable under the tax funding agreement are recognised as a contribution to (or distribution from) wholly-owned tax consolidated entities.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### *Financial guarantees*

Where the parent entity has provided financial guarantees in relation to loans and payables of subsidiaries for no compensation, the fair values of these guarantees are accounted for as contributions and recognised as part of the cost of the investment. No such guarantees have been provided at this time.

### **(y) Contributed Equity**

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from proceeds.

## **2. Revenue**

	<b>2014</b>	<b>2013</b>
	<b>\$</b>	<b>\$</b>
<b>Revenues</b>		
Sale of oil and gas	7,510,572	3,487,033
Total revenues from ordinary activities	<u>7,510,572</u>	<u>3,487,033</u>
<b>3. Profit from operations</b>		
<b>(a) Other income</b>		
Gain on sale of asset	-	129
Other income	-	66,179
Interest	41	2,021
<b>Total other income</b>	<u>41</u>	<u>68,328</u>
<b>(b) Expenses</b>		
Loss before income tax includes the following specific expenses:		
<i>Cost of sales</i>		
Operating Costs	973,506	408,410
Royalties	1,726,667	783,488
<b>Total cost of sales</b>	<u>2,700,173</u>	<u>1,191,898</u>
<i>Depreciation</i>		
Plant and equipment	461	239
Total depreciation	<u>461</u>	<u>239</u>
<i>Rental expense relating to operating leases</i>		
Minimum lease payments	98,800	75,878
Total rental expense relating to operating leases	<u>98,800</u>	<u>75,878</u>
<i>Foreign exchange gains and losses</i>		
Net foreign exchange losses	<u>10,499</u>	<u>20,038</u>
<i>Finance costs</i>		
Borrowing expense	-	23
Total finance costs	<u>-</u>	<u>23</u>

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### 4. Income tax

#### (a) Income tax expense

	2014 \$	2013 \$
Current tax	-	-
Deferred tax	-	-
Under (over) provided in prior years	-	-
	<u>-</u>	<u>-</u>

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

	2014 \$	2013 \$
Profit/(loss)from ordinary activities before income tax expense	1,400,467	(2,167,264)
Prima facie tax benefit on gain from ordinary activities at 30% (2013: 30%)	420,140	(650,179)
Adjustment for foreign jurisdiction tax rate differential	97,493	(42,856)
	<u>517,633</u>	<u>(693,035)</u>
Add tax effect of non-temporary adjustments	248,298	28,862
Tax effect of current year tax losses for which no deferred tax asset has been recognised/(Recoupment of prior period tax losses)	282,044	1,187,388
Timing differences previously not recognised	<u>(1,047,974)</u>	<u>(523,215)</u>
Income tax expense / (benefit)	-	-

#### (c) Unrecognised temporary differences

	2014 \$	2013 \$
<i>Deferred tax assets</i>		
Tax losses at 30%	2,829,554	2,540,012
Temporary differences at 30%	6,000	13,500
Tax losses – foreign subsidiaries (30%)	8,892,829	8,935,730
Temporary differences at 34%	1,041,816	1,051,915
	-	-
Set off against DTLs	(2,142,340)	(2,163,106)
<b>Net DTAs</b>	<b>10,627,860</b>	<b>10,378,050</b>
<i>Deferred tax liabilities</i>		
Temporary differences at 30%	-	-
Temporary differences at 34%	2,142,340	2,163,106
Set off against DTAs	(2,142,340)	(2,163,106)
Net DTLs	<u>-</u>	<u>-</u>
Net deferred tax asset not recognised	<u><b>10,627,860</b></u>	<u><b>10,378,050</b></u>

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

The ability of the group to use tax losses in the future is subject to the group entities satisfying the relevant taxation laws applicable at the time of submitting the return.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### 5. Dividends paid or provided for on ordinary shares

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

### 6. Trade and other receivables

	2014	2013
	\$	\$
<b>Current</b>		
Trade and other receivables (i)	987,359	657,129
Insurance claim receivables	84,550	97,143
Accrued income	435,793	338,094
Prepayments (ii)	111,189	-
	<u>1,618,891</u>	<u>1,092,366</u>

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

(ii) Prepayments include cash calls remaining prepaid at balance date of \$111,189 made to the West Klondike project.

Refer to note 23 for the Group's financial risk management policies. As at 30 June 2014, trade & other receivables of \$987,359 were past due but not impaired.

Due to the short-term nature of the current receivables, their carrying amount is assumed to be the same as their fair value.

