# GOLDEN GATE PETROLEUM LTD

and controlled entities

ABN 34 090 074 785

# Financial Report
# 30 June 2009

## CORPORATE DIRECTORY

| | |
|---|---|
| **DIRECTORS** | Stephen Graves (Managing Director)<br>Sam Russotti (Non-Executive Chairman)<br>Frank Petruzzelli (Non-Executive Director) |
| **SECRETARY** | Chris Bowyer |
| **REGISTERED OFFICE** | Level 21, 77 St Georges Terrace<br>Perth Western Australia 6000<br>Telephone: +61 08 9324 1177<br>Facsimile: +61 08 9324 2171<br>Email: admin@ggpl.com.au<br>Website: www.ggpl.com.au |
| **HOUSTON OFFICE** | 800 Wilcrest Drive, Suite 214,<br>Houston, TX 77042<br>Telephone: +1 713 334 2830<br>Fax: +1 713 334 1830 |
| **SOLICITORS** | Blakiston & Crabb<br>1202 Hay Street<br>West Perth Western Australia 6005 |
| **AUDITORS** | Ernst & Young<br>11 Mounts Bay Road<br>Perth Western Australia 6000 |
| **SHARE REGISTRY** | Advanced Share Registry Services<br>150 Stirling Highway<br>Nedlands Western Australia 6009<br>Phone: +61 8 9389 8033<br>Facsimile: +61 8 9389 7871 |
| **AUSTRALIAN STOCK EXCHANGE CODE** | GGP (Ordinary Shares)<br>GGPO (Proposed Options) |

## CONTENTS

**PAGE NUMBER**

# DIRECTORS' REPORT

The directors of Golden Gate Petroleum Ltd ("Golden Gate" or "the Company") present their report and the financial report of Golden Gate and the entities it controlled ("the Consolidated Entity") at the end of, or during the year ended 30 June 2009.

## 1. DIRECTORS

The directors of the Company at any time during or since the end of the financial year are as follows. Directors were in office for the entire period unless otherwise stated.

**Stephen Graves (Managing Director – appointed 4 February 2008)**
Mr Graves has over 30 years in the oil and gas industry both in Australia and overseas. Most recently Mr Graves was executive chairman of Orchard Petroleum. Like Golden Gate, Orchard was transformed from a purely exploration company to a company with reserves and production that was eventually taken over in April 2007. Mr Graves was instrumental in this transformation.
Mr Graves worked for Mobil Corporation and affiliated companies for 23 years. He has also been an independent consultant to the energy industry, a senior consultant to Ernst & Young and has extensive experience with funding infrastructure projects. During the past 4 years, Mr Graves has served as a director for Orchard Petroleum Ltd.

**Sam Russotti, BSc (Non Executive Chairman)**
Mr Russotti is a geologist with more than 30 years experience in the petroleum industry. He has been executive director the Company since May 2001, after ten years as general manager and finance manager of Cultus Petroleum. Previously, he was planning manager for Peko Oil Ltd from 1987-90.
During the past 3 years, Mr Russotti has not served as a director on any other listed companies.

**Frank Petruzzelli (Non Executive Director)**
Mr Petruzzelli is a principal of MDB & Co, an Australian accounting firm and has been a director of the company since May 2001. He is an accounting and management services specialist and advises many ASX listed companies and large private organisations.
During the past 3 years, Mr Petruzzelli has served as a director for Orchard Petroleum Ltd and Solimar Energy Ltd.

**Mark Freeman BCom, CA, ASIA (Non Executive Director) – Resigned 5 March 2009**
Mr Freeman has 10 years of commercial experience in Commercial Banking and Equity Markets with a focus on resources companies. Mr Freeman has been with the Company since 2001.

**Chris Bowyer BCA, (Company Secretary)**
Appointed 18 April 2008
Mr Bowyer is a chartered accountant with 15 years experience in public practice as well as the private sector. Chris is currently the company secretary of Solimar Energy Ltd, an ASX listed oil and gas explorer with projects in California, USA. Chris was previously company secretary of Orchard Petroleum Ltd which was listed on the ASX before its takeover in March 2007. He is an employee of MDB, an Australian accounting firm.

### Interests in the shares and options of the company and related bodies corporate

As at the date of this report, the interests of the current directors in the shares and options of Golden Gate Petroleum Ltd ("the Company") were:

| | Ordinary Shares | Options over Ordinary Shares | | |
|---|---|---|---|---|
| | | Un-Listed | Expiry | Exercise price ($) |
| Stephen Graves | 1,652,888 | 5,000,000 | 30/10/10 | 0.35 |
| | | 1,000,000 | 31/12/09 | 0.54 |
| Sam Russotti | *671,782 | 4,000,000 | 30/10/10 | 0.35 |
| | | 500,000 | 31/12/09 | 0.54 |
| Frank Petruzzelli | 1,333,040 | 2,000,000 | 30/10/10 | 0.35 |

* 100,582 of these shares are held by Mr Russotti on behalf of other people and are not beneficially owned by Mr Russotti.

### Directors' Meetings

The number of directors' meetings held during the financial year each director held office and the number of meetings attended by each director are:

| Director | A | B |
|---|---|---|
| Stephen Graves | 7 | 7 |
| Sam Russotti | 7 | 7 |
| Frank Petruzzelli | 7 | 7 |
| Mark Freeman | 5 | 5 |

**A** – Number of meetings attended
**B** – Number of meetings held during the time the director held office during the year

## 2. OPERATING AND FINANCIAL REVIEW

### Overview of the Consolidated Entity

Once again the Company had an extremely active year in a significant drilling campaign. Oil production increased from 1,064 BBL to 44,607 BBL, whilst Gas production reduced from 1,218 mmcf to 590 mmcf.

A summary of the financial years' drilling campaign is below:

| | WI | Completion | Status |
|---|---|---|---|
| **Louisiana** | | | |
| Jumonville #1 | 33.25% | Sept 2008 | Producing |
| Jumonville #2 | 33.25% | June 2009 | Producing |
| Acosta | 33.25% | Dec 2008 | Disposal Well |
| Lake Boudreaux | 18% | Nov 2008 | Dry Hole |

The Company has presently five active projects including Bullseye and Padre Island which both provide current production revenue and, in addition, offer low risk development opportunities. The three additional projects provide exciting exploration well opportunities at Bowtie West, White Castle and a new Project to be announced in the coming weeks.

The significant increase in oil production came as a result of the successful drilling and completion of Jumonville #1. The Company also commenced production from Jumonville #2 on 30 June 2009. Although the Acosta well was to be drilled as a producer it is presently providing significant cost reductions for the disposal of water from Jumonville #1 and Jumonville #2. Production from the Company's Padre Island assets has significantly declined with 2 wells presently producing. The Company is working towards testing potential 18 – 28 BCF gas resources at La Playa Prospect in the near future.

### Strategy and Investments for Future Performance

Golden Gate is continuing to seek out high potential value and reasonable cost opportunities onshore Gulf Coast States, USA. Management has assembled a strong technical team based in Houston, Texas. The Company has a clear strategy to achieve profitability and reserves growth through petroleum development and exploration by continuing to develop the Bullseye Project targeting in the Company's view moderately low risk high impact conventional oil and gas plays located on shore in Louisiana and Texas. The forward programme will involve both operated and non-operated ventures. The Company seeks to maintain a balanced portfolio of development and exploration at all times and hence will modify its working interest in projects in order to suit the predetermined criteria set by the Board.

The Company continues to consider new opportunities from:

- Developing prospects from licensed seismic data
- Farm-ins to exploration and development prospects at reasonable terms; and
- Strategic farm outs to balance the overall portfolio risk and return;

## DIRECTORS' REPORT

Golden Gate ranks these opportunities on a risk versus reward basis, preferring those opportunities that have minimal up-front cost exposure but very high potential future value.

**Performance Indicators**

The Board and Management team work together in establishing strategic plans and annual budgets. Key performance indicators identified from the plans and budgets are used to monitor performance and are reviewed by the Board on a regular basis.

**Dynamics of the Business**

High oil prices have meant that demand for quality prospects have increased. On the gas side, there has been an over-supply in the North American market which has curtailed many projects and shut in production. The Company's strategy has been to focus on oil projects and high impact long term gas projects by maintaining a strong local geophysical and geological knowledge base focused on Texas and Louisiana. By staying focused mainly on oil with local representation, GGP can evaluate the few new prospects in a competent and timely manner which is seen as a significant competitive advantage to other foreign players in the market.

| Production | 2009 | 2008 | 2007 | 2006 | 2005 |
|---|---|---|---|---|---|
| Oil (BOE) | 44,607 | 8,067 | 7,825 | 3,424 | 498 |
| Gas (MMCF) | 590 | 1,218 | 734 | 377 | 73 |
| Sales Revenue (AUD$) | 8,366,982* | 12,505,972 | 6,647,884 | 4,365,126 | 584,210 |

*Includes revenue from discontinued operations

## Exploration Acquisitions and Recent Activities

### Bullseye

**Jumonville #2 Bullseye Prospect, Iberville Parish, Louisiana, Operator 33.25% WI**

As announced on 30 June 2009, Jumonville #2 successfully perforated and commenced production from the Miogyp sandstone with an initial production rate of 750 barrels of oil per day and 250,000 cubic feet of gas. The well is currently producing at 600 bbl oil per day and 350 mcf of gas per day.

The Jumonville #2 well has been brought into immediate commercial production providing a substantial increase to cash flow. Jumonville oil is high quality 40 gravity oil which under the current sales contract yields a $2 per barrel premium to West Texas Intermediate (WTI).

Golden Gate is delighted to have successfully drilled and tested this complex well. All of the objective formations were penetrated and the Jumonville #2 well has delivered an excellent commercial result in its prime objective. In addition, the Jumonville #2 well still has another oil zone yet to be tested in the Camerina section which provides further upside across the Bullseye prospect along with the Marg Vag, a new interval which is a highly productive oil zone north of the Bullseye Prospect and has been penetrated in the Jumonville #1 and #2 wells.

**Jumonville #1 Bullseye Prospect, Iberville Parish, Louisiana, Operator 33.25% WI**

The well produced 110,533 bbl of oil and 41,080 mcf of gas for the year ended 30 June 2009.

**Acosta #1 Well, Bullseye Prospect, Iberville Parish, Louisiana, Operator 33.25% WI**

With the normal increase in water production from the water drive Miogyp interval, the Joint Venture elected to convert the Acosta well into a salt water disposal well at a low cost while still retaining the well bore to eventually drill a side track in order to develop one of the new Miogyp locations and or test the Camerina. The financial benefit of injecting produced water is material as current costs of disposing of water is over $4 per barrel. This disposal well is presently saving the joint venture over US$250,000 per month in water disposal costs and has substantially reduced operating costs. Given the current economic benefit of using the Acosta well for water disposal, testing of the Camerina in this well will most likely occur after testing of the Camerina in the Jumonville #1 well. However, there are opportunities in the present market to drill a new very low cost disposal well which may change current plans.

**Bullseye Prospect Reserve Study**

Following the drilling and completion of Jumonville #2 the Company has commissioned a Reserve Study to quantify the proven and probable reserves of the Miogyp discovery at the Bullseye prospect. It is anticipated that the study results will be announced in the December 2009 quarter.

**Bullseye Prospect Facilities**

*Tank Battery and Flow lines*

Following the commencement of oil being produced from Jumonville #1 in late September 2008 the Company commenced construction of production facilities to cater for production of both oil and gas.

The tank battery and surface production facilities consists of four 1,500 bbl tanks, water injection tanks, separators, heater treater, dehydration units along with various flow lines capable of handling the Miogyp development.

The construction of these facilities over a very small period represents a significant achievement and has enabled the Company to continue producing and selling both oil and gas in order to assist with funding the drilling of Jumonville #2.

The current capacity is adequate to cater for 3,000 barrels of oil and 5 million cubic feet of gas per day.

Partners in the Project are:

| | |
|---|---|
| Golden Gate Petroleum Ltd (ASX code: GGP) | 33.25% WI |
| Modena Resources Limited (ASX code: MDA) | 9.00% WI |
| Quest Petroleum NL (ASX code: QPN) | 5.00% WI |
| Pantheon Resources PLC | 11.25% WI |
| Eastern Advisors | 12.00% WI |
| IB Daiwa Corporation | 8.00% WI |
| Other partners | 21.50% WI |

## 3. PRINCIPAL ACTIVITIES

The principal activities of the entities within the Consolidated Entity during the financial year were hydrocarbon production and exploration in the United States of America. There has been no change in the principal activities from the prior period.

## 4. RESULTS

The net loss after income tax of the Consolidated Entity for the financial year ended 30 June 2009 totalled $7,328,493 (2008: $23,962,999).

## 5. DIVIDENDS

The directors do not recommend the payment of a dividend and no amount has been paid or declared by way of dividend since the end of the previous financial year, or to the date of this report.

## 6. CORPORATE STRUCTURE

Golden Gate is a Company limited by shares that is incorporated and domiciled in Australia. Golden Gate has prepared a consolidated report incorporating the entities that it controlled during the financial year.

## 7. EARNINGS PER SHARE

The basic loss per share for the Company for the year was 2.81 (2008: 10.81) cents per share.

## 8. EMPLOYEES

At the end of the year, the Company had one full time employee (2008: three).

## 9. SHARE OPTIONS

### Shares issued as a result of the exercise of options

On 1 December 2008, 1,000,000 ordinary fully paid shares were issued following the exercise of 1,000,000 options at 22 cents each.

**Un-issued Shares**

As at the date of the report, there were 105,196,028 un-issued ordinary shares under option.

| Number of Options/ Convertible Notes | | Exercise Price | Expiry Date |
|---|---|---|---|
| 3,250,000 | Unlisted | $0.54 | 31-Dec-09 |
| 2,000,000 | Unlisted | $0.25 | 30-Jun-10 |
| 17,600,000 | Unlisted | $0.35 | 30-Oct-10 |
| 600,000 | Unlisted | $0.40 | 31-Aug-11 |
| 14,285,714 | Convertible Notes | $0.07 | 14-May-10 |
| 28,571,426 | Convertible Notes | $0.07 | 4-Aug-10 |
| 38,888,888 | Convertible Notes | $0.09 | 02-Mar-14 |
| **105,196,028** | | | |

Option holders do not have any right, by virtue of the option, to participate in any share issue of the Company.

## 10. REMUNERATION REPORT (AUDITED)

This report outlines the remuneration arrangements in place for directors, executives and key management personnel of the company in accordance with the requirements of the Corporations Act 2001 and its regulations. For the purposes of this report Key Management Personal (KMP) of the group are defined as those persons having authority and responsibility for planning, directing and controlling the major activities of the company and the group, directly or indirectly, including any director (whether executive or otherwise) of the parent company, and includes the five executives in the parent and the group receiving the highest remuneration.

The remuneration report is 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

## A. Principles of compensation

The remuneration policy of the company has been designed to align director and executive objectives with shareholder and business objectives by providing a fixed remuneration component and offering specific long-term incentives based on key performance areas affecting the consolidated entity's financial results. The remuneration policy is not linked to any performance conditions. The board believes the remuneration policy to be appropriate and effective in its ability to attract and retain the best key management personnel and directors to run and manage the consolidated entity. The key management personnel of the company are the executive and non-executive Directors, Company Secretary and Officers of subsidiary companies. For the purposes of this report, the term 'executive' encompasses the executive directors and officers of the Consolidated Entity. The board's policy for determining the nature and amount of remuneration for board members and key management personnel of the consolidated entity is as follows:

**Remuneration structure**
In accordance with best practice corporate governance, the structure of non-executive director and executive remuneration is separate and distinct.

**Fixed Remuneration**
The remuneration policy, setting the terms and conditions for the executive directors and key management personnel, was developed by the board. All key management personnel are remunerated on a consultancy basis based on services provided by each person. The board reviews key management personnel packages annually by reference to the consolidated entity's performance, executive performance and comparable information from industry sectors and other listed companies in similar industries.
The board policy is to remunerate non-executive directors at market rates for comparable companies for time, commitment and responsibilities. The board determines payments to the non-executive directors and reviews their remuneration annually, based on market practice, duties and accountability. Independent external advice is sought when required. The maximum aggregate amount of fees that can be paid to non-executive directors is subject to approval by shareholders at the annual general meeting (currently $200,000). Fees for non-executive directors are not linked to the performance of the consolidated entity. However, to align directors' interests with shareholder interests, the directors are encouraged to hold shares in the company and are able to participate in employee option plans that may exist from time to time.

**Variable remuneration – short term incentive (STI)**
There is currently no variable short term incentives provided to management in the form of a STI or bonus program. The Board is of the opinion that the variable long term remuneration provided to Directors and executives is sufficient to align the interest of management with shareholders.

**Variable remuneration – long term incentive (LTI)**
Currently, this is facilitated through the issue of options to key management personnel to encourage the alignment of personal and shareholder interests. The Board as a whole agrees upon an appropriate level of remuneration incentive for each director, which then require shareholder approval, relative to their involvement in the management of the consolidated entity. The main performance criteria of the LTI remuneration is increasing shareholder value through aligning the company with high quality exploration assets, which in turn increase share price. There are no specific performance hurdles attached to options issued to Directors, however, the exercise price of options is set at a level that encourages the Directors to focus on share price appreciation. The Company believes this policy will be effective in increasing shareholder wealth. On the resignation of Directors the options issued as remuneration are retained by the relevant party for a period of 21 days, following which if they are unexercised the options terminate. For details of directors and key management personnel interests in options at year end, refer note 19.
Directors and executive remuneration is not linked to either long term or short term performance conditions. The board feels that the expiry date and exercise price of options currently on issue to the directors is sufficient to align the goals of the directors and executives with those of the shareholders to maximise shareholder wealth, and as

such, has not set any performance conditions for the directors or the executives of the Company. The Board will continue to monitor this to ensure that it is appropriate for the Company in future years. Consequently, remuneration of executives is determined with reference to the operations of the Company, with emphasis on delivering value to shareholders through the acquisition and development of oil and gas projects. The net loss of the Group for the financial year 30 June 2009 after income tax amounted to $8,135,331 (2008: $23,962,999). The company has continued to explore its oil and gas ventures and has aligned itself with a number of high quality exploration targets and producing assets to ensure shareholder wealth is maximised in the coming years.