### 7. Computer equipment

Plant and equipment		
At cost	9,542	-
Accumulated amortisation	(461)	-
	<u>9,081</u>	-

### 8. Exploration expenditure and evaluation

	2014	2013
	\$	\$
Capitalised exploration and evaluation expenditure	26,368,582	25,204,210
Provision for impairment	(16,226,688)	(15,027,840)
Capitalised exploration and evaluation expenditure	<u>10,141,894</u>	<u>10,176,370</u>
<i>Capitalised</i> exploration and evaluation expenditure		
Carrying amount at beginning of year	10,176,369	10,548,865
Expenditure during the year	1,488,852	4,732,325
Disposals	-	(278,775)
Acquisitions	-	93,932
Transfer to development	-	(4,231,940)
Foreign exchange differences	(324,480)	1,013,313
Amortisation	-	(229,446)
Impairment of capitalised expenditure	(1,198,847)	(1,471,905)
Carrying amount at end of year	<u>10,141,894</u>	<u>10,176,369</u>

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The ultimate recoupment of costs carried forward for capitalised expenditure is dependent on either the sale or successful development and commercial exploitation of lease acreage. Amortisation will be calculated over the life of the area according to the rate of depletion of economically recoverable reserves, at the time when production commences. Impairments of capitalised expenditure relate to costs associated with General Project costs and residual Port Hudson costs.

### 9. Oil and Gas Properties

Producing oil & gas assets	7,041,037	6,773,100
Provision for impairment	(2,776,043)	(1,610,900)
	<u>4,264,994</u>	<u>5,162,200</u>

#### *Capitalised oil and gas properties*

Carrying amount at beginning of period	5,162,200	1,982,351
Expenditure during the year	407,456	16,522
Transfer from Exploration and Evaluation Expenditure	-	4,231,940
Foreign exchange differences	(139,519)	542,287
Amortisation	(1,165,143)	(636,500)
Impairment of capitalised expenditure	-	(974,400)
Carrying amount at end of year	<u>4,264,994</u>	<u>5,162,200</u>

Oil and Gas properties are stated at the higher of its fair value less costs to sell and its value in use. Impairment loss is recognised when the carrying amount of the asset (CGU) exceeds its recoverable value. No writedowns for any producing assets were required over the period.

### 10. Trade and other payables

#### *Current*

Trade creditors	174,872	629,593
	<u>174,872</u>	<u>629,593</u>

Risk exposure: Information about the Group's exposure to foreign exchange risk is provided in note 23.

Due to the short-term nature of the current payable, their carrying amount is assumed to be the same as their fair value.

### 11. Provisions

#### *Non-Current*

Asset retirement obligation	<u>216,377</u>	<u>207,618</u>
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#### (a) Reconciliations

Asset retirement obligation		
Carrying amount at beginning of year	207,618	53,048
Additional provisions recognised/recalculated	8,759	154,570
Carrying amount at end of year	<u>216,377</u>	<u>207,618</u>

### 12. Contributed equity

#### (a) Issued and paid up share capital

	2014		2013	
	Number of Shares	\$	Number of Shares	\$
Balance at the beginning of the year	747,998,870	42,046,976	3,739,993,494	42,046,976
Less: transaction costs		(1,034)		-
<b>Balance before consolidation (1)</b>		<b>42,045,942</b>	<b>3,739,993,494</b>	<b>42,046,976</b>
<b>Balance after consolidation</b>	<b>747,998,870</b>	<b>42,045,942</b>	<b>747,998,870</b>	<b>42,046,976</b>

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. In June 2013 the Company completed a consolidation of its securities on issue on a 5 for 1 basis.

### (b) Terms and conditions of contributed equity

#### Ordinary shares

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

Ordinary shares entitle their holder to one vote, either in person or by proxy, at a meeting of the Company. Refer note 23 for details of the Group's capital management policy.

### (c) Share options

During the period the Company did not issue any options.

As at 30 June 2014 the Company has on issue Nil (30 June 2013: 41,200,000) options over unissued ordinary shares. Movement of options during the period are summarised below:

#### Share Options

	Exer- cise price	Expiry date	Balance at beginning of year	Issued during the year	Exercis- ed during the year	Cancelled during the year	Balance at end of year
			Number	Number	Number	Number	Number
Unlisted options	\$0.025	24/11/13	200,000	-	-	200,000	-
Unlisted options	\$0.045	15/03/14	5,000,000	-	-	5,000,000	-
Unlisted options	\$0.045	15/03/14	3,000,000	-	-	3,000,000	-
Unlisted options	\$0.045	06/05/14	15,000,000	-	-	15,000,000	-
Unlisted options	\$0.03	30/11/13	18,000,000	-	-	18,000,000	-
			<u>41,200,000</u>	-	-	<u>41,200,000</u>	-

### 13. Reserves

	2014 \$	2013 \$
Foreign currency translation (a)	303,429	870,773
Share option reserve (b)	1,688,747	1,634,975
Option premium reserve (c)	676,800	676,800
	<u>2,668,976</u>	<u>3,182,548</u>

#### (a) Foreign currency translation reserve

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

Balance at beginning of year	870,773	(778,678)
Gain / (loss) on translation of foreign controlled entities	(567,344)	1,649,451
Balance at end of year	<u>303,429</u>	<u>870,773</u>

#### (b) Share option reserve

The share option reserve is used to recognise the value of options issued to employees, Directors, consultants, and external finance companies.

Balance at beginning of year	1,634,975	1,538,770
Share based payment expense	53,772	96,205
Balance at end of year	<u>1,688,747</u>	<u>1,634,975</u>

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### (c) Option premium reserve

The option premium reserve is used to recognise the options issued under a rights issue at 1 cent per option.

Balance at beginning of year	676,800	676,800
Balance at end of year	<u>676,800</u>	<u>676,800</u>

### 14. Accumulated losses

	2014 \$	2013 \$
Balance at beginning of year	(28,630,154)	(26,462,890)
Net profit(loss) attributable to members of the Company	<u>1,400,466</u>	<u>(2,167,264)</u>
Balance at end of year	<u>(27,229,688)</u>	<u>(28,630,154)</u>

### 15. Notes to the statement of cash flows

#### (a) Reconciliation of cash and cash equivalents

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

Cash on hand	<u>1,840,990</u>	<u>1,005,646</u>
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The Group's exposure to interest rate risk is discussed in note 23. The above figures are reconciled to cash at the end of the financial year as shown in the statement of cash flows as follows:

#### (b) Reconciliation of profit after related income tax to net cash outflows from operating activities

Profit/(loss) for the year	1,400,466	(2,167,264)
Depreciation	461	239
Impairment and write-off of oil and gas assets	1,210,382	2,565,154
Amortisation	1,165,143	865,947
Share based payments	53,772	96,205
Exchange rate differences on assets/liabilities held in foreign currencies	(27,648)	(138,991)
<b>Changes in net assets and liabilities</b>		
(Increase) / decrease in assets:		
Trade and other receivables	(415,336)	1,250,833
Capitalised expenditure	702,257	-
Increase / (decrease) in liabilities:		
Trade and other creditors	(454,720)	(908,072)
Provisions	<u>8,759</u>	<u>75,424</u>
Net cash inflows from operating activities	<u>3,643,536</u>	<u>1,639,520</u>

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### 16. Expenditure commitments

#### (a) Capital commitments

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

	2014 \$	2013 \$
Exploration and lease rentals commitments		
Not later than one year	17,768	17,768
Later than one year and not later than five years	-	-
Later than five years	-	-
	<u>17,768</u>	<u>17,768</u>

The above commitments relate to lease rentals on specific acreage held in the US.

#### (b) Lease commitments

	Consolidated 2014 \$	2013 \$
Operating leases (non-cancellable)		
Not later than one year	98,800	41,521
Later than one year and not later than five years		
	<u>98,800</u>	<u>41,521</u>

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

### 17. Non-cash investing and financing activities

Options issued to employees, consultants, Directors and financiers for no cash consideration are shown in Directors Report.

### 18. Contingent liabilities

The Group had no current contingent liabilities as at 30 June 2014 other than as stated below.

#### Napoleonville Well control

Grand Gulf advised on 11 August 2010 that the Operator, Mantle Oil & Gas LLC of the Dugas & Leblanc # 1 well reported that the well was flowing uncontrollably to the atmosphere. The well was brought under control on 24 August 2010.

Since 12 August 2010, the Company made a series of important announcements on the ASX in relation to efforts to control the blowout of the Dugas & Leblanc #1 Well ("#1 Well") at its Napoleonville Project in Louisiana, United States (U.S.), and the subsequent effects on the Company.

In June 2013 the Company settled all other commercial cases associated with landowners and neighbouring businesses operating in close proximity to the #1 Well event. In addition, a commercial settlement between the JV partners and the workover operator of the rig were reached. Both settlements were similar in value and have resulted in a negligible net impact to Grand Gulf but have removed a significant amount of exposure for the Company.

A class action was filed in the U.S. against the Operator of the #1 Well in State Court for damages by certain residents of the Napoleonville area in 2010. The Company is presently working to settle this matter.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The Company currently believes that insurance will substantially cover the costs of the #1 Well clean up operations and any court cases or settlements that occur. The Company considers a potential outflow for a possible cost to it, net of insurance, of US\$1,000,000. Based on current and future cashflows expected, the Board does not consider this potential outflow to have a material adverse effect on the company.

Apart from the potential contingent liability noted above, there are no further contingent assets or liabilities existing at 30 June 2014.

The Board is mindful of its obligations to investors and will immediately update ASX as and when further information becomes available.

### 19. Events occurring after reporting date

Other than as stated below, there were no subsequent events:

- The Templet #1 well commenced drilling on 10 August 2014 and was determined to be a dry well on 8 September 2014.

### 20. Earnings per share

The Company has no options or other convertible securities, accordingly the based and diluted earnings per share are the same. The following reflects the gain and share data used in the calculation of basic and diluted gain per share:

(a) Basic/diluted earnings/(loss) per share

	2014 \$	2013 \$
Profit/(loss) used in calculating basic gain per share	1,400,466	(2,167,264)
Weighted average number of ordinary shares used in calculating basic earnings per share	747,998,870	747,998,870
Basic/Diluted earnings/(loss) per share (cents per share)	0.19	(0.29)

### 21. Auditor's remuneration

	2014 \$	2013 \$
Audit or review of financial report AUS	50,000	50,000
Review of tax effect calculation – BDO Tax (WA) Pty Ltd	-	4,500
	<u>50,000</u>	<u>54,500</u>

The auditor of Grand Gulf Energy Limited is BDO Audit (WA) Pty Ltd.