The Board may exercise discretion in relation to approving incentives such as options. The policy is designed to attract the highest calibre of key management personnel and reward them for performance that results in long-term growth in shareholder wealth.

The Company has no policy on executives and directors entering into contracts to hedge their exposure to options or shares granted as part of their remuneration package.

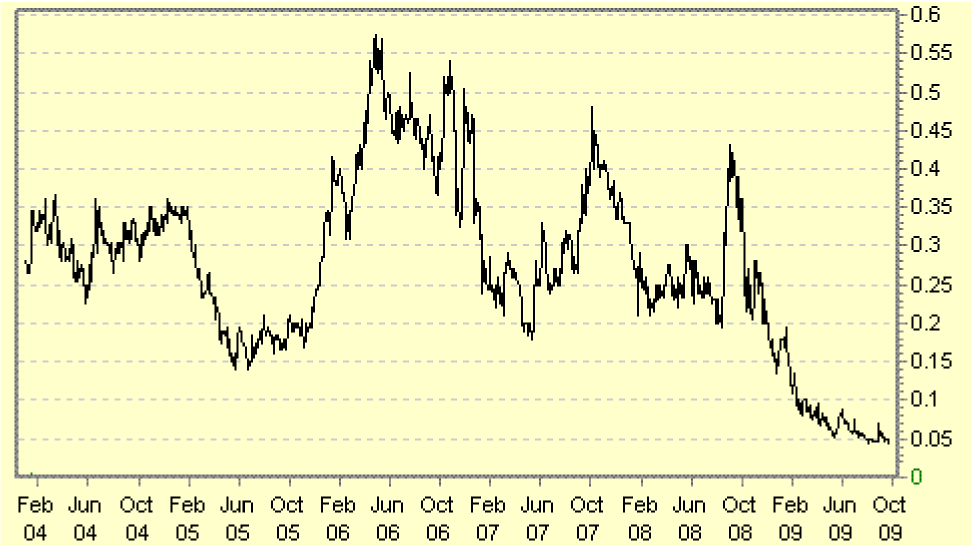
**Company performance, shareholder wealth and directors' and executives' remuneration**
The remuneration policy has been tailored to increase goal congruence between shareholders and directors and executives. Currently, this is facilitated through the issue of options to directors and executives to encourage the alignment of personal and shareholder interests. The Company believes this policy will be effective in increasing shareholder wealth. At commencement of sizeable revenue streams performance based bonuses based on key performance indicators are expected to be introduced.

**Shareholder Returns**

The following table shows the last four years financial performance against shareholder returns as measured by the closing share price at 30 June each year.

| | 2009 | 2008 | 2007 | 2006 | 2005 |
|---|---|---|---|---|---|
| Oil and Gas Sales Revenue | 8,366,982 | 12,505,972 | 6,647,884 | 4,365,126 | 584,210 |
| Gross operating profit before depletion | 4,407,604 | 5,655,540 | 3,472,652 | 3,452,607 | 459,577 |
| Basic EPS (cents) | (2.81) | (10.81) | (9.45) | (0.55) | (3.44) |

Share price over the last 5 years




At the date of this report the share price was at 5 cents per share. The price volatility is a concern to the Board but is not considered abnormal for a junior oil & gas explorer such as Golden Gate Petroleum Ltd. In order to keep all investors fully-informed and minimise market fluctuations the Board is determined to maintain promotional activity amongst the investment community so as to increase awareness of the Company.

## B. Service Arrangements

***Details of key management personnel***

**(i) Directors**

| | |
|---|---|
| S Graves | - Managing Director (appointed 4 February 2008) |
| S Russotti | - Non Executive Chairman (appointed 30 June 2003) |
| F Petruzzelli | - Director (appointed 30 June 2003) |
| M Freeman | - Director (appointed 7 October 2005 – resigned 4 March 2009) |

**(ii) Other key management personnel**

| | |
|---|---|
| J Copley | - VP Operations (appointed 23 April 2007 as director, resigned 18 April 2008 as director), continued as VP Operations until 13 January 2009. |
| Chris Bowyer | - Company Secretary (appointed 18 April 2008). |

***Details of executives***

Remuneration and other terms of employment for the following key management personnel are set out below:

**Stephen Graves, Managing Director:**

- Term of agreement – The current consulting arrangement commenced on 4 February 2008 on a monthly basis. No terminations benefits and no notice period are specified in the agreement.
- Monthly salary of US$25,000 was paid.

**Sam Russotti, Non Executive Chairman:**

- Annual non-executive fees of $60,000 were paid
- Mr Russotti provided consulting services and was paid a further $83,432 during the year.
- Term of agreement – The current consulting contract commenced on 1 March 2007 for a fixed 3 year term with a further option to extend for a further 3 years. No notice period is specified in the agreement. No termination benefits are payable.
- Mr Russotti is subject to re-election as a director in accordance with the constitution.

**Frank Petruzzelli, Non Executive Director:**

- Annual non executive fees of $60,000 were paid.
- Term of agreement – The current consulting contract commenced on 1 March 2007 for a fixed 3 year term with a further option to extend for a further 3 years subject to re-election as required by the Company's constitution. No notice period is specified in the agreement. No termination benefits are payable.
- Mr Petruzzelli is subject to re-election as a director in accordance with the constitution.

**Mark Freeman, Non-Executive Director: Resigned 5 March 2009**

- Annual non executive fees of $60,000 were paid.
- Mr Freeman provides financial consulting services and was paid $65,333 for the 8 months ending February 2009.

**Jeffrey Copley, VP Operations: Contract terminated 13 January 2009**

- Contract was terminated 13 January 2009. Total remuneration for the year was $219,804 including a 3 month termination payment.

**Christopher Bowyer, Company Secretary**

- Annual fees of $25,000 were paid.

**Retirement benefits**

Other retirement benefits may be provided directly by the Company if approved by shareholders.

## C. Details of Remuneration

The following table sets out remuneration paid to directors and senior executives of the Consolidated Entity during the reporting period.

| | Salary & Fees $ | Short-Term Non Monetary Benefits (i) $ | Other (v) $ | Post Employment Super-annuation $ | Termin-ation Payments $ | Share- based payments Options (ii) $ | Total $ | Options as % of Total |
|---|---|---|---|---|---|---|---|---|
| **Key Management Personnel – Directors and Executives** | | | | | | | | |
| Mr S Russotti, non-executive Chairman | | | | | | | | |
| 2009 | 143,432 | - | 5,004 | 6,055 | - | - | 154,491 | - |
| 2008 | 225,000 | 11,592 | 7,480 | 9,513 | - | 486,800 | 740,385 | 65.75% |
| Mr S Graves, Managing Director (iv) | | | | | | | | |
| 2009 | 401,053 | - | 5,004 | - | - | 307,290 | 713,348 | 43.08% |
| 2008 | 161,747 | - | 7,480 | - | - | 207,210 | 376,437 | 55.05% |
| Mr F Petruzzelli, Non-executive Director | | | | | | | | |
| 2009 | 59,046 | - | 5,004 | 4,954 | - | - | 69,004 | - |
| 2008 | 65,446 | - | 7,480 | 4,954 | - | 243,400 | 321,280 | 75.76% |
| Mr M Freeman, Non-executive Director (resigned 5 March 2009)(iii) | | | | | | | | |
| 2009 | 125,334 | - | 2,002 | - | - | - | 127,336 | |
| 2008 | 196,000 | - | 7,480 | - | - | 243,400 | 446,880 | 54.47% |
| Mr J Copley, VP Operations (v) | | | | | | | | |
| 2009 | 146,909 | - | 2,002 | 7,932 | 62,961 | - | 219,804 | - |
| 2008 | 217,871 | - | 7,480 | 14,750 | - | 467,400 | 707,501 | 66.06% |
| Mr C Bowyer, Secretary | | | | | | | | |
| 2009 | 25,000 | - | 5,003 | - | - | - | 30,003 | - |
| 2008 | 5,000 | - | - | - | - | - | 5,000 | - |
| **Total 2009** | **900,774** | **-** | **24,019** | **18,941** | **62,961** | **307,290** | **1,313,985** | |
| **Total 2008** | **871,064** | **11,592** | **37,400** | **29,217** | **-** | **1,648,210** | **2,597,483** | |

There was no performance based remuneration received during the year by directors and executives. No options were issued to Key Management Personnel during the year.

(i) Non-monetary benefits relate to the provision of a motor vehicle.

(ii) Options issued were not subject to performance conditions. The options were issued at a premium to the share price at the time awarded, and provide an incentive for the directors and executives to strive for growth in the Company's assets.

(iii) The remuneration payments to Mr Freeman were made to a related entity, Meccano Pty Ltd.

(iv) Tigre International Inc provided consulting services of Stephen Graves.

(v) Directors and officer insurance of $24,019 (2008: $37,400) was paid during the year this amount is reflected under short term other payments.

(vi) Resigned during the 2008 financial year as Technical Director; and continued as VP Operations until 13 January 2009.

## D. Share based compensation

Although no share based options were granted during the year there were some options granted in the prior year that were vested during this financial year.

Details of the share based remuneration of the directors and the key management personnel of the company are set out in the following table. The options were issued to directors in prior periods as part of their remuneration and as incentive options to increase goal convergence between directors and shareholders. The options are granted for no consideration. Options carry no dividend or voting rights.

The value at grant date is calculated in accordance with AASB 2- Share based payment. The fair value of services received in return for share options granted are measured by reference to the fair value of share options granted. The estimate of the fair value of the services received is measured based on the Binomial option pricing model. The contractual life of the option is used as an input into this model. Expectations of early exercise are incorporated into the model.

The expected volatility is based on the historic volatility (calculated based on the weighted average remaining life of the share options), adjusted for any expected changes to future volatility due to publicly available information. Non-market performance conditions are not taken into account in the grant date fair value measurement of the services received.

No options were granted since the end of the year. No terms of equity settled share based payment transactions have been altered or modified during the year.

| 2009 Granted or Vested | | Terms & Conditions | | | | | | Vested | |
|---|---|---|---|---|---|---|---|---|---|
| Directors | No Granted | Grant Date | Fair Value at Grant Date | Exercise Price per Option | Expiry Date | First Exercise Date | Last Exercise Date | No Vested | % |
| S Graves | - | 17/6/08 | 0.1029 | 0.35 | 30/10/10 | 17/6/08 | 30/10/10 | 2,986,301 | 100% |
| S Russotti | - | - | - | - | - | - | - | - | - |
| F Petruzzelli | - | - | - | - | - | - | - | - | - |
| M Freeman | - | - | - | - | - | - | - | - | - |
| J Copley | - | - | - | - | - | - | - | - | - |

| 2009 | | | |
|---|---|---|---|
| Director | Value of options granted during the year | Value of options exercised during year | Value of options lapsed during year |
| S Graves | - | - | - |
| S Russotti | - | (10,000) | (102,000) |
| F Petruzzelli | - | (10,000) | (39,000) |
| M Freeman | - | - | - |
| J Copley | - | - | - |

| Shares issued on exercise of compensation Options | | | |
|---|---|---|---|
| Director | Shares Issued No. | Paid per share $ | Unpaid per share $ |
| S Russotti | 500,000 | 0.22 | - |
| F Petruzzelli | 500,000 | 0.22 | - |
| | 1,000,000 | | |

There were no alterations to the terms and conditions of options granted as remuneration since grant date. There were no compensation options exercised by key management personnel during 2008.

***End of Remuneration Report***

## 11. SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

Significant changes in the state of affairs of the Company and consolidated entity during the financial period were as follows:

(a) On 28 August 2008 the Company announced that it has secured a finance facility of US$1 million to provide working capital to be utilized towards completion costs associated with the Bullseye Prospect. The facility has a 6 month term and is subject to 9% pa coupon. In accordance with the terms of the facility the Company issued

600,000 unlisted options exercisable at 40 cents on or before 31 August 2011 following the drawdown of US$500,000. The facility was drawn down to U$500,000 and repaid during the year.

(b) On 19 September 2008 the Company announced that it had executed a line of credit agreement for US$5 million. This finance facility creates a line of credit to meet short term working capital requirements for ongoing operations. Interest rate on any drawn amount is LIBOR based with no conversion options or equity component. Advances against the facility will be due and payable between 6 and 9 months with no penalty for early repayment. At the time of each drawdown, lender approval is required. This facility remains undrawn at the date of this report.

(c) On 8 October 2008 the Company issued of 18,214,285 shares at 28 cents each to raise $5,100,000 before costs.

(d) On 5 March 2009 the Company issued 10,418,750 shares at an issue price of 8c per share to raise $833,500 from a share purchase plan.

(e) In March 2009 the Company issued 38,888,888 convertible notes with a face value of 9 cents each to raise A$3.5m before expenses. The coupon rate is 1.25% per month, payable quarterly in arrears. The coupon rate may be increased with a capped rate of 5% per month in the event of an increase in the oil price or an increase in oil production from the Bullseye project. The principal is repayable 5 years from drawdown and may be redeemed by the Company at any time for the face value plus a discounted value of future interest payments at 20%pa over the remaining life of the notes. The notes convert on a 1:1 basis (i.e. into 38.9m ordinary shares) and the notes are secured against future production from the Bullseye project.

(f) On 17 March 2009 the Company sold an 8% working interest position in the Bullseye Prospect to IB Daiwa Corporation for US$1.5 million.

(g) On 11 May 2009 and 3 June 2009 respectively the Company advised that the 90% ($2.7m) and 10% ($.3m) holders of convertible notes that were due for redemption on 15 May 2009 agreed subject to shareholder approval to extend the term of the convertible note facility for a further 12 months at an interest rate of 15% pa and these notes may be converted to ordinary fully paid shares at a Conversion rate of a 10% discount to the 5 day VWAP but not greater than 7 cents per note.

## 12. SIGNIFICANT EVENTS AFTER BALANCE DATE

No matters or circumstances have arisen since the end of the financial year which have significantly affected or may significantly affect the operations, results or state of affairs of the Consolidated Entity in subsequent financial years, except for:

(a) On 4 August 2009 following shareholder approval the Company issued 14,285,714 convertible notes which mature on 15 May 2010 and 28,571,426 convertible notes which mature on 4 August 2010. These notes convert at a price which is the lesser of 10% discount to 5 day VWAP or 7 cents each.

(b) On 4 August 2009 following shareholder approval, the 38,888,888 convertible notes which mature on 4 March 2014 were amended to enable conversion of the notes at a price which is the lesser of 10% discount to 5 day WVAP or 9c.

(c) On 1 September 2009 the Company issued 40m shares at a price of 3.5 cents each together with a 1 for 2 free attaching option exercisable at 8 cents each on or before 31 August 2012 to raise $1.4m (before costs). The issue of the options is subject to shareholder approval at the AGM.

(d) On 4 September 2009 the Company announced a 1 for 1.69 partially underwritten pro rata non-renounceable rights issue of New Shares in the Company at an issue price of 3.5 cents for each New Share ('**Rights Issue**') together with 1 free attaching New Option for every 2 New Shares issued. The New Options are exercisable at 8 cents each on or before 31 August 2012. The holders of the Convertible Notes referred to in 12(a) above have committed to underwriting and/or placing $2,829,382 of the rights issue. Accordingly these notes will be repaid following completion of the Rights Issue. The Rights Issue is underwritten by Novus Capital and convertible note holders to a maximum of $5,479,499 with a placement agreement for a further $1,000,000.

## 13. LEAD AUDITOR'S INDEPENDENCE DECLARATION

The Lead auditor's independence declaration is set out on page 18 and forms part of the directors' report for financial year ended 30 June 2009.

## 14. NON-AUDIT SERVICES

During the year Ernst & Young, the Company's auditor, did not supply any non-audit services to Golden Gate Petroleum Ltd or any of its subsidiaries

## 15. TAX CONSOLIDATION

For the purposes of income tax, Golden Gate Petroleum Ltd and its 100% owned subsidiaries do not intend to form a tax consolidated group.

## 16. LIKELY DEVELOPMENTS AND EXPECTED RESULTS

The Company and consolidated entity will continue with the development of its interest in the Bullseye, Padre Island Joint Venture and Bowtie. Further information about likely developments in the operations of the Company and consolidated entity and the expected results of those operations in the future financial years has not been included in this report because disclosure would be likely to result in unreasonable prejudice to the Company and consolidated entity.

## 17. ENVIRONMENTAL REGULATIONS & PERFORMANCE

The Consolidated Entity is a party to various exploration and development licences or permits in the country in which it operates. In most cases, these contracts and licences specify the environmental regulations applicable to oil and gas operations in the respective jurisdictions. The Consolidated Entity aims to ensure that it complies with the identified regulatory requirements in each jurisdiction in which it operates. There have been no significant known breaches of the environmental obligations of the Consolidated Entity's licences.

## 18. RISK MANAGEMENT

The Company takes a proactive approach to risk management. The Board is responsible for ensuring that risks, and also opportunities, are identified on a timely basis and that the Consolidated entity's objectives and activities are aligned with the risks and opportunities identified by the Board. The Board maintains a risk register ranking all the identified risks of the business and how the significant risks are being managed.

## 19. CORPORATE GOVERNANCE

In recognising the need for the highest standards of corporate behaviour and accountability, the Directors of Golden Gate Petroleum support and have adhered to the principles of sound corporate governance. The Board recognises the recommendations of the Australian Securities Exchange Corporate Governance Council, and considers that Golden Gate Petroleum is in compliance with those guidelines which are of importance to the commercial operation of a junior listed resources company. During the financial year, shareholders continued to receive the benefit of an efficient and cost-effective corporate governance policy for the Company.

## 20. PROCEEDINGS ON BEHALF OF THE COMPANY

No person has applied to the Court under section 237 of the Corporations Act 2001 for leave to bring proceedings on behalf of the Company, or to intervene in any proceedings to which the Company is a party, for the purpose of taking responsibility on behalf of the Company for all or part of those proceedings. No proceedings have been brought or intervened in on behalf of the Company with leave of the Court under section 237 of the Corporations Act 2001.

## 21. INDEMNIFICATION AND INSURANCE OF OFFICERS

An indemnity agreement has been entered into with each of the directors and Company Secretary of the Company named earlier in this report. Under the agreement, the Company has agreed to indemnify those officers against any claim or for any expenses or costs which may arise as a result of work performed in their respective capacities. There is no monetary limit to the extent of this indemnity. The Company has paid insurance premiums of $24,017 (2008: $37,400) in respect of Director's and Officer's liability and legal expenses' insurance contracts, for current Directors and Officers of the Company. The insurance premiums relate to:

- Costs and expenses incurred in by the relevant officers in defending legal proceedings, whether civil or criminal and whatever the outcome.
- Other liabilities that may arise from their position, with the exception of conduct involving a wilful breach of duty or improper use of information or position to gain a personal advantage.

**Frank Petruzzelli**
**Director**

30 September 2009

## FORWARD LOOKING STATEMENTS & COMPETENT PERSONS STATEMENT

*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.*

*Any references to dollars, cents or $ in this report are to Australian dollar currency, unless otherwise stated.*

*Information in this report that relates to Hydrocarbon Reserves and or Resources is based on information compiled by Steve Barrett, a part-time consultant to the Company. Steve Barrett has over 20 years experience in the application of engineering to the petroleum industry in oil and gas exploration and production internationally, as either an employee or consultant to oil companies operating in the upstream petroleum industry.*

# DIRECTORS' DECLARATION

In accordance with a resolution of the Directors of Golden Gate Petroleum Ltd, I state that:

The directors of the company declare that:

1. The financial statements, comprising the income statement, balance sheet, cash flow statement, 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

   b) give a true and fair view of the financial position as at 30 June 2009 and of the performance for the year ended on that date of the company and the consolidated entity.

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 remuneration disclosures set out on pages 8 to 13 of the directors' report (as part of the audited Remuneration Report) comply with section 300A of the Corporations Act 2001.

4. The directors have been given the declarations by the chief executive officer and chief financial officer required by section 295A of the Corporations Act 2001.

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

**Frank Petruzzelli**
**Director**

30 September 2009

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## Auditor's Independence Declaration to the Directors of Golden Gate Petroleum Limited

In relation to our audit of the financial report of Golden Gate Petroleum Limited for the financial year ended 30 June 2009, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the Corporations Act 2001 or any applicable code of professional conduct.

Ernst & Young

Ernst & Young

Peter McIver

Peter McIver
Partner
Perth
30 September 2009

# INCOME STATEMENT

## FOR THE YEAR ENDED 30 JUNE 2009

| | | Consolidated | | Parent | |
|---|---|---|---|---|---|
| | Notes | 2009 | 2008 | 2009 | 2008 |
| | | $ | $ | $ | $ |
| **Continuing operations** | | | | | |
| Revenue from sales | 2(a) | 8,270,213 | 12,505,972 | - | - |
| Cost of sales | 2(b) | (5,617,627) | (7,166,268) | - | - |
| **Gross profit** | | **2,652,586** | **5,339,704** | **-** | **-** |
| Interest Revenue | | 34,819 | 95,070 | 7,832 | 27,467 |
| Gain/(Loss) on sale of assets | 2(a) | (1,481,529) | 131,650 | - | 19,818 |
| Impairment of oil & gas properties | 9(b) | (1,463,857) | (8,960,062) | - | - |
| Impairment of exploration and evaluation expenditure | 8(b) | (5,118,826) | (18,804,575) | - | - |
| Impairment of controlled entity loan | 4 | - | - | (5,942,277) | (21,081,032) |
| Impairment of investment in controlled entity | 6 | - | - | (1,598,033) | (3,035,088) |
| Administration costs | 2(c) | (1,260,356) | (1,464,014) | (1,239,584) | (1,532,517) |
| Finance costs | 2(d) | (831,752) | (300,772) | (802,129) | (300,772) |
| **Loss from continuing operations before income tax** | | **(7,468,915)** | **(23,962,999)** | **(9,574,191)** | **(25,902,124)** |
| Income tax (expense)/benefit | 3 | 806,838 | - | 806,838 | - |
| **Net Loss for the period from continuing operations** | | **(6,662,077)** | **(23,962,999)** | **(8,767,353)** | **(25,902,124)** |
| **Discontinued operations** | | | | | |
| Loss from discontinued operations after income tax (expense)/ benefit | 6 | (666,416) | - | - | - |
| **Net Loss for the period** | 14 (a) | **(7,328,493)** | **(23,962,999)** | **(8,767,353)** | **(25,902,124)** |
| | | | | | |
| **Loss per share from Continuing Operations** | | | | | |
| Basic loss per share (cents per share) | 13 | **(2.56)** | (10.81) | | |
| Diluted loss per share (cents per share) | 13 | **(2.56)** | (10.81) | | |
| | | | | | |
| **Loss per share Overall** | | | | | |
| Basic loss per share (cents per share) | 13 | **(2.81)** | (10.81) | | |
| Diluted loss per share (cents per share) | 13 | **(2.81)** | (10.81) | | |

# BALANCE SHEET

## AS AT 30 JUNE 2009

| | | Consolidated | | Parent | |
|---|---|---|---|---|---|
| | Notes | 2009 | 2008 | 2009 | 2008 |
| | | $ | $ | $ | $ |
| **Current assets** | | | | | |
| Cash and cash equivalents | 15(b) | 1,381,811 | 2,745,198 | 143,903 | 250,686 |
| Trade and other receivables | 4 | 803,287 | 2,189,773 | 14,715 | 39,806 |
| Prepayments | 5 | 46,421 | 1,242,357 | 29,451 | 706 |
| **Total current assets** | | **2,231,519** | **6, 177,328** | **188,069** | **291,198** |
| **Non-current assets** | | | | | |
| Trade and other receivables | 4 | 373,179 | 286,652 | 2,443,093 | - |
| Investments in controlled entities | 6 | - | - | 8,915,910 | 10,513,943 |
| Plant and equipment | 7 | 66,483 | 76,049 | 2,125 | 4,704 |
| Exploration and evaluation assets | 8 | 2,497,328 | 10,261,654 | - | - |
| Oil and gas properties | 9 | 15,445,231 | 912,694 | - | - |
| **Total non-current assets** | | **18,382,221** | **11,537,049** | **11,361,128** | **10,518,647** |
| **Total assets** | | **20,613,740** | **17,714,377** | **11,549,197** | **10,809,845** |
| **Current liabilities** | | | | | |
| Trade and other payables | 10(a) | 8,707,751 | 6,373,517 | 357,786 | 23,131 |
| Cash Call | | 77,149 | - | - | - |
| Interest bearing loans and borrowings | 10(b) | 3,000,000 | 3,000,000 | 3,000,000 | 3,000,000 |
| Provisions | 11 | 42,719 | 162,566 | 42,479 | 158,113 |
| **Total current liabilities** | | **11,827,619** | **9,536,083** | **3,400,265** | **3,181,244** |
| **Non-current liabilities** | | | | | |
| Interest bearing loans and borrowings | 10(b) | 726,284 | - | 726,284 | - |
| Derivative held for sale | 10(b) | 329,578 | - | 329,578 | - |
| Provisions | 11 | 637,189 | 567,168 | - | 17,474 |
| **Total non-current liabilities** | | **1,693,051** | **567,168** | **1,055,862** | **17,474** |
| **Total liabilities** | | **13,520,670** | **10,103,251** | **4,456,127** | **3,198,718** |
| **Net assets** | | **7,093,070** | **7,611,126** | **7,093,070** | **7,611,127** |
| **Equity** | | | | | |
| Contributed equity | 12 | 63,877,009 | 57,941,233 | 63,877,009 | 57,941,233 |
| Reserve | | 317,220 | (557,441) | 5,473,484 | 3,159,964 |
| Accumulated losses | 14(a) | **(57,101,159)** | (49,772,666) | **(62,257,423)** | (53,490,070) |
| **Total equity** | | **7,093,070** | **7,611,126** | **7,093,070** | **7,611,127** |

# CASH FLOW STATEMENT

## FOR THE YEAR ENDED 30 JUNE 2009

| | | Consolidated | | Parent | |
|---|---|---|---|---|---|
| | | 2009 | 2008 | 2009 | 2008 |
| | Notes | $ | $ | $ | $ |
| **Cash flows from operating activities** | | | | | |
| Receipts from customers | | 12,124,510 | 13,535,187 | - | - |
| Payments to suppliers and employees | | (5,935,010) | (6,607,980) | (840,837) | (896,812) |
| Interest received | | 25,916 | 95,070 | 7,834 | 27,467 |
| Interest paid | | (357,907) | (300,772) | (328,283) | (300,772) |
| **Net cash flows from/(used in) operating activities** | **15(a)** | **5,857,509** | **6,721,505** | **(1,161,286)** | **(1,170,117)** |
| **Cash flows from investing activities** | | | | | |
| Payments for exploration and evaluation expenditure | | (11,945,872) | (22,689,381) | - | - |
| Payments for oil & gas properties | | (7,202,814) | | | |
| Net payment for prospects | | - | (1,628,972) | - | - |
| Security deposits | | (28,169) | 32,401 | - | - |
| Proceeds on the sale of exploration assets and plant & equipment | | - | 1,146,116 | - | 21,852 |
| Proceeds of sale of oil and gas interests | | 2,054,106 | - | | - |
| Acquisition of plant and equipment | | - | (74,794) | - | (4,000) |
| **Net cash flows used in investing activities** | | **(17,122,749)** | **(23,214,630)** | **-** | **17,852** |
| **Cash flows from financing activities** | | | | | |
| Proceeds from the issue of shares | | 6,153,500 | 16,457,241 | 6,153,500 | 16,457,241 |
| Share issue costs | | (212,337) | (390,664) | (212,337) | (390,664) |
| Advances to related parties | | - | - | (8,386,660) | (14,947,165) |
| Proceeds from convertible notes | | 3,500,000 | - | 3,500,000 | - |
| **Net cash from financing activities** | | **9,441,163** | **16,066,577** | **1,054,503** | **1,119,412** |
| Net increase/(decrease) in cash and cash equivalents | | (1,824,077) | (426,548) | (106,783) | (32,853) |
| Cash and cash equivalents at 1 July | | 2,745,198 | 3,273,645 | 250,686 | 283,539 |
| Effect of exchange rate changes on cash and cash equivalents | | 460,690 | (101,899) | - | - |
| **Cash and cash equivalents at 30 June** | **15(b)** | **1,381,811** | **2,745,198** | **143,903** | **250,686** |

# STATEMENTS TO CHANGES IN EQUITY

## FOR THE YEAR ENDED 30 JUNE 2009

| Consolidated Entity | Issued capital | Accumulated losses | Option Premium Reserve | Foreign currency translation reserve | Convertible Notes Reserve | Total Equity |
|---|---|---|---|---|---|---|
| At 1 July 2008 | **57,941,233** | **(49,772,666)** | **3,159,964** | **(3,717,405)** | **-** | **7,611,126** |
| Effect of translation of foreign operations to Consolidated entity presentation currency | - | - | - | (1,438,859) | - | (1,438,859) |
| Total income/(expense) for the period recognised directly in equity | **-** | **-** | **-** | **(1,438,859)** | **-** | **(1,438,859)** |
| Loss for the period | - | (7,328,493) | - | - | - | (7,328,493) |
| Total income / (expense) for the period | **-** | **(7,328,493)** | **-** | **(1,438,859)** | **-** | **(8,767,352)** |
| Issue of Share Capital (net of issue costs) | 5,935,776 | - | - | - | | 5,935,776 |
| Issue of Convertible notes (net of tax) | - | - | - | - | 1,882,622 | 1,882,622 |
| Share based payments | - | - | 430,898 | - | - | 430,898 |
| **Balance at 30 June 2009** | **63,877,009** | **(57,101,159)** | **3,590,862** | **(5,156,264)** | 1,882,622 | **7,093,070** |
| | | | | | | |
| At 1 July 2007 | **41,874,656** | **(25,809,667)** | **1,271,579** | **(1,778,278)** | **-** | **15,558,290** |
| Effect of translation of foreign operations to Consolidated entity presentation currency | - | - | - | (1,939,127) | - | (1,939,127) |
| Total income/(expense) for the period recognised directly in equity | **-** | **-** | **-** | **(1,939,127)** | **-** | **(1,939,127)** |
| Loss for the period | - | (23,962,999) | - | - | - | (23,962,999) |
| Total income / (expense) for the period | **-** | **(23,962,999)** | **-** | **(1,939,127)** | **-** | **(25,902,126)** |
| Issue of Share Capital (net of issue costs) | 16,066,577 | - | - | - | - | 16,066,577 |
| Share based payments | - | - | 1,888,385 | - | - | 1,888,385 |
| **Balance at 30 June 2008** | **57,941,233** | **(49,772,666)** | **3,159,964** | **(3,717,405)** | **-** | **7,611,126** |

| Parent | Issued capital | Accumulated losses | Option Premium Reserve | Convertible Notes | Total Equity |
|---|---|---|---|---|---|
| At 1 July 2008 | **57,941,233** | **(53,490,070)** | **3,159,964** | **-** | **7,611,127** |
| Loss for the period | - | **(8,767,353)** | - | - | **(8,767,353)** |
| Total income / (expense) for the period | **-** | **(8,767,353)** | **-** | **-** | **(8,767,353)** |
| Issue of Share Capital (net of issue costs) | 5,935,776 | - | - | - | 5,935,776 |
| Issue of Convertible notes (net of tax) | - | - | - | 1,882,622 | 1,882,622 |
| Share based payments | - | - | 430,898 | - | 430,898 |
| **Balance at 30 June 2009** | **63,877,009** | **(62,257,423)** | **3,590,862** | 1,882,622 | **7,093,070** |
| | | | | | |
| At 1 July 2007 | **41,874,656** | **(27,587,946)** | **1,271,579** | **-** | **15,558,289** |
| Loss for the period | - | (25,902,124) | - | - | (25,902,124) |
| Total income / (expense) for the period | **-** | **(25,902,124)** | **-** | **-** | **(25,902,124)** |
| Issue of Share Capital (net of issue costs) | 16,066,577 | - | - | - | 16,066,577 |
| Share based payments | - | - | 1,888,385 | - | 1,888,385 |
| **Balance at 30 June 2008** | **57,941,233** | **(53,490,070)** | **3,159,964** | **-** | **7,611,127** |

# NOTES TO THE FINANCIAL STATEMENTS

**FOR THE YEAR ENDED 30 JUNE 2009**

## 1. CORPORATE INFORMATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial report of Golden Gate Petroleum Ltd and its subsidiaries ("the Consolidated Entity") for the year ended 30 June 2009 was authorised for issue in accordance with a resolution of the Directors on 30 September 2009. Golden Gate Petroleum Ltd is a company limited by shares incorporated and domiciled in Australia whose shares are publicly traded on the Australian Stock Exchange. The address of the registered office and principal place of business is Level 21, 77 St Georges Terrace, Perth, Western Australia, 6000. The principal activity of Golden Gate Petroleum Ltd is the exploration and production of oil and gas, with current activities based in Texas and Louisiana in the United States of America.

### (a) Basis of preparation

The financial report is a general-purpose financial report, which has been prepared in accordance with the requirements of the Corporations Act 2001, Australian Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards Board. The financial report has been prepared on a historical cost basis, and is presented in Australian dollars.

### (b) Significant accounting policies

**New accounting standards and interpretations**

From 1 July 2008 the Consolidated Entity has adopted the following Standards and Interpretations, mandatory for annual periods beginning on or after 1 July 2008. Adoption of these standards and interpretations did not have any effect on the financial position or performance of the Consolidated Entity. The Consolidated Entity has not elected to early adopted any new standards or amendments.

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet effective have not been adopted by the Consolidated Entity for the period ended 30 June 2009. These are outlined in the table below:

| Reference | Title | Summary | Application date of standard* | Application date for Group* |
|---|---|---|---|---|
| AASB 8 and AASB 2007-3 | Operating Segments and consequential amendments to other Australian Accounting Standards | New Standard replacing AASB 114 *Segment Reporting*, which adopts a management reporting approach to segment reporting. | 1 Jan 2009 | 1 July 2009 |
| AASB 123 (Revised) and AASB 2007-6 | Borrowing Costs and consequential amendments to other Australian Accounting Standards | The amendments to AASB 123 require that all borrowing costs associated with a qualifying asset be capitalised. | 1 Jan 2009 | 1 July 2009 |
| AASB 101 (Revised), AASB 2007-8 and AASB 2007-10 | Presentation of Financial Statements and consequential amendments to other Australian Accounting Standards | Introduces a statement of comprehensive income. Other revisions include impacts on the presentation of items in the statement of changes in equity, new presentation requirements for restatements or reclassifications of items in the financial statements, changes in the presentation requirements for dividends and changes to the titles of the financial statements. | 1 Jan 2009 | 1 July 2009 |
| AASB 2008-1 | Amendments to Australian Accounting Standard – Share-based Payments: Vesting Conditions and Cancellations | The amendments clarify the definition of "vesting conditions", introducing the term "non-vesting conditions" for conditions other than vesting conditions as specifically defined and prescribe the accounting treatment of an award that is effectively cancelled because a non-vesting condition is not satisfied. | 1 Jan 2009 | 1 July 2009 |