### 22. Segment information

#### Operating segments

The consolidated entity is organised into one operating segment, being oil & gas production and exploration operations. This operating segment is based on internal reports that are reviewed and used by the Board of Directors, who are identified as the Chief Operating Decision Makers ('CODM'), in assessing performance and in determining the allocation of resources.

The principle products and services of this operating segment is the production and exploration operations in Louisiana, United States.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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As noted above, the board only considers one segment to be a reportable segment for its reporting purposes. As such, the reportable information the CODM reviews is detailed throughout the financial statements.

### 23. Financial instruments

#### FINANCIAL RISK MANAGEMENT

The Group's policies with regard to financial risk management are clearly defined and consistently applied. They are a fundamental part of the Group's long term strategy covering areas such as foreign exchange risk, interest rate risk, commodity price risk, credit risk and liquidity risk and capital management. The natural hedges provided by the relationship between commodity prices and the US currency reduce the necessity for using derivatives or other forms of hedging. The Group does not issue derivative financial instruments, nor does it believe that it has exposure to such trading or speculative holdings through its investments in wholly owned subsidiaries. Risk management is carried out by the Board as a whole, which provides written principles for overall risk management, as well as policies covering specific areas such as foreign exchange risk, interest rate risk, credit risk and liquidity risk. The group uses different methods to measure different types of risk to which it is exposed. These methods include sensitivity analysis in the case of interest rate, foreign exchange and other price risks and aging analysis for credit risk.

#### Market Risk

##### (i) Foreign exchange risk

There is no foreign currency exposure on a group or company level. Such exposure arises from sales or purchases by an operating unit in currencies other than the unit's functional currency. The Group currently does not engage in any hedging or derivative transactions to manage foreign currency risk.

The only occasion in which there is an exposure on a group or company level to foreign exchange risk is when the Company is raising capital on ASX. As its domicile is Australia it must raise equity capital in Australian \$. As its primary currency is the US\$ due to its assets, operations and commodities being priced in US\$ the Company has taken the view that while it is raising US\$ to finance US\$ operations that it might from time to time hedge its currency for the time period over which it has received funds via an equity raising but has not issued the equity securities which have been subscribed for.

##### (ii) Commodity price risk

Due to the nature of the Group's principal operations being oil & gas exploration and production the Group is exposed to the fluctuations in the price of oil & gas. Although the Group is economically exposed to commodity price risk of the abovementioned inputs, this is not a recognised market risk under the accounting standards as the risk is embedded within normal purchase and sales and are therefore not financial instruments.

##### (iii) Interest rate risk

Interest rate risk relates to the statement of financial position values of the consolidated cash at bank at June 2014 and June 2013. The working capital loan in the 2013 figures was at floating interest rates and had fair value interest rate risk which did not affect profit or equity.

Due to the majority of the Company funds held in US\$ and the US\$ interest rates being less than 0.25% the materiality of any sensitivity movements would be immaterial.

##### (iv) Credit risk

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Group is not significantly exposed to credit risk from its operating activities, however the Board constantly monitors customer receivables. The maximum exposure to credit risk at the reporting date is the carrying value of each class of financial asset. The Group does not hold collateral as security. No material exposure is considered to exist by virtue of the possible non-performance of the counterparties to financial instruments and cash deposits. Credit rating of cash is A+; all funds are held by Frost Bank and NAB which have government guarantees on deposits.

The maximum exposure to credit risk at the reporting date is the carrying amount of the assets as summarised below, none of which are impaired or past due.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

In thousands of AUD	CARRYING AMOUNT	
	2014 (\$)	2013 (\$)
Cash and cash equivalents	1,840,990	1,005,646
Trade and other receivables	1,423,152	995,223
Insurance claim	84,550	97,143

### (v) Capital Risk and Liquidity Risk Management

The Group's total capital is defined as shareholder's funds, plus net debt and amounted to \$17,485,230 at 30 June 2014 (2013: \$16,599,370). The Group's overriding objectives when managing capital are to safeguard the business as a going concern; to maximise returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure in order to reduce the cost of capital. Prudent liquidity risk management implies maintaining sufficient cash and marketable securities and the availability of funding through an adequate credit facility. The Group manages liquidity risk by continuously monitoring forecast and actual cash flows. Surplus funds are generally only invested in instruments that are tradeable in highly liquid markets.

#### Financing Arrangements

The Group did not have access to the borrowing facilities during the year.

#### Maturities of financial liabilities

The tables below analyse the Group's financial liabilities and relevant maturity groupings based on the remaining period at reporting date to the contractual maturity date. The amounts disclosed are the contractual undiscounted cash flows.