# NOTES TO THE FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 30 JUNE 2009

| Reference | Title | Summary | Application date of standard* | Application date for Group* |
|---|---|---|---|---|
| AASB 3 (Revised) | Business Combinations | The revised Standard introduces a number of changes to the accounting for business combinations, the most significant of which includes the requirement to have to expense transaction costs and a choice (for each business combination entered into) to measure a non-controlling interest (formerly a minority interest) in the acquiree either at its fair value or at its proportionate interest in the acquiree's net assets. This choice will effectively result in recognising goodwill relating to 100% of the business (applying the fair value option) or recognising goodwill relating to the percentage interest acquired. The changes apply prospectively. | 1 July 2009 | 1 July 2009 |
| AASB 127 (Revised) | Consolidated and Separate Financial Statements | There are a number of changes arising from the revision to AASB 127 relating to changes in ownership interest in a subsidiary without loss of control, allocation of losses of a subsidiary and accounting for the loss of control of a subsidiary. Specifically in relation to a change in the ownership interest of a subsidiary (that does not result in loss of control) – such a transaction will be accounted for as an equity transaction. | 1 July 2009 | 1 July 2009 |
| AASB 2008-3 | Amendments to Australian Accounting Standards arising from AASB 3 and AASB 127 | Amending Standard issued as a consequence of revisions to AASB 3 and AASB 127. Refer above. | 1 July 2009 | 1 July 2009 |
| AASB 2008-5 | Amendments to Australian Accounting Standards arising from the Annual Improvements Project | The improvements project is an annual project that provides a mechanism for making non-urgent, but necessary, amendments to IFRSs. The IASB has separated the amendments into two parts: Part 1 deals with changes the IASB identified resulting in accounting changes; Part II deals with either terminology or editorial amendments that the IASB believes will have minimal impact. This was the first omnibus of amendments issued by the IASB arising from the Annual Improvements Project and it is expected that going forward, such improvements will be issued annually to remove inconsistencies and clarify wording in the standards. The AASB issued these amendments in two separate amending standards; one dealing with the accounting changes effective from 1 January 2009 and the other dealing with amendments to AASB 5, which will be applicable from 1 July 2009 [refer below AASB 2008-6]. | 1 Jan 2009 | 1 July 2009 |
| AASB 2008-6 | Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project | This was the second omnibus of amendments issued by the IASB arising from the Annual Improvements Project. Refer to AASB 2008-5 above for more details. | 1 July 2009 | 1 July 2009 |
| AASB 2008-7 | Amendments to Australian Accounting Standards – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate | The main amendments of relevance to Australian entities are those made to AASB 127 deleting the "cost method" and requiring all dividends from a subsidiary, jointly controlled entity or associate to be recognised in profit or loss in an entity's separate financial statements (i.e., parent company accounts). The distinction between pre- and post-acquisition profits is no longer required. However, the payment of such dividends requires the entity to consider whether there is an indicator of impairment. AASB 127 has also been amended to effectively allow the cost of an investment in a subsidiary, in limited reorganisations, to be based on the previous carrying amount of the subsidiary (that is, share of equity) rather than its fair value. | 1 Jan2009 | 1 July 2009 |

# NOTES TO THE FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 30 JUNE 2009

| Reference | Title | Summary | Application date of standard* | Application date for Group* |
|---|---|---|---|---|
| AASB 2009-2 | Amendments to Australian Accounting Standards – Improving Disclosures about Financial Instruments [AASB 4, AASB 7, AASB 1023 & AASB 1038] | The main amendment to AASB 7 requires fair value measurements to be disclosed by the source of inputs, using the following three-level hierarchy:<br>• quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1);<br>• inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices) (Level 2); and<br>• inputs for the asset or liability that are not based on observable market data (unobservable inputs) (Level 3).<br>These amendments arise from the issuance of *Improving Disclosures about Financial Instruments (Amendments to IFRS 7)* by the IASB in March 2009.<br>The amendments to AASB 4, AASB 1023 and AASB 1038 comprise editorial changes resulting from the amendments to AASB 7. | Annual reporting periods beginning on or after 1 January 2009 that end on or after 30 April 2009. | 1 July 2009 |
| AASB 2009-4 | Amendments to Australian Accounting Standards arising from the Annual Improvements Project [AASB 2 and AASB 138 and AASB Interpretations 9 & 16] | The amendments to some Standards result in accounting changes for presentation, recognition or measurement purposes, while some amendments that relate to terminology and editorial changes are expected to have no or minimal effect on accounting. The main amendment of relevance to Australian entities is that made to IFRIC 16 which allows qualifying hedge instruments to be held by any entity or entities within the group, including the foreign operation itself, as long as the designation, documentation and effectiveness requirements in AASB 139 that relate to a net investment hedge are satisfied. More hedging relationships will be eligible for hedge accounting as a result of the amendment. These amendments arise from the issuance of the IASB's *Improvements to IFRSs*. The amendments pertaining to IFRS 5, 8, IAS 1,7, 17, 36 and 39 have been issued in Australia as AASB 2009-5 (refer below). | 1 July 2009 | 1 July 2009 |
| AASB 2009-5 | Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project [AASB 5, 8, 101, 107, 117, 118, 136 & 139] | The amendments to some Standards result in accounting changes for presentation, recognition or measurement purposes, while some amendments that relate to terminology and editorial changes are expected to have no or minimal effect on accounting.<br>The main amendment of relevance to Australian entities is that made to AASB 117 by removing the specific guidance on classifying land as a lease so that only the general guidance remains. Assessing land leases based on the general criteria may result in more land leases being classified as finance leases and if so, the type of asset which is to be recorded (intangible v property, plant and equipment) needs to be determined.<br>These amendments arise from the issuance of the IASB's *Improvements to IFRSs*. The AASB has issued the amendments to IFRS 2, IAS 38, IFRIC 9 as AASB 2009-4 (refer above). | 1 Jan 2010 | 1 July 2010 |
| AASB 2009-7 | Amendments to Australian Accounting Standards [AASB 5, 7, 107, 112, 136 & 139 and Interpretation 17] | These comprise editorial amendments and are expected to have no major impact on the requirements of the amended pronouncements. | 1 July 2009 | 1 July 2009 |

# NOTES TO THE FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 30 JUNE 2009

| Reference | Title | Summary | Application date of standard* | Application date for Group* |
|---|---|---|---|---|
| Amendments to International Financial Reporting Standards | Amendments to IFRS 2 | The amendments clarify the accounting for group cash-settled share-based payment transactions, in particular:<br>• the scope of AASB 2; and<br>• the interaction between IFRS 2 and other standards.<br>An entity that receives goods or services in a share-based payment arrangement must account for those goods or services no matter which entity in the group settles the transaction, and no matter whether the transaction is settled in shares or cash. A "group" has the same meaning as in IAS 27 *Consolidated and Separate Financial Statements*, that is, it includes only a parent and its subsidiaries. The amendments also incorporate guidance previously included in IFRIC 8 *Scope of IFRS 2* and IFRIC 11 *IFRS 2—Group and Treasury Share Transactions*. As a result, IFRIC 8 and IFRIC 11 have been withdrawn. | 1 Jan 2010 | 1 July 2010 |

The impact of the adoption of these new and revised standards and interpretations has not been determined by the Company.

### (c) Going concern

As at 30 June 2009, the Group has a net current asset deficiency of $9,596,100 and the parent Company of $3,212,196. Notwithstanding this matter, the Directors are satisfied the Group and the Company can continue on a going concern basis after having regard to the following mitigating factors:

- Following shareholder approval on 1 August 2009 $2m of the convertible notes which were classified as a current liability are reclassified as non current liability as they expire on 4 August 2010;the Group has positive operating cash flows and positive operating cash flows are estimated for the 12-month period ending 30 June 2010;
- the Group completed a $1.4m (before costs) fund raising on 1 September 2009;
- the Group is presently completing a $6.5m non-renouncable rights issue of which $5.6m is underwritten by Novus Capital Ltd and Convertible Note holders and a further $1m has been subscribed for. The Rights Issue will reduce debt by $2.83m; and
- the Group has negotiated a line of credit agreement of US$5,000,000. This facility is undrawn as at the date of this report. Refer to Note 24 (d) for further details of this.

### (d) 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 consolidated financial report of the Consolidated Entity and the financial report of the Company comply with International Financial Reporting Standards (IFRSs) and interpretations adopted by the International Accounting Standards Board (IASB).

### (e) Basis of consolidation

The consolidated financial statements comprise the financial statements of Golden Gate Petroleum Ltd and its subsidiaries during the year ended 30 June 2009 ("the Consolidated Entity"). The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies. In preparing the consolidated financial statements, all inter-company balances and transactions, income and expenses and profit and losses resulting from intra-group transactions have been eliminated in full.

Subsidiaries are fully consolidated from the date on which control is transferred to the Consolidated Entity and cease to be consolidated from the date on which control is transferred out of the Consolidated Entity.

## (f) Plant and equipment

Oil and Gas Properties

Oil and gas properties include construction, installation or completion of infrastructure facilities such as pipelines and platforms, capitalised borrowing costs, transferred exploration and evaluation costs, and the cost of development wells. 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 Consolidated Entity and the cost of the item can be measured reliably. All other costs are charged to the income statement during the financial period in which they are incurred.

Depreciation

Reserve Oil and gas properties and plant and equipment, other than freehold land, are depreciated to their residual values at rates based on the expected useful lives of the assets concerned on a unit of production basis. The remaining assets use the diminishing value approach. 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 [drilling parts] are depreciated based on diminishing value at 25% to 40%.
- Office equipment are depreciated based on diminishing value at 25% to 40%.
- Currently there are no buildings owned by the Consolidated Entity.

Impairment

The carrying values of property, plant and equipment are reviewed for impairment at each reporting date, with the recoverable amount being estimated when events or changes in circumstances indicate the carrying value may be impaired. The recoverable amount of plant and equipment is the greater of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs, unless the asset's value in use can be estimated to be close to its fair value. An impairment exists when the carrying value of an asset or cash-generating unit exceeds its estimated recoverable amount. The asset or cash-generating unit is then written down to its recoverable amount. For plant and equipment, impairment losses are recognised in the income statement.

## (g) Mineral Exploration and Development Costs

Expenditure on exploration and evaluation is accounted for in accordance with the "area of interest" method. Exploration licence acquisition costs are capitalised and subject to annual impairment testing or more frequent if there is an indication of impairment. All exploration and evaluation costs, including general permit activity, geological and geophysical costs and new venture activity costs, are capitalised provided the rights to tenure of the area of interest is current and either:

- The expenditure relates to an exploration discovery that, at balance date, has not reached a stage that permits a reasonable assessment of the existence or otherwise of economically recoverable reserves and active and significant activities in relation to the area of interest are continuing; or
- It is expected that the expenditure will be recouped through successful exploitation of the area of interest, or alternatively, by its sale.

The costs of drilling exploration wells are initially capitalised pending the results of the well. Costs are expensed where the well does not result in the successful discovery of economically recoverable hydrocarbons. Areas of interest may be recognised at either the field or the well level, depending on the nature of the project. Subsequent to the recognition of an area of interest, all further costs relating to the area of interest are capitalised.

Each potential or recognised area of interest is reviewed half yearly to determine whether economic quantities of reserves have been found or whether further exploration and evaluation work is underway or planned to support the continued carry forward of capitalised costs. Upon approval for the commercial development of an area of interest, accumulated expenditure for the area of interest is transferred to oil and gas properties. The recoverability of the carrying amount of the exploration and evaluation assets is dependent on successful development and commercial exploitation, or alternatively, sale of the respective areas of interest. The carrying value of capitalised exploration and evaluation expenditure is assessed for impairment at the cash generating unit level whenever the facts and circumstances suggest that the carrying amount of the asset may exceed its recoverable amount.

An impairment exists when the carrying amount of an asset or cash-generating unit exceeds its estimated recoverable amount. The asset or cash-generating unit is then written down to its recoverable amount. Any impairment losses are recognised in the income statement.

### (h) Impairment of non financial assets

At each reporting date, the Consolidated Entity assesses whether there is any indication that an asset may be impaired. If any such indication of impairment exists, or when annual impairment testing for an asset is required, the Consolidated Entity makes a formal estimate of the asset's recoverable amount.

An asset's recoverable amount is the higher of fair value less costs to sell and its value in use. It is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets and the asset's value in use cannot be estimated to be close to its fair value. In such cases, the asset is tested for impairment as part of the cash-generating unit to which it belongs. When the carrying amount of an asset or cash-generating unit exceeds its recoverable amount, the asset or cash-generating unit is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Impairment losses are recognised in the income statement.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of recoverable amount, but only if there has been a change in the estimates used to determine the assets recoverable amount and only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash generating unit).

### (i) Provision for Restoration

The Consolidated Entity records the present value of the estimated cost of legal and constructive obligations to restore operating locations in the period in which the obligation arises. The nature of restoration activities includes the removal of facilities, abandonment of wells and restoration of affected areas. Typically, the obligation arises when the asset is installed at the production location. When the liability is initially recorded, the estimated cost is capitalised by increasing the carrying amount of the related oil and gas properties. Over time, the liability is increased for the change in the present value based on a risk adjusted pre-tax discount rate appropriate to the risks inherent in the liability. The unwinding of the discount is recorded as an accretion charge within finance costs. The carrying amount capitalised in oil and gas properties is depreciated over the useful life of the related asset (refer Note 1(f)). Costs incurred that relate to an existing condition caused by past operations, and do not have future economic benefit, are expensed.

### (j) Trade and other receivables

Trade receivables, which generally have 30-90 day terms, are recognised and carried at original invoice amount less an allowance for any uncollectible amounts. An estimate for doubtful debts is made when there is objective evidence that the Consolidated Entity will not be able to collect the full debt. Bad debts are written off when identified. Objective evidence is defined as when the debt is more than 120 days old. This is a base case scenario, other prevailing circumstances like payment history and payment arrangements may override the 120 day rule.

### (k) Cash and cash equivalents

Cash and short term deposits in the balance sheet comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less. For the purposes of the Cash Flow Statement, cash and cash equivalents consist of cash and cash equivalents as defined above, including bank overdrafts.

### (l) Trade and other payables

Trade payables and other payables are carried at amortised costs and represent liabilities for goods and services provided to the Consolidated Entity prior to the end of the financial year that are unpaid and arise when the Consolidated Entity becomes obliged to make future payments in respect of the purchase of these goods and services. Payables to related parties are carried at the amortised cost.

### (m) Provisions

Provisions are recognised when the Consolidated Entity has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. When the consolidated entity expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the income statement net of any reimbursement. If the effect of the time value of money is material, provisions are discounted using a pre-tax rate that reflects the risks specific to the liability. When discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

### (n) Employee Entitlements

*Wages, salaries, bonus payments, annual leave and sick leave*

Liabilities for wages and salaries, bonus payments, including non-monetary benefits, annual leave and accumulating sick leave expected to be settled within 12 months of the reporting date are recognised in current provisions in respect of employees' services up to the reporting date. They are measured at the amounts expected to be paid when the liabilities are settled. Liabilities for non-accumulating sick leave are recognised when the leave is taken and are measured at the rates paid or payable.

*Long service leave*

The liability for long service leave is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using the projected unit credit method. Consideration is given to expected future wages and salary levels, experience of employee departures, and periods of service. Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity and currencies that match, as closely as possible, the estimated future cash outflows.

### (o) Leases

The determination of whether an arrangement is or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

Finance leases, which transfer to the Consolidated Entity substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised as an expense in profit or loss.

Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset and the lease term, if there is no reasonable certainty that the Consolidated Entity will obtain ownership by the end of the lease term.

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognised as an expense in the income statement on a straight-line basis over the lease term. Lease incentives are recognised in the income statement as an integral part of the lease expense.

### (p) Revenue

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Consolidated Entity and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

*Sales Revenue*

Sales revenue is recognised when the significant risks and rewards of ownership have passed to the buyer and the costs incurred or to be incurred in respect of the transaction can be measured reliably. Risks and rewards of ownership are considered passed to the buyer at the time of "delivery of goods to the customer". Delivery of product is by pipeline and under well specific contracts that define transfer point of ownership. The nominated transfer point has appropriate meter equipment installed. Product pricing is dependant upon product quality and delivery volumes rates, and base price marked to an appropriate commodity market benchmark.

*Interest*

Revenue is recognised as the interest accrues using the effective interest method. This is a method of calculating the amortised cost of a financial asset and allocating the interest income over the relevant period using the effective interest rate, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset.

### (q) Income tax

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the balance sheet date.

Deferred income tax is provided on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognised for all taxable temporary differences; except:

When the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; or

When the taxable temporary difference is associated with investments in subsidiaries, associates or interests in joint ventures, and the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry-forward of unused tax assets and unused tax losses can be utilised; except:

- When the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; or
- When the deductible temporary difference is associated with investments in subsidiaries, associates and interests in joint ventures, in which case the deferred tax asset is only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

Unrecognised deferred income tax assets are reassessed at each balance sheet date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered. Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantially enacted at the balance sheet date.

Income taxes relating to items recognised directly in equity are recognised in equity and not in profit or loss.

Deferred tax assets and deferred tax liabilities are offset only if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to the same taxable entity and the same taxation authority.

### (r) Other taxes

Revenues, expenses and assets are recognised net of the amount of GST except:

- When the GST incurred on a purchase of goods and services is not recoverable from the taxation authority in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- Receivables and payables which are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the balance sheet. Cash flows are included in the Cash Flow Statement on a gross basis and the GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the taxation authority are classified as operating cash flows.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the taxation authority.

### (s) Borrowing Costs

Borrowing costs incurred for the construction of qualifying assets are capitalised during the period of time that is required to complete and prepare the asset for its intended use or sale. Assets are considered to be qualifying assets when this period of time is substantial (greater than 12 months). The interest rate used to determine the amount of borrowing costs to be capitalised is the weighted average interest rate applicable to the Consolidated Entity's outstanding borrowings during the year.

### (t) Contributed Equity

Issued and paid up capital is recognised at the fair value of the consideration received by the Company. Any transaction costs arising on the issue of ordinary shares are recognised directly in equity as a reduction of the proceeds received.

### (u) Earnings per share ("EPS")

Basic EPS is calculated as net profit attributable to members of the parent, adjusted to exclude costs of servicing equity (other than dividends), divided by the weighted average number of ordinary shares, adjusted for any bonus element.

Diluted EPS is calculated as the net profit attributed to members of the parent, adjusted for:

- costs of servicing equity (other than dividends);
- the after-tax effect of dividends and interest associated with the dilutive potential ordinary shares that have been recognised as expenses; and
- other non-discretionary changes in revenue and expenses during the period that would result from the dilution of potential ordinary shares;

Divided by the weighted average number of ordinary shares and dilutive potential ordinary shares; adjusted for any bonus element.

### (v) Foreign currency translation

Both the functional and presentation currency of Golden Gate Petroleum Ltd and its Australian subsidiaries is Australian dollars ($). Functional currency for foreign operations has been determined based on the requirements of AASB121. Each entity in the Consolidated Entity uses its specific functional currency to measure the items included in the financial statements of that entity.

Transactions in foreign currency are initially recorded in the functional currency by applying the exchange ruling at the date of the transaction or the average for the period when translating a large number of transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the balance sheet date. Non-monetary items that are measured in terms of historic cost in a foreign currency are translated using the exchange rate as at the date of the initial transaction. Non-monetary items are measured at fair value in a foreign currency are translated using the exchange rate as at the date when fair value was determined.

The functional currency of all the overseas subsidiaries is United States dollars (US$). As at the reporting date the assets and liabilities of these subsidiaries are translated into the presentation currency of Golden Gate Petroleum Ltd at the rate of exchange ruling at the balance sheet date and their income statements are translated at the weighted average exchange rate for the year. The exchange differences arising on the translation are taken directly to a separate component of equity. On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the income statement.

### (w) Share-based payment transactions

The Consolidated Entity provides benefits to directors and employees of the Consolidated Entity in the form of equity, whereby directors and employees render services in exchange for options to acquire shares or rights over shares.

The fair value of options granted to employees is recognised as an employee expense with a corresponding increase in equity. The fair value is measured at grant date and spread over the period during which the employees become unconditionally entitled to the options. The fair value of the options granted is measured using an appropriate model, taking into account the terms and conditions upon which the options were granted. The amount recognised as an expense is adjusted to reflect the actual number of share options that vest except where forfeiture is due to market conditions not being met.

The cumulative expense recognised for equity-settled transactions at each reporting date until vesting date reflects (i) the extent to which the vesting period has expired and (ii) for non-market based hurdles the Consolidated Entity's best estimate of the number of equity instruments that will ultimately vest. No adjustment is made for changes in the likelihood of market performance conditions being met as the effect of these conditions is included in the determination of the fair value at grant date. The income statement charge or credit for a period represents the movement in cumulative expense recognised as at the beginning and end of that period.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is only conditional upon a market condition. If the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified. In addition, an expense is recognised for any modification that increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee, as measured at the date of modification.

If an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award and designated as a replacement award on the date that it is granted, the cancelled and new award are treated as if they were a modification of the original award, as described in the previous paragraph. The dilutive effect, if any, of outstanding options is reflected as additional share dilution in the computation of earnings per share (see note 13).

### (x) Investments in controlled entities

All investments are initially recognised at cost, being the fair value of the consideration given and including acquisition charges associated with the investment. Subsequent to the initial measurement, investments in controlled entities are carried at cost less accumulated impairment losses.

# NOTES TO THE FINANCIAL STATEMENTS

**FOR THE YEAR ENDED 30 JUNE 2009**

## (y) Convertible notes

The component of the convertible notes that exhibits characteristics of a liability is recognised as a liability in the Balance Sheet, net of transaction costs. On issuance of the convertible notes, the fair value of the liability component is determined using an estimated market rate for an equivalent non-convertible bond and this amount is carried as a long-term liability on the amortised cost basis until extinguished on conversion or redemption. The increase in the liability due to the passage of time is recognised as a finance cost. Interest on the liability component of the instruments is recognised as an expense in the Income Statement. The fair value of any derivative features embedded in the convertible notes, other than the equity component, is recognised as a derivative liability. Subsequent to initial recognition, these derivative features are measured at fair value with gains and losses recognised in profit and loss. The remainder of the proceeds is allocated to the conversion option that is recognised and included in shareholders' equity. The carrying amount of the conversion option is not remeasured in subsequent years.

Transaction costs are apportioned between the liability and equity components of the convertible notes based on the allocation of proceeds to the liability and equity components when the instruments are first recognised.

## (z) Joint Controlled Operations

The Consolidated entity has an interest in a joint venture that is a jointly controlled operation. A joint venture is a contractual arrangement whereby two or more parties undertake an economic activity that is subject to joint control. A jointly controlled operation involves use of assets and other resources of the venturers rather than establishment of a separate entity. The Consolidated entity recognises its interest in the jointly controlled operation by recognising the assets that it controls and the liabilities that it incurs. The Consolidated entity also recognises the expenses that it incurs and its share of the income that it earns from the sale of goods or services by the jointly controlled operation.

## (aa) Segment reporting

**Business segments**

The consolidated entity operates predominantly in the field of oil and gas exploration and development.

**Geographical segments**

The consolidated entity operates in one principal geographical area, USA and one secondary geographical area being Australia.

## (bb) Comparative figures

Where necessary, prior year comparatives have been adjusted to be consistent with the classification applied in the current year.

## (cc) Critical accounting estimates, assumptions and judgements

Estimates and assumptions are periodically evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Equally, the Consolidated Entity continually employs judgement in the application of its accounting policies.

***(i) Critical Accounting Estimates and Assumptions***

The Consolidated Entity makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

*Impairment of capitalised exploration and evaluation expenditure*

The future recoverability of capitalised exploration and evaluation expenditure is dependent on a number of factors, including whether the Group decides to exploit the related lease itself or, of not, whether it successfully recovers the related exploration and evaluation asset through sale. Factors that could impact the future recoverability include the level of reserves and resources, future technological changes, which could impact the cost of mining, future legal changes (including changes to environmental restoration obligations) and changes to commodity prices. To the extent that capitalised exploration and evaluation expenditure is determined not to be recoverable in the future, profits and net assets will be reduced in the period in which this determination is made. In addition, exploration and evaluation expenditure is capitalised if activities in the area of interest have not yet reached a stage that permits a reasonable assessment of the existence or otherwise of economically recoverable resources. To the extent it is determined in the future that this capitalised expenditure should be written off, profits and net assets will be reduced in the period in which this determination is made.

*Share-based payment transactions*

The Consolidated entity measures the cost of equity-settled transactions with directors and employees by reference to the fair value of the equity instruments at the date at which they are granted. Equity settled transactions include options and performance rights. The fair value of an option is determined by an using an appropriate option-pricing model using the assumptions detailed in note 21.

***(ii) Critical Judgements in Applying the Consolidated Entity's Accounting Policies***

*Exploration and evaluation*

The Consolidated Entity's accounting policy for exploration and evaluation is set out at Note 1(e). The 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 have been or will be found. Any such estimates and assumptions may change as new information becomes available. If, after having capitalised expenditure under our policy, it is determined that the Consolidated Entity is unlikely to recover the expenditure by future exploitation or sale, then the relevant capitalised amount will be written off to the income statement.

# NOTES TO THE FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 30 JUNE 2009

## 2. REVENUE, EXPENSES AND LOSSES/GAINS

| | Consolidated | | Parent | |
|---|---|---|---|---|
| | 2009 | 2008 | 2009 | 2008 |
| | $ | $ | $ | $ |
| **(a) Revenue** | | | | |
| Sales revenue | 8,270,213 | 12,505,972 | - | - |
| **Other Income** | | | | |
| Total proceeds from sale of oil & gas properties | 2,054,106 | 131,650 | - | 19,818 |
| Cost of assets disposed | (3,535,635) | - | - | - |
| Net gain/(loss) on sale of assets * | (1,481,529) | 131,650 | - | 19,818 |

* On 17 March 2009 the Company sold an 8% working interest position in the Bullseye Prospect to IB Daiwa Corporation for US$1.5 million. The net loss on sale is reflected above.

| | Consolidated 2009 $ | Consolidated 2008 $ | Parent 2009 $ | Parent 2008 $ |
|---|---|---|---|---|
| **(b) Cost of Sales** | | | | |
| Operating costs | 1,640,851 | 2,572,371 | - | - |
| Depletion | 1,784,614 | 717,046 | - | |
| Royalties | 2,192,162 | 3,876,851 | - | - |
| | **5,617,627** | **7,166,268** | **-** | **-** |
| **(c) Administration Costs** | | | | |
| Employee/Consulting Fees | 502,158 | 475,532 | 508,990 | 475,532 |
| Superannuation | 55,352 | 35,285 | 55,352 | 35,285 |
| Share based payments | 320,223 | 635,444 | 320,223 | 635,444 |
| Leave provisions | (19,589) | 11,538 | (17,475) | 11,538 |
| Employee benefit expense | 858,144 | 1,157,799 | 867,090 | 1,157,799 |
| | | | | |
| Compliance Costs | 216,167 | 150,460 | 216,167 | 150,460 |
| Insurance | 12,733 | 60,200 | 3,784 | 60,000 |
| Depreciation | 23,346 | 22,044 | 2,579 | 12,036 |
| Foreign currency translation | 10,723 | - | 10,723 | - |
| Other | 139,243 | 73,511 | 139,240 | 152,222 |
| | **1,260,356** | **1,464,014** | **1,239,584** | **1,532,517** |
| **(d) Finance Expense** | | | | |
| Interest expense | 586,420 | 300,772 | 556,797 | 300,722 |
| Fair value movement of convertible note | 85,000 | - | 85,000 | - |
| Fair value movement of embedded derivative | 160,332 | - | 160,332 | - |
| | **831,752** | **300,722** | **802,129** | **300,722** |

# NOTES TO THE FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 30 JUNE 2009

### 3. INCOME TAX

The major components of income tax expenses are:

| | Consolidated | | Parent | |
|---|---|---|---|---|
| | 2009 | 2008 | 2009 | 2008 |
| | $ | $ | $ | $ |
| **(a) Income Statement** | | | | |
| Current income tax | - | - | - | - |
| *Current income tax charge* | (5,272,388) | (5,120,643) | (368,144) | (417,147) |
| *Adjustments in respect of current income tax of previous years* | - | - | - | - |
| *Deferred income tax* | - | - | - | - |
| Relating to origination and reversal of temporary differences | 3,220,950 | (3,150,892) | (52,783) | 3,474 |
| DTA not brought to account | 1,244,600 | 8,271,535 | (385,910) | 413,673 |
| **Income tax expense (income) reported in the income statement** | (806,838) | - | (806,838) | - |
| | | | | |
| (b) Statement of changes in equity | | | | |
| Deferred income tax | | | | |
| Convertible note | 806,838 | - | 806,838 | - |
| **Deferred income tax recognised directly in equity** | 806,838 | - | 806,838 | - |

The aggregate amount of income tax attributed to the financial period differs from the amount calculated on the operating loss. The differences are recorded as follows:

| | | | | |
|---|---|---|---|---|
| Accounting Profit / (Loss) | (7,468,915) | (23,962,999) | (9,574,189) | (25,902,124) |
| Prima facie tax payable | (2,240,675) | (8,387,050) | (2,872,257) | (7,770,637) |
| Add tax effect of: | - | - | - | - |
| Capital raising cost deductions | - | (75,118) | - | (75,118) |
| Non-deductible items | 189,237 | 190,633 | 189,236 | 190,633 |
| Inter-company Loan Write-Down | - | - | 2,262,093 | 7,241,449 |
| Other | - | - | - | - |
| DTA not brought to account | 1,244,600 | 8,271,535 | (385,910) | 413,673 |
| **Income tax expense on loss** | (806,838) | - | (806,838) | - |

### (c) Deferred Income Tax

Deferred income tax at 30 June relates to the following:

| | Consolidated | | Parent | |
|---|---|---|---|---|
| | 2009 | 2008 | 2009 | 2008 |
| | $ | $ | $ | $ |
| *Deferred tax liabilities* | | | | |
| *Deferred tax liabilities movement in the profit and loss* | | | | |
| Exploration expenses: | (3,273,733) | (3,154,366) | - | - |
| *Deferred tax liabilities movement in equity* | | | | |
| Convertible note | (806,838) | | (806,838) | |
| | **(4,080,571)** | **(3,154,366)** | **(806,838)-** | **-** |

# NOTES TO THE FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 30 JUNE 2009

| | Consolidated | | Parent | |
|---|---|---|---|---|
| | **2009** | **2008** | **2009** | **2008** |
| | **$** | **$** | **$** | **$** |
| *Deferred tax assets* | | | | |
| *Deferred tax assets movement* | | | | |
| Exploration expenses: | | | | |
| Provisions | 52,784 | (3,474) | 52,784 | (3,474) |
| Losses – Aust | 368,144 | 417,147 | 368,144 | 417,147 |
| Losses – US | 4,904,243 | 4,703,496 | - | - |
| Non-recognition of deferred taxes | (1,244,600) | (8,271,535) | 385,911 | (413,673) |
| | **4,080,570** | **(3,154,366)** | **806,838** | **-** |

**(c) Tax Losses**

At 30 June 2009, Golden Gate Petroleum Ltd consolidated group has $17,408,516 (including US tax losses) (2008: $12,136,128) of tax losses that are available for offset against future taxable profits of the company.

# NOTES TO THE FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 30 JUNE 2009

| | Consolidated | | Parent | |
|---|---|---|---|---|
| | 2009 $ | 2008 $ | 2009 $ | 2008 $ |
| Deferred tax assets | - | - | - | - |
| Tax losses – Australian | 1,378,238 | 1,010,094 | 1,378,238 | 1,010,094 |
| Tax losses – US | 16,030,278 | 11,126,034 | - | 11,126,034 |
| | **17,408,516** | **12,136,128** | **1,378,238** | **12,136,128** |

Golden Gate Ltd and its 100% owned Australian subsidiaries have not formed a tax consolidated group for the year ended 30 June 2009.

The potential deferred tax asset will only be obtained if:

- assessable income is derived of a nature and of amount sufficient to enable the benefit from the deductions to be realised or the benefit can be utilised by the Company and/or the consolidated entity in accordance with Division 170 of the Income Tax Assessment Act 1997;
- conditions for the deductibility imposed by the laws are complied with; and
- no changes in tax legislation adversely affect the realization of the benefit from the deductions.

## 4. TRADE & OTHER RECEIVABLES

| | Consolidated | | Parent | |
|---|---|---|---|---|
| | 2009 $ | 2008 $ | 2009 $ | 2008 $ |
| Current | | | | |
| Trade debtors [1] | 493,151 | 1,871,036 | 804 | 9,281 |
| Other receivables [3] | 310,136 | 318,737 | 13,911 | 30,525 |
| | **803,287** | **2,189,773** | **14,715** | **39,806** |
| Non-Current | | | | |
| Security Deposits [4] | 373,179 | 286,652 | - | - |
| Loans to controlled entities [2] | - | - | 46,022,882 | 37,637,512 |
| Impairment of loan to controlled entity [5] | - | - | (43,579,789) | (37,637,512) |
| | **373,179** | **286,652** | **2,443,093** | **-** |

Impairment reconciliation of loans to controlled entity.

| | | | | |
|---|---|---|---|---|
| Opening balance | - | - | (37,637,512) | (16,556,480) |
| Charge for the year | - | - | (5,942,277) | (21,081,032) |
| Closing balance | - | - | (43,579,789) | (37,637,512) |

Terms and conditions relating to the above financial instruments;

1. Trade debtors are non-interest bearing and generally on 60 day terms.
2. Related party receivables are non-interest bearing and are repayable on demand.
3. Other receivables are non-interest bearing and have repayment terms between 30 and 90 days.
4. Security Deposits are interest bearing and provide security towards performance bonds provided by the consolidated entity bank to state governmental agencies against environmental obligations.

# NOTES TO THE FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 30 JUNE 2009

5. The directors have considered the indicators of impairment as at 30 June 2009, such as the net assets of the subsidiaries and the commercial and development potential of each entity's projects and have reduced the carrying value of the loan to reflect the value inherent in the subsidiaries' assets where appropriate.

## 5. PREPAYMENTS

| | Consolidated | | Parent | |
|---|---|---|---|---|
| | 2009 | 2008 | 2009 | 2008 |
| | $ | $ | $ | $ |
| Prepayments | 46,421 | 1,242,357 | 29,451 | 706 |

The majority of the prepayment balance is in relation to insurance for the 2010 financial year. The balance as at 30 June 2008 primarily related to a prepayment balance for drilling rig services.

## 6. INVESTMENTS IN CONTROLLED ENTITIES

| | Parent | |
|---|---|---|
| | 2009 | 2008 |
| | $ | $ |
| Investments in controlled entities | 10,513,943 | 13,549,030 |
| Impairment of controlled entities | (1,598,033) | (3,035,087) |
| | **8,915,910** | **10,513,943** |

The directors have considered the indicators of impairment as at 30 June 2009 and consequently reduced the carrying value of the investments to reflect the inherent value of the subsidiaries' net assets.

| | Country of Incorporation | Percentage of Equity Interest held by the consolidated entity | | Carrying value of investment | |
|---|---|---|---|---|---|
| | | 2009 | 2008 | 2009 | 2008 |
| Investments in subsidiaries | | % | % | $ | $ |
| Southdale Holdings Pty Ltd | Australia | 100 | 100 | - | - |
| Golden Gate Resources Ltd | Canada | 100 | 100 | 8,915,910 | 10,513,943 |
| GGP Exploration Ltd * | USA | - | 100 | - | - |
| GGP Management LLC * | USA | - | 100 | - | - |
| GGR Petroleum LLC | USA | 100 | 100 | - | - |
| Cathie Delaware, LLC | USA | 100 | 100 | - | - |
| Cathie Energy Texas, LLC | USA | 100 | 100 | - | - |
| Kindee Oil & Gas Louisiana, LLC | USA | 100 | 100 | - | - |
| Kindee Oil & Gas Texas, LLC | USA | 100 | 100 | - | - |
| Kindee Nevada Petroleum, LLC | USA | 100 | 100 | - | - |
| Long Flat Ltd | USA | 100 | 100 | - | - |
| Birdwood Louisiana LLC | USA | 100 | 100 | - | - |
| Yarras Texas LLC | USA | 100 | 100 | - | - |
| | | | | **8,915,910** | **10,513,943** |

# NOTES TO THE FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 30 JUNE 2009

*** Discontinued operations**

On the 23 June 2009 the Company disposed of its interests in the Bethany Project. This project was held through the Company's wholly owned subsidiaries GGP Exploration Ltd and GGP Management LLC. GGP Exploration Ltd held the interest beneficially as a limited partnership. Total consideration payable under the sale agreement is US$50,000 payable as a 5% override on future gas and oil sales. All liabilities including all plugging and abandoning costs remain with GGP Exploration Ltd and GGP Management LLC. This project contained the Syd A2 well which ceased production during the financial year and any future production was likely to be costly whilst the Company is focussing on its Louisiana projects.