At 30 June 2014	Less than 6 months	6-12 months	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Total contractual cash flows	Carrying amount liabilities
<b>Non-derivatives</b>							
Trade creditors	174,872	-	-	-	-	-	174,872
<b>Total</b>	<b>174,872</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>174,872</b>

At 30 June 2013	Less than 6 months	6-12 months	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Total contractual cash flows	Carrying amount liabilities
<b>Non-derivatives</b>							
Trade creditors	629,593	-	-	-	-	629,593	629,593
<b>Total</b>	<b>629,593</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>629,593</b>	<b>629,593</b>

### 24. Share Based Payments

#### (a) Employee Option Plan

The Grand Gulf Energy Limited Employee Option Plan was approved at the general meeting held on 26 June 2007. Options are granted under the plan and under the discretion of the board to executives and consultants of the Company for no consideration. Options granted under the plan carry no dividend or voting rights and have varied contractual lives.

#### Grand Gulf Energy Limited – 2014

Grant date	Expiry date	Exercise price	Balance at start of the year Number	Granted during the year Number	Cancelled during the year Number	Balance at end of the year Number	Exercisable at end of the year Number
01 Dec 11	30 Nov 13	\$0.03	18,000,000	-	18,000,000	-	-
7 May 10	15 Mar 14	\$0.045	3,000,000	-	3,000,000	-	-
<b>Total</b>			<b>21,000,000</b>	<b>-</b>	<b>21,000,000</b>	<b>-</b>	<b>-</b>
Weighted Average Exercise price			3.75c	-	-	-	-

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The weighted average share price at the date of exercise of options exercised during the year ended 30 June 2014 was \$nil (2013 – 3.75c).

### 24. Share Based Payments (continued)

#### Grand Gulf Energy Limited – 2013

Grant date	Expiry date	Exercise price	Balance at start of the year Number	Granted during the year Number	Cancell- ed during the year Number	Balance at end of the year Number	Exercisable at end of the year Number
01 Dec 11	30 Nov 13	\$0.03	18,000,000	-	-	18,000,000	18,000,000
7 May 10	15 Mar 14	\$0.045	3,000,000	-	-	3,000,000	3,000,000
Total			21,000,000	-	-	21,000,000	21,000,000
Weighted Average Exercise price			3.75c	-	-	3.75c	3.75c

#### (b) Fair value of options granted

There have been no options issued to executives or consultants during the year.

#### (c) Expenses arising from share-based payment transactions

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

	Consolidated	
	2014	2013
	\$	\$
Options issued to consultants*	5,146	4,339
Options issued to Financiers*	28,645	48,613
Options issued to Directors**	19,980	43,254
	<u>53,771</u>	<u>96,206</u>

\*This expense related to the fair value of the 41,200,000 (205,000,000 per consolidation) options issued to consultants and finance providers in previous years. These options were valued at a total of \$270,420 and the balance will be expensed over the life of the options.

\*\* The expense related to the fair value of options issued to Directors in previous years.

### 25. Parent Entity Financial Information

#### (a) Summary financial information

The individual financial statements for the parent entity show the following aggregate amounts:

	2014	2013
	\$	\$
<b>Statement of Financial Position</b>		
Current assets	141,744	201,550
Non current assets	15,823,464	16,479,780
Total assets	<u>15,965,208</u>	<u>16,681,330</u>
Total liabilities	76,574	81,960
Net assets	<u>15,888,634</u>	<u>16,599,370</u>
<i>Shareholders' equity</i>		
Issued capital	42,045,942	42,046,978
Reserves	2,365,548	2,311,776
Accumulated losses	<u>(28,522,856)</u>	<u>(27,759,384)</u>
	<u>15,888,634</u>	<u>16,599,370</u>
<b>Loss for the year</b>	<u>(1,035,443)</u>	<u>(1,326,482)</u>

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### (b) Related Party Transactions

#### (i) Parent entity

The ultimate parent entity within the group is Grand Gulf Energy Limited (the legal parent).

#### (ii) Subsidiaries

Interests in subsidiaries are set out below.

#### Investments in controlled entities

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

#### *Investments in controlled entities held by Grand Gulf Energy Limited*

	Country of incorporation	2014 %	2013 %
Grand Gulf Operating Inc*	USA	100	100
Alto Energy Limited	Australia	100	100
GG Oil & Gas 1, INC	USA	100	100
GG Oil & Gas 2, INC	USA	100	100
GG Oil & Gas, INC	USA	100	100

\* Previously named Golden Fleece Petroleum Inc

#### *Investments in controlled entities held by Alto Energy Limited*

	Country of incorporation	2014 %	2013 %
Grand Gulf Energy Inc	USA	100	100

#### (iii) Key management personnel compensation

	2014 \$	2013 \$
Short-term employee benefits	542,490	608,533
Share-based payments	19,980	43,254
	<u>562,470</u>	<u>651,787</u>

Detailed remuneration disclosures are provided in the Remuneration Report on pages 10-13.

#### (iv) Other transactions with key management personnel

No loans have been made during the financial period or at the date of this report to any key management personnel. A number of key management personnel, or their personally-related entities, hold positions in other entities that result in them having control or significant influence over the financial or operating policies of those entities. A number of these entities transacted with the Company in the reporting period. The terms and conditions of those transactions were no more favourable than those available, or which might reasonably be expected to be available, on similar transactions to unrelated entities on an arm's length basis.