(a) Financial performance of disposed operations

| | 2009<br>GGP Exploration Ltd | 2008<br>GGP Exploration Ltd |
|---|---|---|
| Revenue | 96,770 | 172,725 |
| Expenses | (778,282) | (315,615) |
| Profit/(loss)before tax | (681,512) | (142,890) |
| Gain on disposal | 15,096 | - |
| Tax (expense)/benefit | - | - |
| Loss for the year from discontinued operations | 666,416 | 142,890 |

(b) Assets and liabilities and cash flow information of disposed entity

| | |
|---|---|
| *The major classes of assets and liabilities* | |
| *Assets* | |
| Intangibles | - |
| Property, plant and equipment | - |
| Trade and other receivables | - |
| Cash and cash equivalents | - |
| *Liabilities* | |
| Trade and other payables | - |
| Interest-bearing loans and borrowings | - |
| **Net assets attributable to discontinued operations** | **-** |
| *The net cash flows are as follows:* | |
| Operating activities | (29,592) |
| Investing activities | - |
| Financing activities | - |
| **Net cash flow** | **(29,592)** |
| *Consideration receivable* | |
| Cash | 62,127 |
| Other | - |
| Total disposal consideration | 62,127 |
| Less net assets disposed of | 47,031 |
| **Gain/(loss) on disposal** | **15,096** |
| *Net cash inflow on disposal* | |
| Cash and cash equivalent consideration | 62,127 |
| Less Cash and cash equivalents balance disposed of | 62,127 |
| **Reflected in the consolidated cash flow statement** | - |
| *Loss per share (cents per share)* | |
| Basic from discontinued operations | 0.256 |
| Diluted from discontinued operations | 0.256 |

## 7. PLANT & EQUIPMENT

| | Consolidated | | Parent | |
|---|---|---|---|---|
| | 2009 | 2008 | 2009 | 2008 |
| | $ | $ | $ | $ |
| Office equipment at cost | 112,641 | 98,861 | 12,575 | 12,575 |
| Accumulated depreciation | (46,158) | (22,812) | (10,450) | (7,871) |
| **Total office equipment** | **66,483** | **76,049** | **2,125** | **4,704** |

Reconciliation of the carrying amounts of plant and equipment at the beginning and end of the financial year:

| | Consolidated | | Parent | |
|---|---|---|---|---|
| | 2009 | 2008 | 2009 | 2008 |
| | $ | $ | $ | $ |
| **Office Equipment at Cost** | | | | |
| Balance at start of year | 76,049 | 13,401 | 4,704 | 2,209 |
| Additions | 16,097 | 74,794 | - | 4,000 |
| Reclassification of assets | - | (1,509) | - | - |
| Disposal | (4,317) | - | - | - |
| Depreciation | (23,346) | (10,637) | (2,579) | (1,505) |
| **Balance at end of year** | **66,483** | **76,049** | **2,125** | **4,704** |
| | | | | |
| **Motor vehicles at cost** | | | | |
| Balance at start of year | - | 13,441 | - | 13,441 |
| Depreciation | - | - | - | - |
| Disposal | - | (2,034) | - | (2,034) |
| Depreciation | - | (11,407) | - | (11,407) |
| **Balance at end of year** | **-** | **-** | **-** | **-** |
| | | | | |
| **Drilling parts at cost** | | | | |
| Balance at start of year | - | 182,079 | - | - |
| Reclassification of assets | - | - | - | - |
| Additions | - | - | - | - |
| Disposals | - | (182,079) | - | - |
| **Balance at end of year** | **-** | **-** | **-** | **-** |

## 8. EXPLORATION AND EVALUATION ASSETS

### a) Expenditure carried forward in respect of hydrocarbon areas of interest

| | Consolidated | | Parent | |
|---|---|---|---|---|
| | 2009 | 2008 | 2009 | 2008 |
| | $ | $ | $ | $ |
| Exploration and evaluation - at cost | 2,497,328 | 10,261,654 | - | - |

The ultimate recoupment of costs carried forward for exploration and evaluation phases is dependent on the successful development and commercial exploitation or sale of the respective hydrocarbon interests.

# NOTES TO THE FINANCIAL STATEMENTS

**FOR THE YEAR ENDED 30 JUNE 2009**

**b) Reconciliation:**

| | Consolidated | | Parent | |
|---|---|---|---|---|
| | **2009 $** | **2008 $** | **2009 $** | **2008 $** |
| - Exploration & evaluation phases | | | | |
| Carrying amount at beginning | 10,261,654 | 9,298,988 | - | - |
| Movement in carrying value as a result of foreign currency variations | 2,754,888 | (1,221,104) | - | - |
| Additions | 850,038 | 22,424,592 | - | - |
| Transferred to production | (5,584,010) | (605,894) | - | - |
| Sale of interests | - | (830,353) | - | - |
| Impairment of discontinued operations | (666,416) | - | - | - |
| Impairment expense* | (5,118,826) | (18,804,575) | - | - |
| **Carrying Amount at end** | **2,497,328** | **10,261,654** | **-** | **-** |

** Allowance for Impairment expense includes write offs incurred with respect to the drilling and prospect costs of LGS, Noel, Samstown, Manzano #1, Plum and Bethany. The write offs were as a result of lack of exploration success and the directors ongoing analysis of the economic viability of projects.*

## 9. OIL AND GAS PROPERTIES

### a) Oil and Gas Properties carried forward

| | | | | |
|---|---|---|---|---|
| Oil and Gas Production – at cost | 17,946,891 | 1,629,740 | - | - |
| Accumulated amortisation | (2,501,660) | (717,046) | - | - |
| | **15,445,231** | **912,694** | **-** | **-** |

### b) Reconciliation:

| | | | | |
|---|---|---|---|---|
| ***Oil and Gas Properties:*** | | | | |
| Carrying amount at beginning | 912,694 | 8,647,759 | - | - |
| Transferred from Exploration | 5,584,010 | 605,894 | - | - |
| Movement in carrying value as a result of foreign currency variations | (912,458) | (401,210) | - | |
| Additions | 16,645,091 | 1,737,359 | - | - |
| Sale of asset – historical cost | (3,535,635) | - | - | - |
| Impairment expense | (1,463,857) | (8,960,062) | - | - |
| Amortisation | (1,784,614) | (717,046) | - | - |
| **Carrying amount at end** | **15,445,231** | **912,694** | **-** | **-** |

* Impairment expense primarily relates to a reduction in the carrying values of the Bulleye project and in 2008 the impairment of the Company's interest in the Wilson well. The write offs were a result of the directors ongoing analysis of the economic viability of the projects.

## 10. FINANCIAL LIABILITIES

### a) Trade Creditors

| | Consolidated | | Parent | |
|---|---|---|---|---|
| | 2009 $ | 2008 $ | 2009 $ | 2008 $ |
| **Current** | | | | |
| Trade creditors [1] | 3,507,665 | 6,373,517 | 357,786 | 23,131 |
| Other creditors [2] | 5,200,086 | - | - | - |
| | **8,707,751** | **6,373,517** | **357,786** | **23,131** |
| Aggregate amount payable to related parties included in the above<br>Directors and director related entities: | | | | |
| - director related entity [3] | 43,618 | 68,729 | 6,875 | 48,702 |

Terms and conditions

1. Trade creditors are non-interest bearing and generally on 60 day terms.
2. Other creditors have entered into payment terms ranging from 6 months to 12 months and payable in equal monthly instalments. The majority of these payment terms are non interest bearing.
3. Amounts relate to directors fees owing at year end and are payable within 30 days.

### b) Interest Bearing Loans and Borrowings

| | Consolidated | | Parent | |
|---|---|---|---|---|
| | 2009 $ | 2008 $ | 2009 $ | 2008 $ |
| **Current** | | | | |
| Convertible Notes – current portion [4] | 3,000,000 | 3,000,000 | 3,000,000 | 3,000,000 |
| | | | | |
| **Non-Current** | | | | |
| Convertible Note 2 [5] | 726,284 | - | 726,284 | - |
| | 726,284 | - | 726,284 | |
| Derivative Liability on Convertible Note [5] | 329,578 | - | 329,578 | - |
| | 1,055,862 | - | 1,055,862 | - |

*Terms and conditions*

4. Carried at amortised cost. In May 2009 the Company and Convertible Note holders rolled over convertible notes with a face value of $3m, the rollover was not confirmed until shareholder approval was received on 1 August 2009. Consequently, the accounting standards require this liability to be classified as current in these accounts. Prior to the rollover the coupon rate was 10% and the notes were convertible at 26.5 cents. The new terms include a coupon rate of 15% pa, payable quarterly in arrears with $1m of the principal repayable on 15 May 2010 and the remainder 1 August 2010. Under the new terms the notes convert on a 1:1 basis at the lower of 7 cents or 10% below the 5 day VWAP and are secured against the Company's producing wells on Padre Island as at 15 May 2007. The Company has entered into underwriting and shareholder subscription agreements to repay $2.85m of the $3m principal as part of the non renounceable rights issue which is expected to close on 2 October 2009. Following the completion of the fund raising $2.85m will be repaid against these notes.

5. On 4 March 2009 the Company executed agreements to issue 38,888,888 convertible notes with a face value of 9 cents each to raise A$3.5m before expenses. The coupon rate is 1.25% per month, payable quarterly in arrears. The coupon rate may be increased with a capped rate of 5% per month in the event of an increase in the oil price or an increase in oil production from the Bullseye project. This is the embedded derivative component of the convertible note and is highlighted through the following terms of the convertible note agreement as summarised below:

- 15% per annum; or
- a monthly interest rate based on a formula involving the average monthly New York Mercantile Exchange closing price for light, sweet crude and the daily oil production from any new wells within the Bullseye Project (ie. excludes production from existing producing Bullseye wells), provided that the rate shall not be greater than 60% per annum (5% per month).

The embedded derivative is required to be measured at fair value at balance date which equates to the $329,578 disclosed above. The movement of the fair value of the embedded derivative from date of issue to balance date and the movement between the remaining balance dates over the 5 year life of the convertible note are required to be reflected in the profit and loss. For this financial period the movement was $160,332. The principal on the convertible note is repayable 5 years from drawdown and may be redeemed by the Company at any time for the face value plus a discounted value of future interest payments at 20% over the remaining life of the notes. The notes convert at 9 cents each and the notes are secured against future production from the Bullseye project. In accordance with IFRS the Company has been required to reflect the equity component of the 38,888,888 Convertible Notes valued at $2,689,460 in the convertible note reserve. Accordingly a debt component of $641,284 was reflected as a liability on inception of the notes and this was accreted by $85,000 during the year to bring the total debt liability to $726,284 as at 30 June 2009.

## 11. PROVISIONS

| | Consolidated | | Parent | |
|---|---|---|---|---|
| | 2009<br>$ | 2008<br>$ | 2009<br>$ | 2008<br>$ |
| Current | | | | |
| Employee benefits | 240 | 78,002 | - | 76,154 |
| Other provisions | 42,479 | 84,564 | 42,479 | 81,959 |
| | **42,719** | **162,566** | **42,479** | **158,113** |
| **Non Current** | | | | |
| Long Service Leave | - | 17,474 | - | 17,474 |
| Restoration costs | 637,189 | 549,694 | - | - |
| | **637,189** | **567,168** | **-** | **17,474** |
| **(a) Restoration** | | | | |
| Carrying amount at beginning | 549,694 | 238,044 | - | - |
| Additional provision | 96,013 | 311,650 | - | - |
| Provision cleared due to sale of interests | (114,877) | - | - | - |
| FX movement on provision | 106,359 | - | - | - |
| Amounts utilised during the year | - | - | - | - |
| **Carrying amount at end** | **637,189** | **549,694** | **-** | **-** |

A provision for restoration is recognised in relation to the exploration and production activities for costs associated with the restoration of the various sites. Estimates of the restoration obligations are based on anticipated technology and legal requirements and future costs. In determining the restoration provision, the entity has assumed no significant changes will occur in the relevant Federal and State legislation in relation to restoration in the future.

# NOTES TO THE FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 30 JUNE 2009

## 12. CONTRIBUTED EQUITY

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

| | Consolidated | | Parent | |
|---|---|---|---|---|
| | 2009<br>$ | 2008<br>$ | 2009<br>$ | 208<br>$ |
| Ordinary shares fully paid | 63,877,009 | 57,941,233 | 63,877,009 | 57,941,233 |

### Ordinary shares

Effective 1 July 1998, the Corporations Legislation in place abolished the concept of authorised capital and par value shares. Accordingly, the Company does not have authorised capital nor par value in respect of its issued 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. No dividends were declared during the current year or the prior year.

### (b) Movements in ordinary shares

| | 2009 | | 2008 | |
|---|---|---|---|---|
| | Number of Shares | $ | Number of Shares | $ |
| Balance at the beginning of the year | 243,234,160 | 57,941,233 | 176,104,770 | 41,874,656 |
| Exercise of options | 1,000,000 | 220,000 | 6,679,999 | 2,338,348 |
| Equity issues during the year for cash | 28,633,037 | 5,933,500 | 60,449,391 | 14,118,892 |
| Less: transaction costs | - | (217,724) | - | (390,663) |
| **End of financial year** | **272,867,197** | **63,877,009** | **243,234,160** | **57,941,233** |

### (c) Movements in Options on issue

| | Number | Exercise Price | Expiry Date |
|---|---|---|---|
| **Unlisted Options** | | | |
| Balance at the beginning of the year | 32,740,997 | | |
| Options expired | (5,190,997) | 0.3500 | 31-Jul-08 |
| Options expired | (200,000) | 0.3300 | 19-Aug-08 |
| Issue of options | 600,000 | 0.4000 | 31-Aug-11 |
| Options exercised | (1,000,000) | 0.2200 | 01-Dec-08 |
| Options expired | (1,000,000) | 0.3300 | 01-Dec-08 |
| Options expired | (2,500,000) | 0.2200 | 01-Dec-08 |
| **Total Unlisted Options** | 23,450,000 | | |

## 13. LOSS PER SHARE

### Basic loss per share

The calculation of basic loss per share for the year ended 30 June 2009 was based on the loss attributable to ordinary shareholders of $7,328,493 (Year ended 30 June 2008 $23,962,999) and a weighted average number of ordinary shares outstanding during the year ended 30 June 2009 of 260,008,089 (year ended 30 June 2008: 221,645,729), calculated as follows:

| | Consolidated | Consolidated |
|---|---|---|
| | 2009 | 2008 |
| | $ | $ |
| **Weighted average number of ordinary shares** | | |
| Issued ordinary shares at 1 July | 243,234,160 | 176,104,770 |
| Effect of shares issued during the period | 16,773,929 | 45,540,959 |
| Weighted average number of ordinary shares at 30 June | 260,008,089 | 221,645,729 |
| Loss attributable to ordinary shareholders | (7,328,493) | (23,962,999) |
| **Loss per share (cents) overall** | **(2.81)** | **(10.81)** |
| Loss attributable to ordinary shareholders from continuing operations | (6,662,077) | (23,962,999) |
| **Loss per share (cents) from continuing operations** | **(2.56)** | **(10.81)** |

Potential ordinary shares are not considered dilutive and accordingly diluted earnings per share is the same as basic earnings per share.

The following events occurred subsequent to year end which have a significant on the number of share or potential ordinary shares on issue:

(a) On 4 August 2009 following shareholder approval the Company issued 14,285,714 convertible notes which mature on 15 May 2010 and 28,571,426 convertible notes which mature on 4 August 2010. These notes convert at a price which is the lesser of 10% discount to 5 day VWAP or 7 cents each.

(b) On 4 August 2009 following shareholder approval the Company the 38,888,888 convertible notes which mature on 4 March 2014 were amended to enable conversion of the notes at a price which is the lesser of 10% discount to 5 day WVAP or 9c.

(c) On 1 September 2009 the Company issued 40m shares at a price of 3.5 cents each together with a 1 for 2 free attaching option exercisable at 8 cents each on or before 31 August 2012 to raise $1.4m (before costs). The issue of the options is subject to shareholder approval at the AGM.

(d) On 4 September 2009 the Company announced a 1 for 1.69 partially underwritten pro-rata non-renounceable rights issue of New Shares in the Company at an issue price of 3.5 cents for each New Share ('**Rights Issue**') together with 1 free attaching New Option for every 2 New Shares issued. The New Options are exercisable at 8 cents each on or before 31 August 2012. The convertible note holders referred to in (a) above have either underwritten or committed to subscribe for $2.83m of the shortfall of the Rights Issue. These funds will be used to repay the convertible notes to that value, reducing the remaining notes to 2,437,397 notes maturing on 4 August 2010.

# NOTES TO THE FINANCIAL STATEMENTS

**FOR THE YEAR ENDED 30 JUNE 2009**

## 14. ACCUMULATED LOSSES AND RESERVES

### (a) Accumulated losses

| | Consolidated | | Parent | |
|---|---|---|---|---|
| | 2009<br>$ | 2008<br>$ | 2009<br>$ | 2008<br>$ |
| Balance at beginning of year | (49,772,666) | (25,809,667) | (53,490,070) | (27,587,946) |
| Net losses attributable to members of Golden Gate Petroleum Ltd | (7,328,493) | (23,962,999) | **(8,767,353)** | (25,902,124) |
| **Balance at end of year** | **(57,101,159)** | **(49,772,666)** | **(62,257,423)** | **(53,490,070)** |

### (b) Share option premium reserve

*(i) Nature and purpose of reserve*

The share option premium reserve is used to record the issue price received in respect of options (other than incentive options) issued over ordinary shares.

*(ii) Movements in reserve*

| | Consolidated | | Parent | |
|---|---|---|---|---|
| | 2009<br>$ | 2008<br>$ | 2009<br>$ | 2008<br>$ |
| Balance at the beginning of the year | 480,000 | 480,000 | 480,000 | 480,000 |
| Transfer to option premium reserve | (480,000) | - | (480,000) | - |
| **Balance at end of the year** | **-** | **480,000** | **-** | **480,000** |

### (c) Option premium reserve

*(i) Nature and purpose of reserve*

The management option premium reserve is used to record the value of incentive and other options.

*(ii) Movements in reserve*

| | Consolidated | | Parent | |
|---|---|---|---|---|
| | 2009<br>$ | 2008<br>$ | 2009<br>$ | 2008<br>$ |
| Balance at the beginning of the year | 2,679,964 | 791,579 | 2,679,964 | 791,579 |
| Share option premium reserve | 480,000 | - | 480,000 | - |
| Issue of Options | 430,898 | 1,888,385 | 430,898 | 1,888,385 |
| **Balance at end of the year** | **3,590,862** | **2,679,964** | **3,590,862** | **2,679,964** |

# NOTES TO THE FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 30 JUNE 2009

### 14. ACCUMULATED LOSSES AND RESERVES (continued)

#### (d) Foreign Currency Translation Reserve

*(i) Nature and purpose of reserve*

The foreign currency reserve is used to record exchange differences arising from the translation of the financial statements of foreign subsidiaries.

*(ii) Movements in reserve*

| | Consolidated | | Parent | |
|---|---|---|---|---|
| | 2009 $ | 2008 $ | 2009 $ | 2008 $ |
| Balance at the beginning of the year | (3,717,405) | (1,778,278) | - | - |
| Currency translation differences | (1,438,859) | (1,939,127) | - | - |
| **Balance at end of the year** | (5,156,264) | (3,717,405) | **-** | **-** |

#### (e) Convertible Note Reserve

*(i) Nature and purpose of reserve*

These convertible notes have the ability to convert to ordinary shares and in accordance with the accounting standards the equity component is required to be calculated and included in shareholders' equity. (*Refer to note 10(b)*)

*(ii) Movements in reserve*

| | Consolidated | | Parent | |
|---|---|---|---|---|
| | 2009 $ | 2008 $ | 2009 $ | 2008 $ |
| Balance at the beginning of the year | - | - | - | - |
| Convertible notes issued (net of tax) | 1,882,622 | - | 1,882,622 | - |
| **Balance at end of the year** | 1,882,622 | **-** | 1,882,622 | **-** |

# NOTES TO THE FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 30 JUNE 2009

### 15. CASH FLOW STATEMENT

#### (a) Reconciliation of the net loss after tax to the net cash flows from operations

| | Consolidated | | Parent | |
|---|---|---|---|---|
| | 2009<br>$ | 2008<br>$ | 2009<br>$ | 2008<br>$ |
| Loss from ordinary activities after income tax | **(7,328,493)** | (23,962,999) | **(8,767,353)** | (25,902,124) |
| Add/(less) non-cash items: | | | | |
| Foreign currency translation | 9,600 | - | 45,982 | - |
| Allowance for impairment of controlled entity loan | - | - | 5,942,277 | 21,081,032 |
| Allowance for impairment in investments in controlled entities | - | - | 1,598,033 | 3,035,088 |
| Allowance for impairment of discontinued exploration assets | 666,416 | - | - | - |
| Allowance for impairment in exploration expenditure | 5,118,826 | 18,804,575 | - | - |
| Allowance for impairment in oil and gas properties | 1,463,857 | 8,960,062 | - | - |
| Amortisation of production assets | 1,784,318 | 717,046 | - | - |
| Employee share option expense | 320,223 | 635,444 | 320,223 | 635,444 |
| Net loss/(gain) on sale of non-current assets | 1,481,529 | (131,650) | - | (19,818) |
| Derivative interest expense | 245,332 | - | 245,332 | - |
| Finance options expensed | 65,222 | - | 65,222 | - |
| Depreciation | 23,346 | 22,044 | 2,579 | 12,036 |
| Deferred tax liability on convertible note | (806,838) | - | (806,838) | - |
| **Net cash used in operating activities before change in assets and liabilities** | **3,043,338** | **5,044,522** | **(1,354,541)** | **(1,158,342)** |
| Decrease/(increase) in receivables | 1,386,486 | 1,029,215 | 25,091 | (28,567) |
| Decrease/(increase) in other assets | (86,527) | - | - | 33,095 |
| Decrease/(increase) in prepayments | 1,195,936 | 406,980 | (28,745) | 93,497 |
| Increase/(Decrease) in payables | 318,276 | 240,788 | 196,909 | (109,800) |
| **Net cash flow from / (used in) operating activities** | **5,857,509** | **6,721,505** | **(1,161,286)** | **(1,170,117)** |

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

Cash balance comprises:

| | | | | |
|---|---|---|---|---|
| ***Cash at bank*** | **1,381,811** | **2,745,198** | **143,903** | **250,686** |

# NOTES TO THE FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 30 JUNE 2009

### 16. INTEREST IN JOINT VENTURE OPERATIONS

At 30 June 2009 the Consolidated Entity was a participant in the following joint ventures:

| | Consolidated | |
|---|---|---|
| | 2009 | 2008 |
| | Working Interest % | Working Interest % |
| **Producing Wells** | | |
| Syd A2 – Bethany (NE Texas) | - | 100% |
| LaPlaya Shallow #1 (Padre Island, Texas) | 23.75% | 23.75% |
| LaPlaya Shallow #2 (Padre Island, Texas) | 20% | 20% |
| Mid Frio # 1 (Padre Island, Texas) | 35% | 35% |
| Mid Frio #2 (Padre Island, Texas) | 20% | 20% |
| Wilson (Padre Island, Texas) | 58.23% | 58.23% |
| Dunn Peach #6 (Padre Island, Texas) | 10% | 10% |
| Dunn McCampbell 11A (Padre Island, Texas) | 35% | 35% |
| Folse #2 (Samstown – Louisiana) | 45% | 45% |
| Folse #3 (LGS Shallow – Louisiana) | 42.5% | 42.5% |
| **Louisiana prospects** | | |
| Bullseye | 33.25% | 43.33% |
| LGS Deep | 50% | 50% |
| Noel Deep | - | 50% |
| West Lake Boudreaux | - | 18% |
| **Texas Prospects** | | |
| El Mar (Padre Island, Texas) | - | 35% |
| Manzano (Padre Island, Texas) | - | 35% |
| Plum (Padre Island, Texas) | - | 10%-37.5% |
| Bowtie Project | 20% | 20% |

The joint ventures are not separate legal entities. They are contractual arrangements between the participants for the sharing of costs and output and do not in themselves generate revenues and profit. Capitalised petroleum exploration costs of $2,497,328 (2008: $10,261,654) and production costs of $15,445,231 (2008: $912,694) represent principally the Consolidated entity's share of development and exploration joint ventures, the material interests of which are noted above. There are no contingent liabilities or commitments relating to the joint ventures.

### 17. COMMITMENTS

**Leases as lessee**

Non cancellable operating lease rental are payable as follows:

| | Consolidated | | Parent | |
|---|---|---|---|---|
| | 2009<br>$ | 2008<br>$ | 2009<br>$ | 2008<br>$ |
| Less than one year | 31,046 | 99,946 | - | - |
| Between one and five years | - | 24,986 | - | - |
| More than five years | - | - | - | - |
| | **31,046** | **124,932** | **-** | **-** |

The Consolidated entity entered into a 24 month lease agreement which expired on 31 August 2009. There are no exploration commitments.

# NOTES TO THE FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 30 JUNE 2009

### 18. CONTINGENT LIABILITIES

There are no significant contingent liabilities for the Company and controlled entities.

### 19. AUDITORS' REMUNERATION

Amounts received or due and receivable by Ernst & Young for:

| | Consolidated | | Parent | |
|---|---|---|---|---|
| | 2009 $ | 2008 $ | 2009 $ | 2008 $ |
| An audit or review of the financial report of the company | 90,000 | 80,000 | 90,000 | 80,000 |

### 20. KEY MANAGEMENT PERSONNEL

*(i) Directors and Executives*

| | |
|---|---|
| S Graves | - Managing Director (appointed 4 February 2008) |
| S Russotti | - Non Executive Chairman (appointed 30 June 2003) |
| F Petruzzelli | - Director (appointed 30 June 2003) |
| M Freeman | - Director (appointed 7 October 2005 resigned 5 March 2009) |
| C Bowyer | - Company Secretary (appointed 18 April 2008) |
| J Copley | - Resigned during the 2008 financial year as Technical Director and continued as VP Operations until 13 January 2009. |

| | Consolidated | | Parent | |
|---|---|---|---|---|
| | 2009 $ | 2008 $ | 2009 $ | 2008 $ |
| **DISCLOSURES** | | | | |
| Short term | 924,793 | 920,056 | 775,882 | 498,038 |
| Post employment | 18,941 | 29,217 | 11,009 | 14,497 |
| Termination benefits | 62,961 | - | - | - |
| Share-based payment | 307,290 | 1,648,210 | 307,290 | 1,648,210 |
| | **1,313,985** | **2,597,483** | **1,094,181** | **2,160,745** |

#### (a) Shares issued on exercise of remuneration options

Mr S Russotti and Mr F Petruzzelli exercised 500,000 options each exercisable at 22 cents per share. No remuneration options were exercised in 2008 financial year.

#### (b) Option holdings of key management personnel

The movement during the reporting period in the number of options over ordinary shares in Golden Gate Petroleum Ltd held, directly, indirectly or beneficially, by each director and executive, including their personally-related entities.

| | Held at 1 July 2008 | Granted | Expired/ Forfeiture | Exercised/ Sold | Other Changes | Held at 30 June 2009 | Exercisable /vested |
|---|---|---|---|---|---|---|---|
| **Directors** | | | | | | | |
| Mr S Graves | 5,000,000 | - | - | - | - | 5,000,000 | 5,000,000 |
| Mr F Petruzzelli | 3,300,000 | - | (300,000) | (500,000) | - | 2,500,000 | 2,500,000 |
| Mr S Russotti | 8,400,000 | - | (2,900,000) | (500,000) | - | 5,000,000 | 5,000,000 |
| Mr J Copley * | 4,000,000 | - | - | - | (4,000,000) | - | - |
| Mr M Freeman * | 2,950,000 | - | - | - | (2,950,000) | - | - |
| **Total** | **23,650,000** | **-** | **(3,200,000)** | **(1,000,000)** | **(6,950,000)** | **12,500,000** | **12,500,000** |

## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 30 JUNE 2009

** Messrs Copley and Freeman resigned as directors of the Company 7 April 2008 and 5 March 2009 respectively.*

| | Held at 1 July 2007 | Granted | Expired/ Forfeiture | Exercised/ Sold | Held at 30 June 2008 | Exercisable/ vested |
|---|---|---|---|---|---|---|
| **Directors** | | | | | | |
| Mr S Graves | - | 5,000,000 | - | - | 5,000,000 | 2,013,699 |
| Mr F Petruzzelli | 1,300,000 | 2,000,000 | - | - | 3,300,000 | 3,300,000 |
| Mr S Russotti | 4,400,000 | 4,000,000 | - | - | 8,400,000 | 8,400,000 |
| Mr M Freeman | 950,000 | 2,000,000 | - | - | 2,950,000 | 2,950,000 |
| Mr J Copley | - | 4,000,000 | - | - | 4,000,000 | 4,000,000 |
| **Total** | **6,650,000** | **17,000,000** | **-** | **-** | **23,650,000** | **20,663,699** |

Refer to **note 21** for a detailed explanation of valuation of options granted during the year.

#### (c) Shareholdings of key management personnel

The movement during the reporting period in the number of ordinary shares of Golden Gate Petroleum Ltd held, directly, indirectly or beneficially, by each specified director and specified executive, including their personally-related entities is as follows:

| | Held at 1 July 2008 | On Exercise of Options | Other changes | Held at 30 June 2009 |
|---|---|---|---|---|
| **Directors** | | | | |
| M S Graves | 1,652,888 | - | - | 1,652,888 |
| Mr F Petruzzelli | 833,040 | 500,000 | - | 1,333,040 |
| Mr S Russotti * | 171,782 | 500,000 | - | 671,782 |
| Mr J Copley ** | 250,000 | - | (250,000) | - |
| Mr M Freeman ** | 231,731 | - | (231,731) | - |
| **Total** | **3,139,441** | **1,000,000** | **(481,731)** | **3,657,710** |

| | Held at 1 July 2007 | On Exercise of Options | Other changes | Held at 30 June 2008 |
|---|---|---|---|---|
| **Directors** | | | | |
| M S Graves | - | - | 1,652,888 | 1,652,888 |
| Mr F Petruzzelli | 531,520 | - | 250,000 | 833,040 |
| Mr S Russotti * | 171,782 | - | - | 171,782 |
| Mr M Freeman | 31,731 | - | 200,000 | 231,731 |
| Mr J Copley | - | - | 250,000 | 250,000 |
| **Total** | **735,033** | **-** | **2,352,888** | **3,139,441** |

** Mr Russotti holds 100,582 (2008: 100,582) shares on trust for other non related parties.*

*** Messrs Copley and Freeman resigned as directors of the Company 7 April 2008 and 5 March 2009 respectively.*

#### (d) Other transactions and balances with key management personnel

No loans have been made during the financial period or at the date of this report to any specified Directors or specified Executives. A number of specified Directors and specified executives, 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 | 2009 $ | 2008 $ |
|---|---|---|---|
| **Specified Directors & Executives** | | | |
| Mr F Petruzzelli | (i) | 31,250 | - |
| Mr M Freeman | (ii) | 56,427 | 74,701 |

(i) MDB Taxation and Business Advisors Pty Ltd, of which Mr F Petruzzelli is a principal, provided company secretarial services of Chris Bowyer. MDB was had no balances owed at year end (2008: nil).

(ii) Meccano Pty Ltd, of which Mark Freeman is a director, provided accounting services and a serviced registered office. Meccano was owed $40,597 (2008: $43,729) at year end.

### (e) Transactions with Related Parties in the Consolidated Group

The consolidated group consists of Golden Gate Petroleum Ltd (the ultimate Parent Entity in the wholly owned group) and its controlled entities (see Note 6). During the year Golden Gate Petroleum Ltd entered into loans with related parties were advanced on long and short term inter-company accounts. These loans were undertaken on commercial terms and conditions, except that:

i) Loans with related parties are repayable on demand, with repayment not expected to occur within 12 months; and

(ii) No interest is payable on the loans.

Loans with controlled entities are disclosed in Note 4.

## 21. SHARE BASED PAYMENTS

### (a) Recognised share based payment expenses

The expense recognised for employee services received during the year is shown in the table below:

| | Consolidated | | Parent | |
|---|---|---|---|---|
| | 2009 $ | 2008 $ | 2009 $ | 2008 $ |
| Expense arising from equity settled share based payment transactions | 320,223 | 1,888,385 | 187,498 | 1,888,385 |

### (b) Details of Options granted and vested during the year ended 30 June 2009

During the year the Company did not issue any incentive options to directors, executives and consultants. Options vested during the year are detailed in the table below.

| Holders | Number of options granted during 2009 | Grant date | Fair value per option at grant date ($) | Exercise price per option ($) | Expiry date | Number of options vested during 2009 |
|---|---|---|---|---|---|---|
| **Directors** | | | | | | |
| Mr S Graves*** | - | 17/06/08 | 0.1029 | 0.35 | 30/10/10 | 2,986,301 |
| Mr S Russotti** | - | - | - | - | - | - |
| Mr M Freeman ** | - | - | - | - | - | - |
| Mr F Petruzzelli** | - | - | - | - | - | - |

# NOTES TO THE FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 30 JUNE 2009

### (b) Details of Options granted and vested during the year ended 30 June 2008

During the year the Company issued incentive options to directors as detailed in the table below.

| Holders | Number of options granted during 2008 | Grant date | Fair value per option at grant date ($) | Exercise price per option ($) | Expiry date | Number of options vested during 2008 |
|---|---|---|---|---|---|---|
| **Directors** | | | | | | |
| Mr S Graves*** | 5,000,000 | 17/06/08 | 0.1029 | 0.35 | 30/10/10 | 2,013,699 |
| Mr S Russotti** | 4,000,000 | 23/11/07 | 0.1217 | 0.35 | 30/10/10 | 4,000,000 |
| Mr M Freeman ** | 2,000,000 | 23/11/07 | 0.1217 | 0.35 | 30/10/10 | 2,000,000 |
| Mr F Petruzzelli** | 2,000,000 | 23/11/07 | 0.1217 | 0.35 | 30/10/10 | 2,000,000 |
| **Executives and other contractors** | | | | | | |
| Mr J Copley **/[1] | 2,000,000 | 23/11/07 | 0.1217 | 0.35 | 30/10/10 | 2,000,000 |
| Mr J Copley */[1] | 2,000,000 | 10/07/07 | 0.1120 | 0.25 | 30/06/10 | 2,000,000 |
| Consultants I ** | 1,650,000 | 10/08/07 | 0.1217 | 0.35 | 30/10/10 | 1,650,000 |
| Consultants II *** | 950,000 | 17/06/08 | 0.1029 | 0.35 | 30/10/10 | 382,603 |
| **Total** | **19,600,000** | | | | | **16,046,302** |

[1] Mr. Copley resigned as Technical Director during the 2008 financial year, and has continued as VP Operations.

**Valuation of Options**

***** Options issued to Mr S. Graves & Consultants**

The options have been valued using the Binomial options valuation methodology by the Company's independent external advisers, Stanton Partners, and based upon the following assumptions:

1. Options expire 30 October 2010 and are exercisable at 35 cents;
2. The date of valuation is the closing price on 12 March 2008, being 25 cents per share;
3. The current Risk free interest rate (Treasury Bond Rate) of 6.75%;
4. Volatility factor of 75% (expected volatility is estimated by considering historical average share price volatility); and
5. Based on the above assumptions the value of the options are 10.29 cents each.

*** Options issued to Mr J Copley**

The options have been valued using the Binomial options valuation methodology by the Company's

independent external advisers, Stanton Partners, and based upon the following assumptions:

1. options expire 30 June 2010 and are exercisable at 25 cents;
2. the market trading price of the Shares as at 24 May 2007 was 25.5 cents;
3. the current risk free interest rate (Treasury Bond Rate) of 6.25%;
4. volatility factor of 55% (expected volatility is estimated by considering historical average share price volatility);
5. the valuations ascribed to the various options may not necessarily represent the market price of the options at the date of the valuation;
6. the valuation date is 24 May 2007; and
7. based on the above assumptions the value of the options are 11.2 cents each.

**** Options issued to Directors and Consultants**

The options have been valued using the Binomial options valuation methodology by the Company's independent external advisers, Stanton Partners, and based upon the following assumptions:

1. Options expire 30 October 2010 and are exercisable at 35 cents;
2. the date of valuation is the closing price on 1 October 2007, being 40 cents per share;
3. the closing price on the date the options were negotiated was 31.5 cents per share on 10 August 2007;

# NOTES TO THE FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 30 JUNE 2009

4. The current Risk free interest rate (Treasury Bond Rate) of 6.25%;
5. Volatility factor of 50% (expected volatility is estimated by considering historical average share price volatility);
6. A discount of 25% has been applied as the options will not be listed; and
7. Based on the above assumptions the value of the Options are 12.17 cents each.