Transaction	Note	2014 \$	2013 \$
<b>Specified Directors &amp; Executives</b>			
Mr M Freeman	(i)	-	94,472
Mr C Morgan	(ii)	3,713	1,246
Mr S Keenihan	(iii)	11,025	-
Mr A Boss	(iv)	31,167	25,786

- (i) Meccano Consulting Pty Ltd, of which Mr M Freeman is a director, provided accounting services, bookkeeping services and a serviced office during the 2013 year.
- (ii) Travel expenses of \$3,713 were paid through Seaspin Pty Ltd. Mr Morgan is a Director of Seaspin Pty Ltd.

## **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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- (iii) Travel expenses of \$11,025 were paid through TBS Consulting Pty Ltd. Mr Keenihan is a Director of TBS Consulting Pty Ltd.
- (iv) \$31,167 was paid to Mr. Boss during the year for legal secretarial services performed relating to ongoing litigation.

**(c) Contingent Liabilities and Commitments**

The Parent Company has no contingent liabilities or commitments other than as those disclosed in the notes

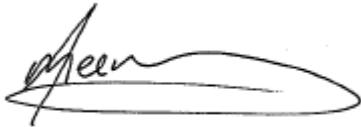
## DIRECTORS DECLARATION

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### Directors' Declaration

1. The financial statements, comprising the consolidated statement of Profit or Loss and Other Comprehensive Income, consolidated statement of financial position, consolidated statement of cash flows and consolidated statement of changes in equity and accompanying notes, are in accordance with the Corporations Act 2001 and:
  - (a) comply with Accounting Standards and the Corporations Regulations 2001 and other mandatory professional reporting requirements ; and
  - (b) give a true and fair view of the consolidated financial position as at 30 June 2014 and of its performance for the year ended on that date.
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.
3. The Directors have been given the declarations by the chief executive officer and chief financial officer required by s295A.
4. Note 1(a) confirms that the financial standards also comply with the International Financial Reporting Standards as issued by the International Accounting Standards Board.

This declaration is made in accordance with a resolution of the Board of Directors and is signed for and on behalf of the Directors by:

A handwritten signature in black ink, appearing to read 'Mark Freeman', is written over a horizontal line that serves as a signature line.

Mr Mark Freeman  
Director

Perth, 11 September 2014



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## INDEPENDENT AUDITOR'S REPORT

To the members of Grand Gulf Energy Limited

### Report on the Financial Report

We have audited the accompanying financial report of Grand Gulf Energy Limited, which comprises the consolidated statement of financial position as at 30 June 2014, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

#### Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error. In Note 1(a), the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with *International Financial Reporting Standards*.

#### Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the company's preparation of the financial report that gives a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

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



#### Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of Grand Gulf Energy Limited, would be in the same terms if given to the directors as at the time of this auditor's report.

#### Opinion

In our opinion:

- (a) the financial report of Grand Gulf Energy Limited is in accordance with the *Corporations Act 2001*, including:
  - (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2014 and of its performance for the year ended on that date; and
  - (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and
- (b) the financial report also complies with *International Financial Reporting Standards* as disclosed in Note 1(a).

#### Report on the Remuneration Report

We have audited the Remuneration Report included in the directors' report for the year ended 30 June 2014. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

#### Opinion

In our opinion, the Remuneration Report of Grand Gulf Energy Limited for the year ended 30 June 2014 complies with section 300A of the *Corporations Act 2001*.

Yours sincerely

BDO Audit (WA) Pty Ltd

BDO

Phillip Murdoch

Director

Perth, 11 September 2014

## **Grand Gulf Energy's Board and Corporate Governance**

### **Introduction**

Since the introduction of the ASX Corporate Governance Council's Principles of Good Corporate Governance and Best Practice Recommendations ("ASX Guidelines" or "the Recommendations"), Grand Gulf Energy Limited ("Company") has made it a priority to adopt systems of control and accountability as the basis for the administration of corporate governance. Some of these policies and procedures are summarised in this report. Commensurate with the spirit of the ASX Guidelines, the Company has followed each Recommendation where the Board has considered the Recommendation to be an appropriate benchmark for corporate governance practices, taking into account factors such as the size of the Company, the Board, resources available and activities of the Company. Where, after due consideration, the Company's corporate governance practices depart from the Recommendations, the Board has offered full disclosure of the nature of, and reason for, the adoption of its own practice.

The Company has adopted systems of control and accountability as the basis for the administration of corporate governance. The Board of the Company is committed to administering the policies and procedures with openness and integrity, pursuing the true spirit of corporate governance commensurate with the Company's needs.

Further information about the Company's corporate governance practices is set out on the Company's website at [www.grandgulfenergy.net](http://www.grandgulfenergy.net). In accordance with the recommendations of the ASX, information published on the Company's website includes:

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

### **Explanation for Departures from Best Practice Recommendations**

During the Company's 2014 financial year the Company has complied with the Corporate Governance Principles and the corresponding Best Practice Recommendations as published by the ASX Corporate Governance Council ("Corporate Governance Principles and Recommendations") and has adopted the revised Principles and Recommendations taking effect from reporting periods beginning on or after 1 January 2008. Significant policies and details of any significant deviations from the principles are specified below.

### **Corporate Governance Council Recommendation 1** **Lay Solid Foundations for Management and Oversight**

#### **The Role of the Board and the Board Charter**

##### *The Board's Duties*

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

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

In complying with Recommendation 1.1 of the Corporate Governance Council, the Company has adopted a formal Board Charter which clearly establishes the relationship between the Board and management and describes their functions and responsibilities. A summary of the Board Charter has been posted on the corporate governance section of the Company's website.

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

## ***Corporate Governance Council Recommendation 2 Structure the Board to Add Value***

### **The Composition of Grand Gulf Energy's Board**

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

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

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

### ***Independence of Directors***

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

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

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

Mr Freeman and Mr Boss are employed in an executive capacity by the Company and so cannot be considered to be independent.

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

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

### **Independent Chairman**

The Chairman is not considered to be an independent director and as such Recommendation 2.2 of the Corporate Governance Council has not been complied with. However, the Board believes that Mr Morgan is the most appropriate person for the position as Chairman because of his industry experience and proven track record as a public company director.

### **Roles of Chairman and Chief Executive Officer**

The roles of Chairman and Chief Executive Officer are exercised by different individuals, and as such the Company complies with Recommendation 2.3 of the Corporate Governance Council.

### **Nomination and Appointment of New Directors**

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

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

### **Grand Gulf Energy's Board Meetings**

The Board met 6 times between 1 July 2013 and 30 June 2014.

The Board meets formally at least 5 times each year, and from time to time meetings are convened outside the scheduled dates to consider issues of importance.

Directors' attendance at Board and Committee meetings is in the directors report.

### **Performance Review**

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

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

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

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

### **Board Members' Rights to Independent Advice**

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

### **Education**

All Directors are encouraged to attend professional education courses relevant to their roles.

### **Corporate Governance Council Recommendation 3 Promote Ethical and Responsible Decision Making**

The Board actively promotes ethical and responsible decision making.

### **Code of Conduct**

The Board has adopted a Code of Conduct that applies to all employees, executives and Directors of the Company. This code covers a broad range of issues and refers to those practices necessary to maintain confidence in Grand Gulf Energy's integrity, including procedures in relation to:

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

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

The Company is committed to the highest level of integrity and ethical standards in all business practices. Directors and employees must conduct themselves in a manner consistent with current community and corporate standards and in compliance with all legislation. In addition, the Board subscribes to the Statement of Ethical Standards as published by the Australian Institute of Company Directors.

All Directors and employees are expected to act with the utmost integrity and objectivity, striving at all times to enhance the reputation and performance of the Company.

### **Diversity Policy**

The Board has adopted a Diversity Policy as per Recommendation 3.2. The Diversity Policy addresses equal opportunities in the hiring, training and career advancement of directors, officers and employees. The Diversity Policy outlines the processes by which the Board will set measurable objectives to achieve the aims of its Diversity Policy, with particular focus on gender diversity within the Company.

The Company is committed to ensuring a diverse mix of skills and talent exists amongst its directors, officers and employees and is utilised to enhance the Company's performance.

The Board is responsible for monitoring Company performance in meeting the Diversity Policy requirements, including the achievement of diversity objectives.

### **Gender Diversity**

The Company is focusing on the participation of women on its Board and within senior management. The Board is in the process of determining appropriate measurable objectives for achieving gender diversity.

Women Employees, Executives and Board Members

The Company and its consolidated entities have three (3) female employees/executives:

Its financial controller;  
its office manager; and  
an executive assistant

which represent approximately 33% of the total employees, executives and/or board members of the Company and its consolidated entities. There are currently no female members of the Board of the Company.

Based on the above information the Company believes it is fully compliant with Recommendations 3.

### **Securities Trading by Grand Gulf Energy Directors and Employees**

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

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

### **Corporate Governance Council Recommendation 4 Safeguarding Integrity in Financial Reporting**

#### **Financial Reporting**

Consistent with ASX Principle 4.1, the Company's financial report preparation and approval process for the financial year ended 30 June 2013 involved both the Executive Director and the Company Secretary providing detailed representations to the Board covering:

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

#### ***Audit and Compliance Committee***

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

## **CORPORATE GOVERNANCE STATEMENT FOR THE YEAR ENDED 30 JUNE 2014**

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

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

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

### ***Corporate Governance Council Recommendation 5*** **Make Timely and balanced disclosure**

#### **Continuous Disclosure**

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

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

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

### ***Corporate Governance Council Recommendation 6*** **Respect the Rights of Shareholders**

#### **Shareholder Communications**

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

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

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

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

### ***Corporate Governance Council Recommendation 7*** **Recognise and manage risk**

#### **Risk Identification and Management**

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

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

## **CORPORATE GOVERNANCE STATEMENT FOR THE YEAR ENDED 30 JUNE 2014**

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

Key identified risks to the business are monitored on an ongoing basis as follows:

- Business risk management

The Company manages its activities within budgets and operational and strategic plans.