**(c) Summaries of Options Granted**

The following table illustrates the number (No.) and weighted average exercise prices (WAEP) of, and movements in, share options issued during the year:

| | 2009 No. | 2009 WAEP | 2008 No. | 2008 WAEP |
|---|---|---|---|---|
| Outstanding Options at the beginning of the year | 27,350,000 | 0.35 | 7,950,000 | 0.37 |
| Granted during the year | - | - | 19,600,000 | 0.34 |
| Forfeited during the year | - | - | (200,000) | 0.30 |
| Exercised during the year | 1,000,000 | 0.22 | - | - |
| Expired during the year | 3,500,000 | 0.25 | - | - |
| Outstanding at the end of the year | 22,850,000 | - | 27,350,000 | 0.35 |
| Exercisable at the end of the year | 22,850,000 | - | 23,796,301 | - |

The outstanding balances as at 30 June 2009 are represented by:

- 17,600,000 options over ordinary shares with an exercise price of $0.35 each, exercisable on or before 30 October 2010
- 3,250,000 options over ordinary shares with an exercise price of $0.54 each, exercisable on or before 1 December 2009
- 2,000,000 options over ordinary shares with an exercise price of $0.25 each, exercisable on or before 30 June 2010

**(d) Weighted average remaining contractual life**

The weighted average remaining contractual life for the share options outstanding as at 30 June 2009 is .93 years (2008: 1.88 years)

**(e) Range of exercise price**

The range of exercise prices for options outstanding at the end of the year was $0.25 - $0.54 (2008: $0.22 - $0.54). As the range of exercise is wide, refer to section (c) above for further information in assessing the number and timing of additional shares that may be issued and the cash that may be received upon exercise of the those options.

**(f) Weighted average fair value**

The weighted average fair value of options granted or vested during the year was $0.1012 (2008: $0.115)

## 22. SUBSEQUENT EVENTS

No matters or circumstances have arisen since the end of the financial year which have significantly affected or may significantly affect the operations, results or state of affairs of the Consolidated Entity in subsequent financial years, except for:

(a) On 4 August 2009 following shareholder approval the Company issued 14,285,714 convertible notes which mature on 15 May 2010 and 28,571,426 convertible notes which mature on 4 August 2010 each with a face value of 7c each following the rollover of $3,000,000 of convertible notes.

(b) On 4 August 2009 following shareholder approval the Company issued 38,888,888 convertible notes which mature on 4 March 2014 they were amended to enable conversion of the notes at a price which is the lesser of 10% discount to 5 day WVAP or 9c.

(c) On 1 September 2009 the Company issued 40m shares at a price of 3.5 cents each together with a 1 for 2 free attaching option exercisable at 8 cents each on or before 31 August 2012 to raise $1.4m (before costs). The issue of the options is subject to shareholder approval at the AGM.

(d) On 4 September 2009 the Company announced a 1 for 1.69 partially underwritten pro rata non-renounceable rights issue of New Shares in the Company at an issue price of 3.5 cents for each New Share ('**Rights Issue**') together with 1 free attaching New Option for every 2 New Shares issued. The New Options are exercisable at 8 cents each on or before 31 August 2012. The holders of the Convertible Notes referred to in (a) above have committed to underwriting and/or placing $2,829,382 of the rights issue. Accordingly these notes will be repaid following completion of the Rights Issue. The Rights Issue is underwritten by Novus Capital Ltd and convertible note holders to a maximum of $5,479,499 with a placement agreement for a further $1,000,000.

## 23. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Consolidated entity's principal financial instruments comprise cash and convertible notes. The main purpose of these financial instruments is to finance the Consolidated entity's operations. The Consolidated entity has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations. It is, and has been throughout the period under review, the Consolidated entity's policy that no trading in financial instruments shall be undertaken. The main risks arising from the Consolidated entity's financial instruments are cash flow interest rate risk, liquidity risk, foreign currency risk and credit risk.

Historically, the Consolidated entity has not implemented strategies to mitigate these financial risks. As discussed in the Review of Operations the Consolidated entity's activities have changed significantly during the financial year, with the increased acquisition of US oil and gas projects. As the Consolidated entity's activities are mainly in the US the majority of funds held are held in US$ to mitigate foreign currency risk. Accordingly, no hedging policies have been put in place. The Directors will review this policy periodically going forward. Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed in Note 1 to the financial statements.

**(a) Interest rate risk**

*Cash flow interest rate risk*

The Consolidated entity's exposure to the risk of changes in market interest rates relates primarily to the Consolidated entity's cash and short-term deposits with a floating interest rate. These financial assets with variable rates expose the Consolidated entity to cash flow interest rate risk. All other financial assets and liabilities, in the form of receivables and payables are non-interest bearing or bear fixed interest rates (the convertible notes). The Consolidated entity currently does not engage in any hedging or derivative transactions to manage interest rate risk.

**b) Foreign currency risk**

The Consolidated entity also has transactional currency exposures. Such exposure arises from sales or purchases by an operating unit in currencies other than the unit's functional currency. The Consolidated entity currently does not engage in any hedging or derivative transactions to manage foreign currency risk.

**(c) Commodity price risk**

Due to the nature of the Group's and parent's principal operations being oil & gas exploration and production the Group and the parent is exposed to the fluctuations in the price of oil & gas.

Although the Group and parent entity 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.

**(d) Credit risk**

The Consolidated entity trades only with recognised, creditworthy third parties. It is the Consolidated entity's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis with the result that the Consolidated entity's exposure to bad debts is not significant. There are no significant concentrations of credit risk within the Consolidated entity. With respect to credit risk arising from the other financial assets of the Consolidated entity, which comprise cash and cash equivalents the Consolidated entity's exposure to credit risk arises from default of the counter party, with a maximum exposure equal to the carrying amount of these instruments. Since the Consolidated entity trades only with recognised third parties, there is no requirement for collateral.

**(e) Liquidity risk**

The Consolidated entity's objective is to maintain a balance between continuity of funding and flexibility through the use of bank loans if required. The Company does not currently have any bank loans.

## 24. FINANCIAL INSTRUMENTS

### a. Interest rate risk

***Interest rate risk exposures***

The Consolidated entities exposure to interest rate risk and the effective weighted average interest rate for classes of financial assets and liabilities is set out below:

| Consolidated | Weighted Average Interest rate | Fixed Interest Rate $ | Floating Interest Rate $ | Non-Interest Bearing $ | Total $ |
|---|---|---|---|---|---|
| **2009** | | | | | |
| ***Financial Assets*** | | | | | |
| Cash assets * | 0.5% | - | 1,381,811 | - | 1,381,811 |
| Trade and other receivables – current * | - | - | - | 802,865 | 802,865 |
| Security deposits ** | 1.5% | - | 373,179 | - | 373,179 |
| | | **-** | **1,754,990** | **802,865** | **2,557,855** |
| ***Financial liabilities*** | | | | | |
| Trade and other Payables* | - | - | - | 8,432,183 | 8,432,183 |
| Convertible Notes * | 10% | 3,000,000 | - | - | 3,000,000 |
| Convertible Notes ** | 15-40% | - | 1,055,862 | - | 1,055,862 |
| | | **3,000,000** | **1,055,862** | **8,432,183** | **12,488,045** |

| Consolidated | Weighted Average Interest rate | Fixed Interest Rate $ | Floating Interest Rate $ | Non-Interest Bearing $ | Total $ |
|---|---|---|---|---|---|
| **2008** | | | | | |
| ***Financial Assets*** | | | | | |
| Cash assets * | 0.5% | - | 2,745,198 | - | 2,745,198 |
| Trade and other receivables – current * | - | - | - | 2,189,773 | 2,189,773 |
| Security deposits ** | 1.50% | - | 286,652 | - | 286,652 |
| | | **-** | **3,031,850** | **2,189,773** | **5,221,623** |
| ***Financial liabilities*** | | | | | |
| Trade and other Payables* | - | - | - | 6,373,517 | 6,373,517 |
| Convertible Notes ** | 10.00% | 3,000,000 | - | - | 3,000,000 |
| | | **3,000,000** | **-** | **6,373,517** | **9,373,517** |

* Maturing in 1 Year or Less

** Maturing in 1 Year or More

| Parent | Weighted Average Interest Rate | Fixed Interest Rate $ | Floating Interest Rate $ | Non-Interest Bearing $ | Total $ |
|---|---|---|---|---|---|
| **2009** | | | | | |
| ***Financial Assets*** | | | | | |
| Cash assets * | - | | 143,903 | - | 143,903 |
| Trade and other receivables – current * | - | - | - | 14,293 | 14,293 |
| Trade and other receivables – non current ** | - | - | - | - | - |
| | **-** | **-** | **143,903** | **14,293** | **158,196** |
| ***Financial liabilities*** | | | | | |
| Trade and other Payables * | - | - | - | 82,216 | 82,216 |
| Convertible notes * | 10% | 3,000,000 | - | - | 3,000,000 |
| Convertible notes ** | 15-40% | - | 1,055,862 | - | 1,055,862 |
| | | **3,000,000** | **1,055,862** | **82,216** | **4,138,078** |
| **2008** | | | | | |
| ***Financial Assets*** | | | | | |
| Cash assets * | 5.25% | - | 250,686 | - | 250,686 |
| Trade and other receivables – current * | - | - | - | 39,806 | 39,806 |
| Trade and other receivables – non current ** | - | - | - | - | - |
| | | - | 250,686 | 39,806 | 290,492 |
| ***Financial liabilities*** | | - | | | |
| Trade and other Payables * | - | - | - | 23,131 | 23,131 |
| Convertible notes ** | 10% | 3,000,000 | - | - | 3,000,000 |
| | | **3,000,000** | **-** | **23,131** | **3,023,131** |

* Maturing in 1 Year or Less

** Maturing in 1 Year or More

## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 30 JUNE 2009

***Sensitivity Analysis***

The table below details the interest rate sensitivity analyses of the entity at the reporting date, holding all other variables constant. A 50 basis point favourable (+) and unfavourable (-) change is deemed to be possible change and is used when reporting interest rate risk.

| Consolidated | | Effect On: | | Effect On: | |
|---|---|---|---|---|---|
| | | Profit | Equity | Profit | Equity |
| Risk Variable | Sensitivity* | 2009 | 2009 | 2008 | 2008 |
| Interest Rate | + 50 b.p. | 55,261 | 55,261 | 15,159 | 15,159 |
| | - 50 b.p. | (55,261) | (55,261) | (15,159) | (15,159) |

| Parent | | Effect On: | | Effect On: | |
|---|---|---|---|---|---|
| | | Profit | Equity | Profit | Equity |
| Risk Variable | Sensitivity* | 2009 | 2009 | 2008 | 2008 |
| Interest Rate | + 50 b.p. | 19,692 | 19,692 | 1,253 | 1,253 |
| | - 50 b.p. | (19,692) | (19,692) | (1,253) | (1,253) |

**The method used to arrive at the possible change of 50 basis points was based on the analysis of the absolute nominal change of the Reserve Bank of Australia (RBA) monthly issued cash rate. Historical rates indicate that for the past five financial years, there was a bias towards an increase in interest rate ranging between 0 to 50 basis points. The directors considered 50 basis points a 'reasonably possible' estimate as it accommodates for the maximum variations inherent in the interest rate movement over the past five years.*

**b. Foreign currency risk**

There are no material foreign exchange denominated financial assets or liabilities.

**c. Credit risk**

The maximum exposure to credit risk, excluding the value of any collateral or other security, at balance date in portion to each class of recognised financial asset, is the carrying amount, net of any provisions for doubtful debts, as disclosed in the balance sheet and notes to the financial statements.

The Company does not have any material risk exposure to any single debtor or group of debtors, under financial instruments entered into by it. There are no debtor balances past due or impaired.

**d. Liquidity risk and Capital Management**

Liquidity risk is the risk that the Consolidated entity will not be able to meet its financial obligations as they fall due. The Consolidated entities approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Consolidated entities reputation.

The Consolidated entity objectives when managing capital are to safeguard the Consolidated entity ability to continue as a going concern, so as to maintain a strong capital base sufficient to maintain future exploration and development of its projects. Capital is defined as total equity and borrowings, as disclosed in the Balance Sheet. In order to maintain or adjust the capital structure, the Consolidated entity may return capital to shareholders, issue new shares or sell assets to reduce debt. The Consolidated entity focus has been to raise sufficient funds through equity to fund exploration and evaluation activities. The Group monitors capital on the basis of the gearing ratio, and the only significant external borrowing as at balance date is the convertible debt with a principal value of $6,500,000 as detailed in note 10. The gearing ratio is defined as external borrowings to total equity. The Group negotiated a line of credit of $US 5,000,000 on 18 September 2008 with Tiedemann

# NOTES TO THE FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 30 JUNE 2009

Global Emerging Markets LP, TGEM Asia LP and Tiedemann Global Emerging Markets with the key terms being any amounts due and payable nine months after the drawdown of the first tranche and six months after the drawdown of any subsequent tranche. This facility remains available and fully undrawn at the date of this financial report.

There were no changes in the Consolidated entity approach to capital management during the year. Risk management policies and procedures are established with regular monitoring and reporting. Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

The following are the contractual maturities of financial liabilities:

**Consolidated**
**30 June 2009**

| | Carrying amount | Contractual cash flows | <3 months | 3-6 mths | 6-24 mths | >2 years |
|---|---|---|---|---|---|---|
| | $ | $ | $ | $ | $ | $ |
| Trade and other payables | 3,507,665 | 3,507,665 | 3,507,665 | - | - | - |
| Trade and other payables * | 5,200,086 | 5,200,086 | 1,950,000 | 1,950,000 | 1,950,000 | - |
| Loan and other borrowings ** | 4, 055,862 | 9,575,000 | - | - | 3,450,000 | 6,125,000 |
| | 12,763,613 | 18,282,751 | 5,457,665 | 1,950,000 | 5,400,000 | 6,125,000 |

*Payment terms agreed with suppliers
** refer to note 10

**30 June 2008**

| | Carrying amount | Contractual cash flows | <3 months | 3-6 mths | 6-24 mths | >2 years |
|---|---|---|---|---|---|---|
| | $ | $ | $ | $ | $ | $ |
| Trade and other payables | 6,373,517 | 6,373,517 | 6,373,517 | - | - | - |
| Loan and other borrowings | 3,000,000 | 3,300,000 | 75,000 | 75,000 | 3,150,000 | - |
| | **9,373,517** | **9,673,517** | **6,448,517** | **75,000** | **3,150,000** | **-** |

**Company**
**30 June 2009**

| | Carrying amount | Contractual cash flows | <3 months | 3-6 mths | 6-24 mths | >2 years |
|---|---|---|---|---|---|---|
| | $ | $ | $ | $ | $ | $ |
| Trade and other payables | 357,786 | 357,786 | 357,786 | - | - | - |
| Loan and other borrowings | 4,055,862 | 9,575,000 | - | - | 3,450,000 | 6,125,000 |
| | **4,413,648** | **9,932,786** | **357,786** | **-** | **3,450,000** | 6,125,000 |

**30 June 2008**

| | Carrying amount | Contractual cash flows | <3 months | 3-6 mths | 6-24 mths | >2 years |
|---|---|---|---|---|---|---|
| | $ | $ | $ | $ | $ | $ |
| Trade and other payables | 23,131 | 23,131 | 23,131 | - | - | - |
| Loan and other borrowings | 3,000,000 | 3,300,000 | 75,000 | 75,000 | 3,150,000 | - |
| | 3,023,131 | 3,323,131 | 98,131 | 75,000 | 3,150,000 | - |

**e. Fair values**

***Methods and assumptions used in determining net fair value***

Accounts receivable, accounts payable, cash and cash equivalents approximates fair value due to their short term nature. Intercompany loans approximates fair value due to being payable on demand. The Company has no financial assets where carrying amounts exceed net fair values at balance date.

## 25. SEGMENT INFORMATION

***Geographical segments - primary reporting***

During the year Golden Gate Petroleum Ltd operated in one business segment, being the oil and gas industry and two geographical segments being Australia and USA.

The Consolidated Entity generally accounts for inter-segment sales and transfers as if the sales or transfers were to third parties at current market prices. Revenues are attributed to geographic areas based on the location of the assets producing the revenues.

Segment accounting policies are the same as the consolidated entity's policies described in Note 1. During the financial year, there were no changes in segment accounting policies that had a material effect on the segment information.

The geographical segment, Australia, does not qualify as a reportable segment as there are no sales to third parties in the Australian segment. Therefore there is only one geographical segment and only one operating segment for reporting purposes.

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# Independent auditor's report to the members of Golden Gate Petroleum Limited

## *Report on the Financial Report*

We have audited the accompanying financial report of Golden Gate Petroleum Limited, which comprises the balance sheet as at 30 June 2009, and the income statement, statement of changes in equity and cash flow statement for the year ended on that date, a summary of significant accounting policies, other explanatory notes 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 and fair presentation of the financial report in accordance with the Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 1 (d), the directors also state that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards as issued by the International Accounting Standards Board.

## *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. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance 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 our judgment, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, we consider internal controls relevant to the entity's preparation and fair presentation of the financial report 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 entity's internal controls. 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 met the independence requirements of the *Corporations Act 2001*. We have given to the directors of the company a written Auditor's Independence Declaration. In addition to our audit of the financial report, we were engaged to undertake the services disclosed in the notes to the financial statements. The provision of these services has not impaired our independence.

## *Auditor's Opinion*

In our opinion:

1. the financial report of Golden Gate Petroleum Limited is in accordance with the *Corporations Act 2001*, including:

i giving a true and fair view of the financial position of Golden Gate Petroleum Mining Limited and the consolidated entity at 30 June 2009 and of their performance for the year ended on that date; and

ii complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*.

2. the financial report also complies with International Financial Reporting Standards as issued by the International Accounting Standards Board.

## *Report on the Remuneration Report*

We have audited the Remuneration Report included in pages 8 to 13 of the directors' report for the year ended 30 June 2009. 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.

## *Auditor's Opinion*

In our opinion the Remuneration Report of Golden Gate Petroleum Limited for the year ended 30 June 2009, complies with section 300A of the *Corporations Act 2001.*

Ernst + Young

Ernst & Young

Peter McIver

Peter McIver
Partner
Perth
30 September 2009