- Internal controls

The Board has implemented internal control processes typical for the Company's size and stage of development. It requires the senior executives to ensure the proper functioning of internal controls and in addition it obtains advice from the external auditors as considered necessary.

- Financial reporting

Directors approve an annual budget for the Company and regularly review performance against budget at Board Meetings.

- Operations review

Members of the Board regularly visit the Company's exploration project areas, reviewing both geological practices, and environmental and safety aspects of operations.

- Environment and safety

The Company is committed to ensuring that sound environmental management and safety practices are maintained on its exploration activities.

The Company's risk management strategy is evolving and will be an ongoing process and it is recognised that the level and extent of the strategy will develop with the growth and change in the Company's activities.

### **Risk Reporting**

As the Board has responsibility for the monitoring of risk management it has not required a formal report regarding the material risks and whether those risks are managed effectively therefore not complying with Recommendation 7.2 of the Corporate Governance Council. The Board believes that the Company is currently effectively communicating its significant and material risks to the Board and its affairs are not of sufficient complexity to justify the implementation of a more formal system for identifying, assessing monitoring and managing risk in the Company.

The Company does not have an internal audit function.

### **Executive Director and Chief Financial Officer Written Statement**

The Board requires the Executive Director and the Company Secretary provide a written statement that the financial statements of company present a true and fair view, in all material aspects, of the financial position and operational results and have been prepared in accordance with Australian Accounting Standards and the Corporation Act. The Board also requires that the Executive Director and Company Secretary provide sufficient assurance that the declaration is founded on a sound system of risk management and internal control, and that the system is working effectively.

The declarations have been received by the Board, in accordance with Recommendation 7.3 of the Corporate Governance Council.

### **Corporate Governance Council Recommendation 8 Remunerate Fairly and Responsibly**

#### **Remuneration for directors and executives**

A brief discussion on the Company's remuneration policies and detailed disclosure of the remuneration paid to directors and executives is set out on in the directors report.

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

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

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

### **Distinguish Between Executive and Non-Executive Remuneration**

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

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

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

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

### *Remuneration Committee*

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

The Board has determined that a separate Remuneration Committee is not warranted due to the size and nature of the Company.

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

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

### 1. Statement of issued capital

- a) Distribution of fully paid ordinary shares

<i>Size of Holding</i>			<i>Number of Shareholders</i>	<i>Shares Held</i>
1	-	1,000	59	5,520
1,001	-	5,000	17	54,466
5,001	-	10,000	16	129,350
10,001	-	100,000	296	18,315,747
100,001	and	Over	548	729,493,787
			936	747,998,870

- b) There are 69 shareholders holding unmarketable parcels represented by shares.
- c) There are no restrictions on voting rights attached to the ordinary shares. On a show of hands every member present in person shall have one vote and upon a poll, every member present or by proxy shall have one vote for every share held.

### 2. Substantial shareholders

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

Charles Morgan	21.5%
Craig Ian Burton	22.4%

### 3. Quotation

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

## 4. Top Twenty Shareholders as at 10 September 2014

The twenty largest shareholders hold 59.847% of the total issued ordinary shares in the Company as at 10 September 2014.

Name	Number of Shares	% of Issued Shares
1. SEASPIN PTY LTD <APHRODITE A/C>	158,100,476	21.136
2. ALBA CAPITAL PTY LTD	88,089,367	11.777
3. SKYE EQUITY PTY LTD	52,800,000	7.059
4. SACHA INVESTMENTS PTY LTD	25,098,974	3.355
5. AVIEMORE CPITAL PTY LTD	15,117,114	2.021
6. ARMDIG PTY LTD	11,000,000	1.471
7. MR ADRIAN HARTONO	10,913,372	1.459
8. KAMIRA INVESTMENTS PTY LTD	9,856,000	1.318
9. PROSPERO CAPITAL PTY LTD	9,150,193	1.223
10. CRAIG BURTON <CI BURTON FAMILY A/C>	8,482,220	1.134
11. MR STUART CHARLES GRACE & MR TRENT CHRISTIAN GARDNER <MEGA SQUARE A/C>	7,800,000	1.043
12. AUZY PTY LTD <AUZY TRADE A/C>	7,376,425	0.986
13. MR DOUGAL JAMES FERGUSON	7,000,000	0.936
14. ALBA CAPITAL PTY LTD	6,791,522	0.908
15. CRIMSON HOLDINGS PTY LTD <CRIMSON HOLDINGS A/C>	6,400,000	0.856
16. LIFWARD PTY LIMITED	6,047,594	0.809
17. MR KRISHNA RAVICHANDRAN & MR SRINIVASAN RAVICHANDRAN <LARK SUPER FUND A/C>	6,000,000	0.802
18. DR HUA YI LI & MRS MEI LUN LIN	5,332,000	0.713
19. MR CRAIG DAVID MERCOVICH	5,000,000	0.668
20. SAMUEL CHAMBERS	4,200,000	0.561
	450,555,257	60.235